

Analyst

David Coates 612 8224 2887

Authorisation

Peter Arden 613 9235 1833

Aeon Metals Limited (AML)

Site visit: drilling in full swing

Recommendation
Buy (unchanged)

Price
\$0.355
Valuation
\$0.54 (unchanged)

Risk
Speculative
GICS Sector
Materials
Expected Return

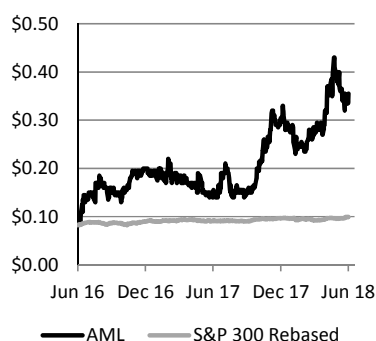
Capital growth	52.1%
Dividend yield	0.0%
Total expected return	52.1%

Company Data & Ratios

Enterprise value	\$206.4m
Market cap	\$208.0m
Issued capital	586.0m
Free float	71%
Avg. daily val. (52wk)	\$335,903
12 month price range	\$0.13-\$0.45

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.40	0.27	0.15
Absolute (%)	-10.1	31.5	144.8
Rel market (%)	-13.5	24.4	136.0

Absolute Price


SOURCE: IRESS

Major drilling program underway

We recently attended a site visit to AML's 100% owned Walford Creek copper-cobalt project in north west Queensland. The primary reason for our visit was to assess progress on the 2018 drilling program. With ~30,000m diamond core and RC drilling planned it will be the single largest drill program ever undertaken at the project and has the potential to define material extensions and upgrades to the current Resource.

Excellent progress, strong results

Since mobilising to site at end April, three drill rigs have completed approximately 13,000m of RC and diamond drilling, positioning AML well to meet its 30,000m objective by late October when the wet season may commence. Two rigs have been progressing infill drilling of the Vardy and Marley Zones and a third rig has been drilling extension holes to the west of the current Resource. Infill drilling of the Vardy Zone is nearly complete and should lead to the first of a series of Resource upgrades in the coming months. High grade assays have been released from infill drilling, pointing to the potential for an uplift in Resource grade and tonnes. Extension holes have also returned high grade sulphide intersections, although to date the highest grades have been for lead, zinc and silver. This is consistent with the zonation of peripheral mineralisation and has helped target subsequent holes such as WFPD292 and WFPD304 which appear to have intersected high grade copper zones where assays are awaited. In addition to this a seismic survey, previously delayed by the contractors, was able to be completed. Apart from providing structural information to aid targeting its timely completion qualifies AML for a ~\$200k Government exploration incentive.

Investment thesis – Buy, (Speculative), valuation \$0.54/sh

We reiterate our view that AML has entered an exciting period of cost effective discovery and growth and news flow from this program may deliver strong, positive catalysts for the share price. Our NPV-based valuation is unchanged at \$0.54/sh. AML remains one of our Top Picks for 2018 and we retain our Buy (Spec) recommendation.

Earnings Forecast

Year end 30 June	2017a	2018e	2019e	2020e
Sales (A\$m)	-	-	-	63
EBITDA (A\$m)	(8)	(3)	(0)	30
NPAT (reported) (A\$m)	(8)	(6)	(2)	14
NPAT (adjusted) (A\$m)	(8)	(6)	(2)	14
EPS (adjusted) (cps)	(2)	(2)	(0)	3
EPS growth (%)	na	na	na	na
PER (x)	(15.0)	(21.3)	(78.9)	10.6
FCF Yield (%)	-4%	-5%	-9%	-20%
EV/EBITDA (x)	(24.8)	(80.2)	(2,064.2)	6.8
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-29%	-16%	-4%	24%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Site visit: drilling in full swing

Major drilling program underway

We recently attended a site visit to AML's 100% owned Walford Creek copper-cobalt project in north west Queensland. The primary reason for our visit was to assess progress on the 2018 drilling program. With ~30,000m diamond core and RC drilling planned it will be the single largest drill program ever undertaken at the project and has the potential to define material extensions and upgrades to the current Resource.

