

17 September 2018

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SPECULATIVE BUY

unchanged

PRICE TARGET A\$0.35

unchanged

Price (17-Sep) A\$0.13

Ticker EAR-ASX

52-Week Range (A\$):	0.11 - 0.41
Avg Daily Vol (M) :	0.8
Market Cap (A\$M):	63.5
Shares Out. (M) :	488.6
Enterprise Value (A\$M):	55.9
Cash (A\$M):	7.6
Long-Term Debt (A\$M):	0.0
NAV /Shr (A\$):	0.37
NAV /Shr (5%) (A\$):	0.42
Major Shareholders:	Northern Star 19.4%

FYE Jun	2017A	2018E	2019E	2020E
Gold Production (000oz)	0	0	0	65
All in Sustaining Cost (Gold) (US \$ /oz)	-	-	0	846
EBITDA (A\$M)	(8.0)	(7.2)	(6.0)	39.1↓
Previous	-	-	-	63.4
Net Income (A\$M)	(7.4)	(7.0)	(6.5)↓	21.2↓
Previous	-	-	(6.3)	37.2



Source: FactSet

Priced as of close of business 17 September 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**Financing update highlights robust project**

Positive response from the banks. EAR has received solid interest from a group of Tier 1 banks in financing its Yandal gold project, with initial funding offers of up to \$45m. With a project development and pre-production requirement of ~A\$40m, the outcome is a strong result for the company, and offers EAR good flexibility to reduce equity dilution in funding the project. The company now plans to complete a full assessment of the indicative offers received, and shortlist preferred groups to undertake further due diligence over the coming 3 months. We have updated our funding assumptions on the back of the positive response from the banks (previously assumed A\$50m at 50:50 debt equity) to A\$55m (A\$35m debt and A\$20m equity), with additional funds providing plenty of flexibility for capitalised mining, minimum cash reserves, exploration and G&A. Given the financing review period and Optimisation work recently initiated, we have pushed back first production to the DecQ'19, and don't expect the company to make a Final Investment Decision until the 1H 2019.

Optimisation plan underway. EAR has commenced an Optimisation Study on the recent DFS, which will look to improve the Stage 1 project economics and extend the initial ~4-year mine life. Focus areas of the Study will be optimising the mining and production schedule with a view to improving costs and bolstering the initial years of the mine plan. We currently model a 5-year mine life producing ~100kozpa at an AISC of A\$1,087/oz, which incorporates one year of assumed additional production from the company's advanced exploration prospects.

Exploration review. The company has also commenced a review of its exploration portfolio, where it will look to generate and prioritise near-surface open pit and deeper higher-grade underground targets, with drill testing expected to begin in the DecQ'18. We continue to see follow-up drilling at Lowlands, Wimbledon and Mt Joel as offering incremental open pit Resource/Reserve growth, and testing underground targets below the historic Bronzewing (produced 2Moz and limited work since the 1990's) and Lotus (produced 500koz) mines as exciting prospects that could significantly improve the medium-term production outlook. We have assumed EAR spending A\$10m pa on exploration over the next 2 years, which we have incorporated as part of an assumed project financing.

Managing Director steps down, search for a replacement is underway. Simon Coxhell has resigned from his position of MD, and Non-Executive Chairman Barry Bolitho has assumed an Executive leadership position. Mr Coxhell has agreed to work with the company in the near term to ensure an orderly management transition, and EAR has commenced a recruitment process for a replacement MD. While a management change will invariably create some uncertainty short term, the measured approach outlined in today's announcement should see increased transparency around EAR's development and exploration strategy delivered over the coming months.

Valuation and recommendation. Our A\$0.35/sh price target (unchanged) is based on an NPV10% for the Yandal gold project, net of corporate and other adjustments and is diluted for an assumed A\$55m financing (debt/equity). We remain positive on EAR, and highlight that once in production, the company should be producing FCF of ~ \$45-55m pa (assuming the Stage 1 production plan). SPEC BUY recommendation maintained.

