

6 November 2017

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**SPECULATIVE BUY**

unchanged

**PRICE TARGET** A\$0.40↓

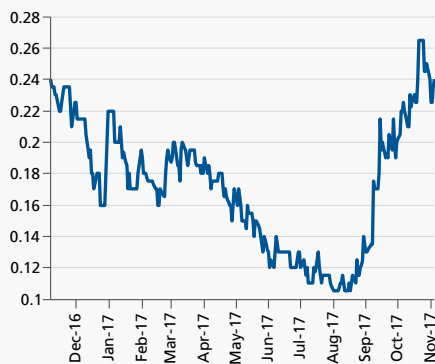
from A\$0.45

Price (6-Nov) A\$0.24

Ticker EAR-ASX

52-Week Range (A\$):	0.10 - 0.27
Avg Daily Vol (M) :	0.7
Market Cap (A\$M):	120
Shares Out. (M) :	488.6
Net Debt (Cash) (A\$M):	(16)
Enterprise Value (A\$M):	103
Cash (A\$M):	16.5
Long-Term Debt (A\$M):	0.0
NAV /Shr (A\$):	0.38
NAV /Shr (5%) (A\$):	0.48

FYE Jun	2017A	2018E	2019E	2020E
Gold Production (000oz)	0	0	68	104
All in Sustaining Cost (Gold) (US \$ /oz)	-	-	991	796
Sales (A\$M)	0.0	0.0	114.3↑	178.3↓
Previous	-	-	108.8	182.4
EBITDA (A\$M)	(8.0)	(10.4)	23.2↑	72.0↓
Previous	-	-	22.5	72.3
Net Income (A\$M)	(7.4)	(10.3)	6.6↓	43.4
Previous	-	-	7.1	-



Source: FactSet

Priced as of close of business 6 November 2017

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****Transformational year ahead**

A recent placement has EAR well funded to pursue a number of aggressive exploration initiatives across its Yandal gold project. It will be the first time the company has had the funding flexibility to step up exploration efforts, which to date, have largely been concentrated on building brownfield Resources/Reserves. EAR has an exciting pipeline of prospective open-pit and underground targets, which if successful, could further improve an already solid ~100kozpa, base case development proposition. With news flow on the Orelia Reserve and deep drilling results expected shortly, we believe the accelerated exploration program should compound the stock's positive momentum into 2018, as EAR progresses towards a development decision. We maintain our SPEC BUY recommendation with a A\$0.40/sh (unchanged) price target.

**Cash injection to accelerate exploration.** EAR recently completed a A\$15m placement (A\$0.22/sh), with A\$10m of the funds raised allocated to an accelerated exploration program. Additional funding will allow a step-change in the exploration activities.

- **Gravity Survey:** EAR plans to complete a large scale gravity survey over the Bronzewing area (never done previously), with the aim of identifying new targets through the transported cover. Improved understanding of the basement geology and correlation with existing/historic mines, should prove to be an important target generation tool in our view.
- **Open pit targets:** EAR's priority with respect to open pits is to delineate additional soft oxide material, which can compliment the harder base load ore from Orelia once in production. We see good potential to extend the existing Julius Resource (335koz) to the north based on first pass aircore results, and expect EAR to complete a follow up RC program in the near term. Wimbledon, Shady Well and Lowlands all present as further prospective open pit targets, and we see good scope for additional Resources to be delineated in the 1H 2018. Narrow, higher grade opportunities like Zaphod (discovered in April 2016), also represent obvious follow up targets.
- **Underground drilling targets.** We believe targeting new underground ore supply is what could drive a step change in the envisaged ~100kozpa production profile. As a reminder, the Bronzewing mill produced 200-300kozpa from underground mines (1998-2002), which highlights the potential of the landholding. Very little drilling at depth has been completed over the last 15 years, and we see the potential as genuinely exciting. Assay results from two diamond holes below the Orelia pit are expected shortly, and we expect EAR to target aggressively the full strike extend of the Lotus-Orelia system between depths of 500-800m over the next few months.

**Development decision by mid-next 2018.** We continue to see EAR being development ready by mid-2018, with outcomes from the accelerated exploration likely to increase the critical mass in its Resource/Reserve base ahead of a Final Investment Decision. With a modest capital requirement of only A\$30m to refurbish the existing 2Mtpa mill, we see our assumed five-year, ~100kozpa production scenario as conservative and achievable.

**Valuation.** Our A\$0.40/sh price target is based on an NPV10% for the Yandal gold project, net of corporate and other adjustments. We assume A\$15m in equity raised in 2018 to complete the funding for the project (50:50 debt/equity) and our valuation is diluted to account for these assumptions. Slightly lower earnings through FY19 reflect increased exploration expenditure, and a refined ramp up schedule.

## FINANCIAL SUMMARY

Echo Resources Ltd

ASX:EAR

Analyst: Tim McCormack  
Date: 6/11/2017  
Year End: June

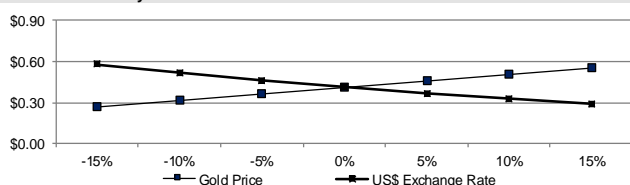
Rating: **SPEC BUY**  
Target Price: **\$0.40**

Market Information		
Share Price	A\$	0.25
Market Capitalisation	A\$m	119.7
12 Month Hi	A\$	0.26
12 Month Lo	A\$	0.10
Average daily turnover (3 month)	m	1.302
Issued Capital	m	488.65
Options	m	20.26
Fully Diluted (ITM options only)	m	493.65