Figure 1 - RC drilling nearing completion at Walford Creek



SOURCE: BELL POTTER SECURITIES

Excellent progress, encouraging results

Since mobilising to site at end April, three drill rigs have completed approximately 13,000m of RC and diamond drilling positioning AML well to meet its 30,000m objective by late October when the wet season may commence. With the RC component of the program largely complete (primarily RC collars and some infill drilling) the third rig is now also switching to diamond drilling. Two rigs have been progressing infill drilling of the Vardy and Marley Zones from East to West and a third rig has been drilling extension holes up to 7.5km west of the current Resource.

Infill drilling of the Vardy Zone is near complete and should lead to the first of a series of Resource upgrades in the coming months. We initially anticipate an upgrade of the Vardy Resource and that the increased drilling density will result in most of it being classified in the high confidence Indicated and Measured categories – enabling conversion to Reserves. High grade assays released from infill drilling to date (June 15 and June 22 2018) point to the potential for an uplift in Resource grade and further intersections into “gaps” in the Resource are likely to add to the tonnage. Hole WFPD298 (figure 2) is one of several drillholes from within the current Resource that have intersected the PY3 mineralised unit.

Extension holes drilled between 2.5km and 7.5km west of the current Resource have also returned high grade sulphide intersections in the targeted PY3 mineralised unit. Although to date the highest grades have been lead, zinc and silver assays this is consistent with the zonation of peripheral mineralisation and the geological model for the deposit. These results have helped target subsequent holes such as WFPD292 and WFPD304 which appear to have intersected high grade copper zones with more dominant chalcopyrite in the sulphides. Photos of hole WFPD304 and a description of the mineralisation it contains were released to the market on June 5 2018. Assays are awaited on these holes.

Moreover, given the wide nature of the step-outs (being measured in kilometres!) and the lack of other drilling it is our view that the two key points we can take away are:

- 1) The structural setting has been confirmed and the continuity of the key mineralised units PY1 and PY3 along strike demonstrated; and
- 2) This is a strong endorsement of the geological model, which has successfully targeted the deposit as far as 7.5km along strike from the current Resource.

Figure 2 - WFPD298 drilled within the Vardy Resource



SOURCE: BELL POTTER SECURITIES

Figure 3 - WFPD304 approximately 3.5km west of Resource



SOURCE: BELL POTTER SECURITIES

In addition to this a 32,000 line-kilometre 2D seismic survey has been completed. This had previously been delayed by the contractors but an opening in their schedule enabled them to undertake the job at Walford Creek at the time of our visit.

This will cover the existing Resource and several kilometres west of it. It will be an entirely new dataset and exploration tool for the project, aimed at providing stratigraphical and structural information to depths of up to 600m. Interpretation of the survey data is expected to take 2-3 weeks and help identify structural traps for hydrothermal fluids – potentially high grade zones in the deposit.

Apart from providing structural information to aid drill targeting its timely completion qualifies AML for a ~\$200k Collaborative Exploration Incentive payment from the Government.

Changes to our valuation

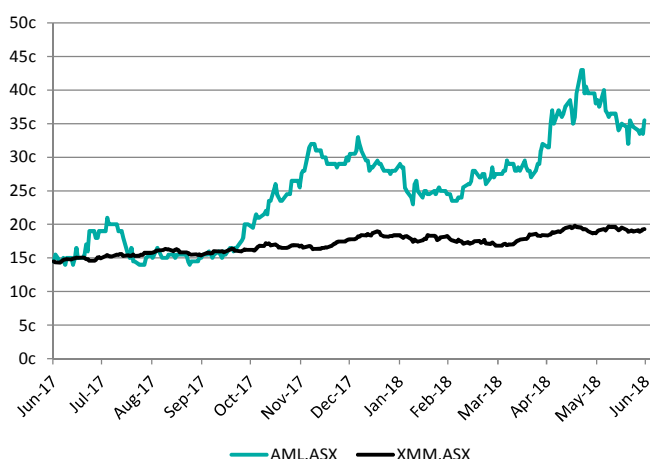
We make no material changes to our valuation other than updating for the current capital structure. Our valuation remains unchanged at \$0.54/sh, implying a 52.1% return from the last closing share price. We retain a Buy (Speculative) recommendation.

Upcoming catalysts

Upcoming catalysts for AML include:

- Ongoing newsflow including drilling progress and assay results from the major 30,000m infill and extension drilling program at Walford Creek. Newsflow from this program has the potential to provide strong positive catalysts for the stock price;
- Updates from the ongoing technical studies based on the larger, upgraded Resource at Walford Creek; and
- Later in 2018 or early in 2019, the next Resource updates.