FINANCIAL SUMMARY

Echo Resources Ltd

ASX:EAR

Analyst: Tim McCormack
Date: 17/09/2018
Year End: June

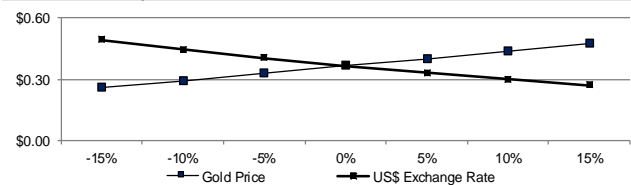
Rating: **SPEC BUY**
Target Price: **\$0.35**

Market Information		
Share Price	A\$	0.13
Market Capitalisation	A\$m	63.5
12 Month Hi	A\$	0.41
12 Month Lo	A\$	0.11
Average daily turnover (3 month)	m	0.754
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%	169.0	0.28	
Exploration & Projects	40.0	0.07	
Corporate	(12.8)	(0.02)	
Forwards (inc spot deferred)	-	-	
Cash & Bullion	7.6	0.01	
Future Equity Raised	20.0	0.03	
Debt	-	-	
Unpaid Capital	1.0	0.00	
TOTAL NAV	224.8	0.37	
Price:NAV		0.35x	
NAV at Spot US\$1,195/oz, AUDUSD \$0.72		0.29	
Target Price		0.35	

Assumptions	2017a	2018e	2019e	2020e
Gold Price (US\$/oz)	1,257	1,305	1,273	1,314
AUD:USD	0.752	0.784	0.744	0.748
Gold Price (A\$/oz)	1,672	1,664	1,710	1,758

Valuation Sensitivity



Production Metrics (attributable)	2017a	2018e	2019e	2020e
Yandal gold project				
Gold production (koz)	0	0	0	65
AISC (A\$/oz)	NA	NA	NA	1,131

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	3.8	2.20	0.28
Probable	11.1	1.50	0.54
Reserves	14.9	1.70	0.82

Directors & Management

Name	Position
Barry Bolitho	Non-Executive Chairman
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 2Mpa 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	0.0	115.0
Operating Costs	0.0	0.0	0.0	-67.0
Royalties	0.0	0.0	0.0	-2.9
Corporate & O'heads	-3.1	-4.0	-4.0	-4.0
Exploration (Expensed)	-4.9	-3.2	-2.0	-2.0
EBITDA	-8.0	-7.2	-6.0	39.1
Dep'n	0.0	0.0	0.0	-6.5
EBIT	-8.0	-7.2	-6.0	32.6
Net Interest	0.6	0.2	-0.5	-1.3
Tax	0.0	0.0	0.0	-10.2
NPAT	-7.4	-7.0	-6.5	21.2
Abnormals	-23.3	0.0	0.0	0.0
NPAT (reported)	-30.8	-7.0	-6.5	21.2

Cash Flow (A\$m)	2017a	2018e	2019e	2020e
Cash Receipts	0.0	0.0	0.0	115.0
Cash paid to suppliers & emp	-5.8	-3.0	-4.0	-73.9
Tax Paid	0.0	0.0	0.0	-10.2
Net Interest	0.0	0.2	-0.5	-1.3
Operating Cash Flow	-5.8	-2.8	-4.5	29.7
Exploration and Evaluation	0.0	-7.0	-10.0	-10.0
Capex	0.0	-3.0	-21.0	-26.5
Other	0.2	0.0	0.0	0.0
Investing Cash Flow	0.2	-10.0	-31.0	-36.5
Debt Drawdown (repayment)	0.0	0.0	35.0	-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	19.4	54.3	-12.5
Opening Cash	3.4	1.1	7.6	26.4
Increase / (Decrease) in cash	-2.4	6.6	18.8	-19.3
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	1.1	7.6	26.4	7.1

