

24 May 2018

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SPECULATIVE BUY

unchanged

PRICE TARGET A\$0.55

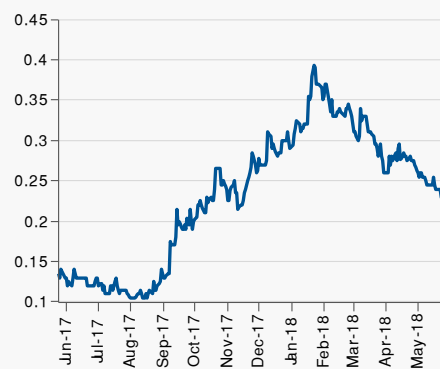
unchanged

Price (24-May) A\$0.25

Ticker EAR-ASX

52-Week Range (A\$):	0.10 - 0.41
Avg Daily Vol (M) :	1.1
Market Cap (A\$M):	122
Shares Out. (M) :	488.6
Enterprise Value (A\$M):	111
Cash (A\$M):	11.6
Long-Term Debt (A\$M):	0.0
NAV /Shr (A\$):	0.53
NAV /Shr (5%) (A\$):	0.63
Major Shareholders:	Northern Star 19.4%

FYE Jun	2017A	2018E	2019E	2020E
Gold Production (000oz)	0	0	44	106
All in Sustaining Cost (Gold) (US \$ /oz)	-	-	1,019	851
EBITDA (A\$M)	(8.0)	(7.2)	25.2	83.2
Net Income (A\$M)	(7.4)	(7.0)	12.0	50.7↑
Previous	-	-	-	43.3



Source: FactSet

Priced as of close of business 24 May 2018

Canaccord Genuity (Australia) Limited has received a fee as the Sole Underwriter and Bookrunner to the Echo Resources Limited capital raising announced on 25 October 2017.

Estimates Revised**BFS timing update**

BFS timing delayed, but no impact on our ramp-up assumptions. EAR has provided an update on the timing of its Yandal Gold Project Bankable Feasibility Study (BFS), which is now expected at the end of June. While the timing represents a modest delay (~six weeks), we had previously factored in a conservative construction period and don't see any material impact on our ramp-up assumptions (first gold MarQ'18). In our view, the diligent approach and rigorous testing of the key BFS inputs will result in a more robust project. EAR has committed to long lead capital items for the mill refurbishment and has commenced low cost pre-development site works in anticipation of a positive BFS outcome. The company has also continued to bolster its senior management team with the addition of a Process Manager and Mining Manager. Given the building momentum and evident confidence in the forthcoming BFS, we expect EAR to make a formal development decision early in the SepQ'18.

Quick refresher of the Yandal Gold Project. Based on the current Reserve of 15.6Mt at 1.7g/t for 856koz, we remain confident in our assumed 8-year, ~100kozpa production profile at ~\$1,130/oz (lower costs in the first four years). As a reminder, EAR has outlined a staged LOM production profile based on the current Reserve. Stage 1 covers the first four years of mine life, and should see ~100kozpa of production at an AISC of \$1,034/oz, with head grades of ~2g/t and low strip ratio of 5.1:1 driving the attractive economics. Stage 2 incorporates the larger Orelia pit Reserve, which we expect will require a cutback in year 3/4 resulting in modest increases to the LOM strip ratio and AISC profile. Ultimately though, we expect the production profile to be refined (rather than any significant change) as part of the Feasibility Study and remain dynamic depending on exploration success over the LOM. We highlight the multiple regional opportunities (Lowlands, Shady Well, Wimbledon, Mt Joel) within the EAR tenement package, which have the potential to provide additional oxide ore above that envisaged in the BFS. We also note that, at an assumed total capital cost of A\$40m (includes mill refurbishment, working capital and a +\$5m exploration budget), the Yandal gold project is one of the most capital efficient projects in the gold space to bring into production.

Time to start thinking about cash flow. Assuming a ~six-month construction and ramp-up phase, EAR should pour first gold in the MarQ'19, with meaningful cash flow expected from the JunQ'19. At steady state (~100kozpa), EAR should be generating FCF of ~A\$50m pa (from FY20), which relevant to its current Enterprise Value (~\$110m) screens extremely cheaply (FY20 EV/FCF 2.4x), when considering the established, steady state production peers (NST, RRL, EVN, SAR, SBM) all trade on +10x EV/FCF.