Figure 4 - AML share-price performance vs ASX Metals and Mining (re-based)



SOURCE: IRESS AND BELL POTTER SECURITIES ESTIMATES

Aeon Metals Ltd (AML)

Company description

AML is a Sydney-based company focused on the exploration and development of its flagship asset, the 100%-owned Walford Creek Copper-Cobalt Project, an advanced exploration stage project located approximately 350km north west of Mt Isa, in Queensland. Since acquiring the project in 2014, AML has completed Resource infill and extension drilling, released updated Mineral Resource estimates, progressed permitting activities and completed a Preliminary Economic Assessment.

In mid-2017 a new understanding of the deposit resulted in the development of a geological model which was subsequently used to target a diamond drilling program testing for high grade extensions of the Vardy Zone. This program was highly successful and defined an upgraded copper-cobalt Resource of 15.7Mt @ 1.24% Cu and 0.15% Co for 194kt Cu contained and 24kt Co contained. Further extension of this Resource will be targeted in 2018 and is a compelling opportunity for AML. A 30,000m diamond core and RC drilling program is underway to test this and will be the single biggest ever undertaken at the project.

Investment thesis – Buy, (Speculative), valuation \$0.54/sh

We reiterate our view that AML has entered an exciting period of cost effective discovery and growth and news flow from this program may deliver strong, positive catalysts for the share price. Our NPV-based valuation is unchanged at \$0.54/sh. AML remains one of our Top Picks for 2018 and we retain our Buy (Spec) recommendation.

Valuation – risked discounted cash flow of key project

Our valuation for AML is broadly based on the parameters and assumptions the Vardy Zone PEA, which assumes a Mining Inventory of 3.6Mt @ 1.15% Cu, 1.06% Zn, 26g/t Ag and 1,842ppm (0.18%) Co being mined at a rate of 600ktpa. Over a six year mine-life this is planned to produce a total of 38.2kt copper in concentrate, 28.8kt zinc in concentrate and 3.2kt of cobalt in cobalt hydroxide. In addition to this, our valuation assumes further conversion from the existing Resource (15.7Mt) for a total Mining Inventory of 9.9Mt. It also allows for higher grades being front-ended in the production profile (as with the PEA). We also include an exploration valuation of \$160m to reflect Resource upside and the prospectivity of AML's tenements and the likelihood of further value being added through exploration success.

NPV premium: In the case of AML, we have taken the step of applying a premium of 25% to our base-case valuation which in some circumstances we believe is justified. We believe this is the case for AML, due to a number of factors including:

- The scarcity of cobalt-exposed projects, particularly advanced stage projects, on the ASX;
- The buoyant, positive market outlook for cobalt demand; and
- A premium being paid by the market, over and above the valuations of exploration companies advancing more 'mainstream' commodity projects as a result of these factors.

Resource sector risks

Risks to AML include, but are not limited to:

- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. As an exploration company with no sales revenues, AML is reliant on access to equity markets and debt financing to fund the advancement and development of its projects.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company may relate to geological, mining and metallurgical performance vs design. These can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Construction and development of mining assets may be subject to approvals timelines, receipt of permits, weather events, access to skilled labour and technical personnel, as well as key material inputs and mechanical components which may cause delays to construction, commissioning and commercial production.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates. As most metal prices are denominated in US dollars, their translation into Australian dollars are affected by fluctuations in the value of the Australian dollar. Commodity price and foreign exchange rate outcomes may be different from our forecasts.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives. Exploration success is dependent upon a wide range of factors and can deliver a wide range of results. Even once Reserves have been calculated, their economic viability remains dependent upon actual commodity prices and inputs to operating costs.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. AML's key assets are located in Australia, in the State of Queensland, a politically and socially stable jurisdiction, however changes to business conditions and government policies can and have occurred, with potential for adverse impacts on the economic and social viability of AML's operations.
- **Corporate/M&A risks.** Risks associated with M&A activity include differences between the entity's and the market's perception of value associated with completed transactions, the actual performance of an acquired asset vs its expected performance as assessed by the acquiror and the timing of an acquisition may all have a material impact on the value attributed by the market to that acquisition.