Balance Sheet (A\$m)	2017a	2018e	2019e	2020e
Cash + S/Term Deposits	1.1	7.6	26.4	7.1
Other current assets	0.6	0.1	0.2	38.0
Current Assets	1.7	7.7	26.6	45.1
Property, Plant & Equip.	3.0	6.0	27.0	47.0
Exploration & Develop.	7.0	10.8	18.8	26.8
Other Non-current Assets	0.1	0.1	0.1	0.1
Payables	1.4	0.1	0.0	9.2
Short Term debt	0.0	0.0	12.5	12.5
Long Term Debt	0.0	0.0	22.5	10.0
Other Liabilities	0.0	1.2	0.6	29.2
Net Assets	10.3	23.3	36.8	58.0
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	-57.7	-36.5
Total Equity	10.3	23.3	36.8	58.0

Ratios & Multiples	2017a	2018e	2019e	2020e
EBITDA Margin	nm	nm	nm	34%
EV/EBITDA	nm	nm	nm	2.4x
Op. Cashflow/Share	-\$0.02	-\$0.01	-\$0.01	\$0.05
P/CF	nm	nm	-17.70	2.66
EPS	-\$0.08	-\$0.02	-\$0.01	\$0.03
EPS Growth	nm	nm	nm	-428%
PER	nm	nm	-12.2	3.7
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-298%	-30%	-18%	36%
ROIC	-15%	-10%	-5%	22%
Debt/Equity	0%	0%	61%	17%
Net Interest Cover	nm	nm	-5.6x	22.4x
Book Value/share	\$0.03	\$0.05	\$0.06	\$0.10
Price/Book Value	4.7x	2.7x	2.1x	1.4x
EV/FCF	nm	nm	-1.8x	-9.3x

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Investment Recommendation

Date and time of first dissemination: September 17, 2018, 01:52 ET

Date and time of production: September 17, 2018, 01:52 ET

Target Price / Valuation Methodology:

Echo Resources Limited - EAR

Our valuation is based on an NPV10% for the Yandal gold project, net of corporate and other adjustments and is diluted for an assumed A\$55m financing (debt/equity).

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 09/17/18)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	557	63.08%	45.06%
Hold	214	24.24%	29.91%
Sell	11	1.25%	27.27%
Speculative Buy	101	11.44%	65.35%
	883*	100.0%	

*Total includes stocks that are Under Review

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

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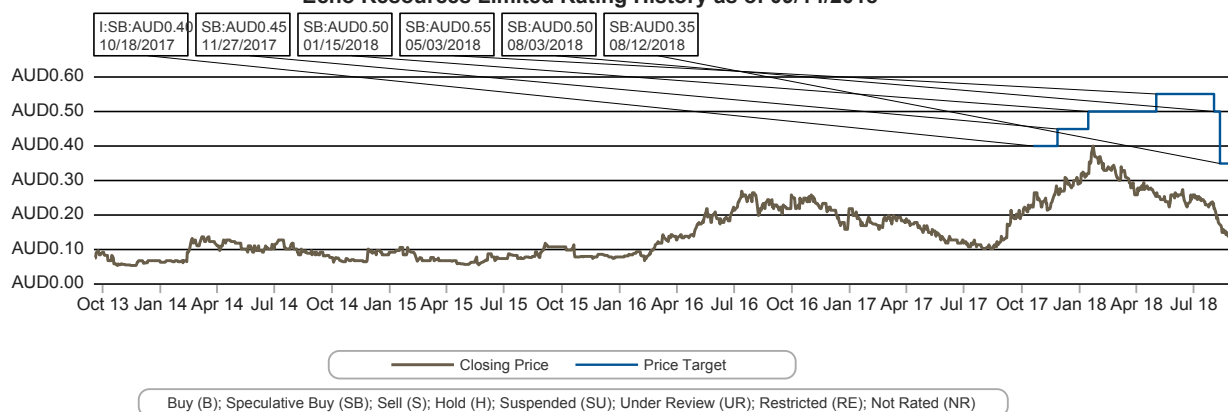
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