Valuation. Our A\$0.55/sh price target is based on an NPV10% for the Yandal gold project, net of corporate and other adjustments and is diluted for an assumed A\$40m financing (CG assume 50:50 debt/equity). With the stock trading down almost 40% from its highs in early 2018, we see the current price as an ideal entry point and expect a re-rate towards our target price to play out over the next 12 months.

FINANCIAL SUMMARY

Echo Resources Ltd

ASX:EAR

Analyst: Tim McCormack
Date: 24/05/2018
Year End: June

Rating:
Target Price:

SPEC BUY
\$0.55

Market Information

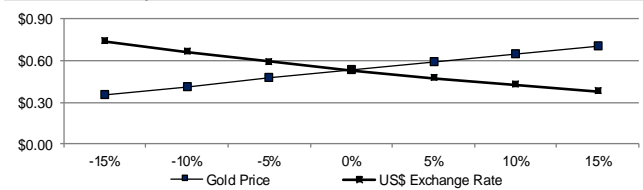
Share Price	A\$	0.25
Market Capitalisation	A\$m	122.2
12 Month Hi	A\$	0.41
12 Month Lo	A\$	0.10
Average daily turnover (3 month)	m	1,206
Issued Capital	m	488.65
Options	m	20.26
Fully Diluted (ITM options only)	m	493.65

Valuation diluted for future equity funding

	A\$m	A\$/share
Yandal gold project NPV @ 10%	239.7	0.43
Exploration & Projects	35.0	0.06
Corporate	(13.2)	(0.02)
Forwards (inc spot deferred)	-	-
Cash & Bullion	11.6	0.02
Future Equity Raised	20.0	0.04
Debt	-	-
Unpaid Capital	1.0	0.00
TOTAL NAV	294.1	0.53
Price:NAV		0.47x
NAV at Spot US\$1,295/oz, AUDUSD \$0.76		0.43
Target Price		0.55

Assumptions	2017a	2018e	2019e	2020e
Gold Price (US\$/oz)	1,257	1,313	1,363	1,408
AUD:USD	0.752	0.790	0.781	0.785
Gold Price (A\$/oz)	1,672	1,662	1,744	1,795

Valuation Sensitivity



Production Metrics (attributable)

	2017a	2018e	2019e	2020e
Yandal gold project				
Gold production (koz)	0	0	44	106
AISC (A\$/oz)	0	0	1,304	1,085

Resources & Reserves

	Mt	Grade	Moz
Resources			
Measured	1.8	2.1	0.12
Indicated	18.7	2.0	1.19
Inferred	6.9	1.8	0.41
Total	27.4	2.0	1.72
Reserves			
Proved	1.5	2.10	0.13
Probable	14.1	1.70	0.75
Reserves	15.6	1.70	0.86

Directors & Management

Name	Position
Barry Bolitho	Non-Executive Chairman
Simon Coxhell	CEO & Managing Director
Anthony McIntosh	Non-Executive Director
Mark Hanlon	Non-Executive Director
Robin Dean	Non-Executive Director

Substantial Shareholders

	%
Northern Star Resources	19.4%

Source: EAR & Canaccord Genuity estimates

Company Description

Echo Resources controls 1,600 square kms of the central Yandal greenstone belt, which has a current resource of +1.7Moz, highly prospective exploration potential and a centralised processing hub at Bronzewing that supports up to 2Mtpa of processing capacity. In our view, the project warrants development and could support a ~100kozpa production profile.

Profit & Loss (A\$m)

	2017a	2018e	2019e	2020e
Revenue	0.0	0.0	77.9	191.1
Operating Costs	0.0	0.0	-45.1	-98.3
Royalties	0.0	0.0	-1.9	-4.8
Corporate & O'heads	-3.1	-4.0	-4.0	-4.0
Exploration (Expensed)	-4.9	-3.2	-1.6	-0.8
EBITDA	-8.0	-7.2	25.2	83.2
Dep'n	0.0	0.0	-4.4	-10.6
EBIT	-8.0	-7.2	20.8	72.5
Net Interest	0.6	0.2	-0.7	-0.1
Tax	0.0	0.0	-8.2	-21.7
NPAT	-7.4	-7.0	12.0	50.7
Abnormals	-23.3	0.0	0.0	0.0
NPAT (reported)	-30.8	-7.0	12.0	50.7