Aeon Metals Limited

as at 29 June 2018

Recommendation

Buy, Speculative

Price

\$0.355

Valuation

\$0.54

Table 1 - Financial summary

PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending June	Unit	2016a	2017a	2018e	2019e	2020e	Year ending June	Unit	2016a	2017a	2018e	2019e	2020e
Revenue	\$m	-	-	-	-	62.6	VALUATION						
Expense	\$m	(2.6)	(8.3)	(2.6)	(0.1)	(32.2)	NPAT	\$m	(2)	(8)	(6)	(2)	14
EBITDA	\$m	(2.6)	(8.3)	(2.6)	(0.1)	30.4	Reported EPS	c/sh	(1)	(2)	(2)	(0)	3
Depreciation	\$m	-	-	(0.0)	(0.0)	(6.5)	EPS growth	%	na	na	na	na	na
EBIT	\$m	(2.6)	(8.3)	(2.6)	(0.1)	23.9	PER	x	-48.9x	-15.0x	-21.3x	-78.9x	10.6x
Net interest expense	\$m	0.2	0.1	(3.8)	(1.7)	(10.0)	DPS	c/sh	-	-	-	-	-
PBT	\$m	(2.5)	(8.2)	(6.4)	(1.9)	13.9	Franking	%	0%	0%	0%	0%	0%
Tax expense	\$m	-	-	-	-	-	Yield	%	0%	0%	0%	0%	0%
NPAT	\$m	(2.5)	(8.2)	(6.4)	(1.9)	13.9	FCF/share	c/sh	(1)	(1)	(2)	(3)	(7)
CASH FLOW							P/FCFPS	x	-39.9x	-25.9x	-18.9x	-10.8x	-4.9x
Year ending June	Unit	2016a	2017a	2018e	2019e	2020e	EV/EBITDA	x	-78.5x	-24.8x	-80.2x	-2064.2x	6.8x
OPERATING CASHFLOW							EBITDA margin	%	nm	nm	nm	nm	49%
Receipts	\$m	-	-	0.1	-	59.5	EBIT margin	%	nm	nm	nm	nm	38%
Payments	\$m	(1.4)	(1.7)	(2.5)	(1.3)	(26.9)	Return on assets	%	-5%	-14%	-10%	-2%	9%
Exploration payments	\$m	-	-	1.1	1.1	1.1	Return on equity	%	-8%	-29%	-16%	-4%	24%
Tax	\$m	-	-	-	-	-	LIQUIDITY & LEVERAGE						
Net interest	\$m	0.2	0.1	(3.8)	(1.7)	(10.0)	Net debt (cash)	\$m	17	30	3	17	47
Other	\$m	0.5	(0.0)	-	-	-	ND / E	%	52%	123%	6%	33%	72%
Operating cash flow	\$m	(0.8)	(1.6)	(5.1)	(1.9)	23.7	ND / (ND + E)	%	34%	55%	6%	25%	42%
INVESTING CASHFLOW							EBITDA / Interest	x	-	-	-	-	-3.0x
Capex	\$m	(0.0)	-	(2.1)	(11.8)	(53.6)	MINERAL RESOURCES						
Exploration & evaluation	\$m	(2.2)	(3.2)	-	-	-	Walford Creek, QLD	Mt	% Cu	Cu (kt)	ppm Co	Co (kt)	
Other	\$m	(0.0)	0.0	-	-	-	Total resource	73	0.40%	296	813	60	
Investing cash flow	\$m	(2.3)	(3.2)	(2.1)	(11.8)	(53.6)	Measured	-	-	-	-	-	-
FINANCING CASHFLOW							Indicated	16	0.46%	75	914	15	
Share issues/(buy-backs)	\$m	3.0	-	33.7	-	-	Inferred	57	0.39%	221	785	45	
Debt proceeds/(repayments)	\$m	4.8	-	(15.0)	80.0	(20.0)	Vardy Zone						
Dividends	\$m	-	-	-	-	-	Total resource	15.7	1.24%	194.0	1,552	24.4	
Other	\$m	-	-	-	-	-	Measured	1.2	1.25%	15.0	1,600	1.9	
Financing cash flow	\$m	7.8	-	18.7	80.0	(20.0)	Indicated	3.8	1.19%	45.2	1,400	5.3	
Change in cash	\$m	4.8	(4.8)	11.5	66.3	(49.9)	Inferred	10.7	1.25%	133.8	1,600	17.1	
BALANCE SHEET							PROJECT ASSUMPTIONS - Vardy Zone evaluation						
Year ending June	Unit	2016a	2017a	2018e	2019e	2020e	Year ending June 30		FY16	FY17	FY18	FY19	FY20
ASSETS							Currency	US\$/A\$	0.73	0.75	0.78	0.77	0.76
Cash & short term investments	\$m	6.6	1.9	13.4	79.7	29.8	Copper price	US\$/lb	\$2.22	\$2.44	\$3.17	\$3.42	\$3.39
Accounts receivable	\$m	0.1	0.1	0.1	0.1	-	Cobalt	US\$/t	\$35,000	\$75,000	\$75,000	\$75,000	\$75,000
Property, plant & equipment	\$m	0.1	0.1	2.2	14.0	61.1	Zinc	US\$/t	\$0.80	\$1.27	\$1.30	\$1.33	\$1.37
Exploration & evaluation	\$m	50.1	54.8	54.8	54.8	54.8	CAPEX - development	A\$m	-	-	-	(10)	(49)
Other	\$m	0.1	0.2	(0.1)	(0.1)	3.2	CAPEX - sustaining	A\$m	-	-	-	-	(3)
Total assets	\$m	57.2	57.1	70.5	148.6	148.9	Ore milled	Mt	-	-	-	-	0.30
LIABILITIES							Head grade	% Cu	-	-	-	-	1.35%
Accounts payable	\$m	0.9	0.8	0.1	0.0	6.4	ppm Co	-	-	-	-	-	1,800
Borrowings	\$m	23.6	31.8	16.8	96.8	76.8	Production	t Cu	-	-	-	-	3.8
Other	\$m	0.2	0.2	0.2	0.2	0.2	t Co	-	-	-	-	-	0.270
Total liabilities	\$m	24.6	32.8	17.0	97.0	83.4	VALUATION						
SHAREHOLDER'S EQUITY							Ordinary shares (m)						586.0
Share capital	\$m	48.4	48.4	83.9	83.9	83.9	Options in the money (m)						85.0
Reserves	\$m	8.8	4.1	4.1	4.1	4.1	Assumed equity raise (m)						28.6
Retained earnings	\$m	(24.7)	(28.2)	(34.5)	(36.4)	(22.5)	Diluted m						699.5
Total equity	\$m	32.5	24.3	53.4	51.6	65.5	SOTP						\$m
Weighted average shares	m	339.6	347.8	381.7	415.6	415.6	Walford Ck (unrisked NPV10)						\$/sh
CAPITAL STRUCTURE							Walford Ck (risk discount 25%, NPV10)						243
Shares on issue	m					586.0	Other exploration						181
Performance shares / other	m					0.0	Corporate overheads						(14)
Total shares on issue	m					586.0	Net cash (debt)						2
Share price	\$/sh					0.355	Total (undiluted)						351
Market capitalisation	\$m					208.0	Cash from options						13
Net cash	\$m					1.6	Assumed equity raise						10
Enterprise value (undiluted)	\$m					206.4	Total (fully diluted)						374
Options outstanding (m)	m	(wtd avg ex. price \$0.16 per share)				85.0							0.54
Options (in the money)	m					85.0							
Issued shares (diluted for options)	m					671.0							
Market capitalisation (diluted)	m					238.2							
Net cash + options	\$m					15.0							
Enterprise value (diluted)	\$m					223.2							
MAJOR SHAREHOLDERS													
					%	m							
OCP Holdings					29.4%	172.4							
Regal Funds Management					5.4%	31.4							
Management and Board					4.1%	23.9							
Bliss Investments					4.0%	23.5							
Top 4					42.9%	251.3							

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
Industrials			
Sam Haddad	Industrials	612 8224 2819	shaddad
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Tim Piper	Industrials	612 8224 2825	tpiper
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	lsotiriou
Resources			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Analysts			
James Filius	Analyst	613 9235 1612	jfilius
Alexander McLean	Analyst	612 8224 2886	amclean
Damien Williamson	Analyst	613 9235 1958	dwilliamson

Bell Potter Securities Limited

ACN 25 006 390 7721

Level 38, Aurora Place
88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

www.bellpotter.com.au

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