Cash Flow (A\$m)

	2017a	2018e	2019e	2020e
Cash Receipts	0.0	0.0	77.9	191.1
Cash paid to suppliers & emp	-5.8	-3.0	-51.1	-107.1
Tax Paid	0.0	0.0	-8.2	-21.7
Net Interest	0.0	0.2	-0.7	-0.1
Operating Cash Flow	-5.8	-2.8	18.0	62.1
Exploration and Evaluation	0.0	-7.0	-8.0	-4.0
Capex	0.0	-4.0	-39.0	-8.0
Other	0.2	-1.0	0.0	0.0
Investing Cash Flow	0.2	-12.0	-47.0	-12.0
Debt Drawdown (repayment)	0.0	0.0	20.0	-12.5
Share capital	3.4	20.0	20.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.2	0.6	0.8	0.0
Others	0.0	0.0	0.0	0.0
Financing Cash Flow	3.2	20.6	40.8	-12.5
Opening Cash	3.4	1.1	5.6	15.9
Increase / (Decrease) in cash	-2.4	5.8	11.7	37.6
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	1.1	6.8	17.4	53.5

Balance Sheet (A\$m)

	2017a	2018e	2019e	2020e
Cash + S/Term Deposits	1.1	5.6	15.9	53.5
Other current assets	0.6	0.1	25.8	63.3
Current Assets	1.7	5.7	41.6	116.8
Property, Plant & Equip.	3.0	7.0	41.5	38.9
Exploration & Develop.	7.0	10.8	17.2	20.4
Other Non-current Assets	0.1	0.1	0.1	0.1
Payables	1.4	0.1	6.2	15.3
Short Term debt	0.0	0.0	12.5	7.5
Long Term Debt	0.0	0.0	7.5	0.0
Other Liabilities	0.0	0.2	18.9	47.3
Net Assets	10.3	23.3	55.2	105.9
Shareholders Funds	53.1	73.1	93.1	93.1
Reserves	1.4	1.4	1.4	1.4
Retained Earnings	-44.2	-51.2	-39.3	11.4
Total Equity	10.3	23.3	55.2	105.9

Ratios & Multiples

	2017a	2018e	2019e	2020e
EBITDA Margin	nm	nm	32%	44%
EV/EBITDA	nm	nm	5.7x	1.1x
Op. Cashflow/Share	-\$0.02	-\$0.01	\$0.03	\$0.11
P/CF	nm	nm	7.72	2.23
EPS	-\$0.08	-\$0.02	\$0.02	\$0.09
EPS Growth	nm	nm	-243%	324%
PER	nm	nm	11.6	2.7
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-298%	-30%	22%	48%
ROIC	-15%	-10%	13%	55%
Debt/Equity	0%	0%	14%	0%
Net Interest Cover	nm	nm	24.2x	100.6x
Book Value/share	\$0.03	\$0.05	\$0.10	\$0.19
Price/Book Value	9.0x	5.2x	2.5x	1.3x
EV/FCF	nm	nm	-4.2x	2.4x

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Investment Recommendation

Date and time of first dissemination: May 24, 2018, 01:18 ET

Date and time of production: May 24, 2018, 01:19 ET

Target Price / Valuation Methodology:

Echo Resources Limited - EAR

Our price target has increased on incorporating an additional 2.5 years of assumed mine life (now 8 years) and refining the assumed input costs inline with those used by EAR in the Reserve calculation. Our valuation is based on an NPV10% for the Yandal gold project, net of corporate and other adjustments and is diluted to account for future equity issuance.

Risks to achieving Target Price / Valuation:

Echo Resources Limited - EAR

Funding risk

As a pre-production company with no material income, EAR is reliant on equity and debt markets to fund Feasibility Studies and development of its Yandal gold project. We can make no assurances that accessing these markets will be done without further dilution to shareholders.

Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further minable reserves.

Operating risks

Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical, seismic activity and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast gold production from original expectations.

Commodity price and currency fluctuations

As with any mining Company, EAR is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand of commodities. These factors could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:**Global Stock Ratings (as of 05/24/18)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	575	61.43%	41.91%
Hold	231	24.68%	25.11%
Sell	22	2.35%	18.18%
Speculative Buy	108	11.54%	64.81%
	936*	100.0%	

*Total includes stocks that are Under Review

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Echo Resources Limited Rating History as of 05/23/2018



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