Valuation diluted for funding		A\$m	A\$/share
Yandal gold project	NPV @ 10%	164.6	0.31
Exploration & Projects		25.0	0.05
Corporate		(14.3)	(0.03)
Forwards (inc spot deferred)		-	-
Cash & Bullion (Est. DecQ'17)		16.5	0.03
Future Equity Raised		10.0	0.02
Debt		-	-
Unpaid Capital		1.0	0.00
<b>TOTAL NAV</b>		<b>202.8</b>	<b>0.38</b>
Price:NAV			0.64x
NAV at Spot US\$1,270/oz, AUDUSD \$0.77			0.36
<b>Target Price</b>			<b>0.40</b>

Assumptions	2017a	2018e	2019e	2020e
Gold Price (US\$/oz)	1,257	1,297	1,320	1,348
AUD:USD	0.752	0.796	0.793	0.787
Gold Price (A\$/oz)	1,672	1,629	1,665	1,713

### Valuation Sensitivity



Production Metrics (attributable)	2017a	2018e	2019e	2020e
<b>Yandal gold project</b>				
Gold production (koz)	0	0	68	104
AISC (A\$/oz)	0	0	1,251	1,011

Resources & Reserves	Mt	Grade	Moz
<b>Resources</b>			
Measured	1.8	2.1	0.12
Indicated	18.7	2.0	1.19
Inferred	6.9	1.8	0.41
<b>Total</b>	<b>27.4</b>	<b>2.0</b>	<b>1.72</b>
<b>Reserves</b>			
Proved	0.0	0.00	0.0
Probable	0.9	2.40	0.06
<b>Reserves</b>	<b>0.9</b>	<b>2.40</b>	<b>0.06</b>

### Directors & Management

Name	Position
Barry Boliitho	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

Substantial Shareholders	%
Michael Ruane	18.0%
Ernst Kohler	6.0%

### 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
<b>Revenue</b>	0.0	0.0	114.3	178.3
Operating Costs	0.0	0.0	-77.8	-94.6
Royalties	0.0	0.0	-2.9	-4.5
Corporate & O'heads	-3.1	-4.0	-4.0	-4.0
Exploration (Expensed)	-4.9	-6.4	-6.4	-3.2
<b>EBITDA</b>	<b>-8.0</b>	<b>-10.4</b>	<b>23.2</b>	<b>72.0</b>
Dep'n	0.0	0.0	-6.8	-10.4
<b>EBIT</b>	<b>-8.0</b>	<b>-10.4</b>	<b>16.3</b>	<b>61.6</b>
Net Interest	0.6	0.1	-0.6	0.2
Tax	0.0	0.0	-9.1	-18.6
<b>NPAT</b>	<b>-7.4</b>	<b>-10.3</b>	<b>6.6</b>	<b>43.3</b>
Abnormals	-23.3	0.0	0.0	0.0
<b>NPAT (reported)</b>	<b>-30.8</b>	<b>-10.3</b>	<b>6.6</b>	<b>43.3</b>

Cash Flow (A\$m)	2017a	2018e	2019e	2020e
<b>Cash Flow (A\$m)</b>				
Cash Receipts	0.0	0.0	114.3	178.3
Cash paid to suppliers & emp	-5.8	-4.0	-84.7	-103.1
Tax Paid	0.0	0.0	-9.1	-18.6
Net Interest	0.0	0.1	-0.6	0.2
<b>Operating Cash Flow</b>	<b>-5.8</b>	<b>-3.9</b>	<b>19.9</b>	<b>56.9</b>
Exploration and Evaluation	0.0	-8.0	-8.0	-4.0
Capex	0.0	-10.0	-21.7	-8.0
Other	0.2	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>0.2</b>	<b>-18.0</b>	<b>-29.7</b>	<b>-12.0</b>
Debt Drawdown (repayment)	0.0	15.0	-7.5	-7.5
Share capital	3.4	30.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	-0.2	1.1	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>3.2</b>	<b>46.1</b>	<b>-7.5</b>	<b>-7.5</b>
Opening Cash	3.4	1.1	23.1	5.8
Increase / (Decrease) in cash	-2.4	24.2	-17.3	37.4
FX Impact	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>1.1</b>	<b>25.3</b>	<b>5.8</b>	<b>43.2</b>

Balance Sheet (A\$m)	2017a	2018e	2019e	2020e
<b>Balance Sheet (A\$m)</b>				
Cash + S/Term Deposits	1.1	23.1	5.8	43.2
Other current assets	0.6	0.1	37.7	59.0
<b>Current Assets</b>	<b>1.7</b>	<b>23.1</b>	<b>43.5</b>	<b>102.2</b>
Property, Plant & Equip.	3.0	13.0	27.8	25.4
Exploration & Develop.	7.0	8.6	10.2	11.0
Other Non-current Assets	0.1	0.1	0.1	0.1
Payables	1.4	0.1	9.1	14.3
Short Term debt	0.0	7.5	7.5	0.0
Long Term Debt	0.0	7.5	0.0	0.0
Other Liabilities	0.0	-0.3	28.2	44.3
<b>Net Assets</b>	<b>10.3</b>	<b>30.0</b>	<b>36.6</b>	<b>80.0</b>
Shareholders Funds	53.1	83.1	83.1	83.1
Reserves	1.4	1.4	1.4	1.4
Retained Earnings	-44.2	-54.5	-47.9	-4.6
<b>Total Equity</b>	<b>10.3</b>	<b>30.0</b>	<b>36.6</b>	<b>80.0</b>

Ratios & Multiples	2017a	2018e	2019e	2020e
<b>Ratios &amp; Multiples</b>				
EBITDA Margin	nm	nm	20%	40%
EV/EBITDA	nm	nm	5.7x	1.2x
Op. Cashflow/Share	-\$0.02	-\$0.01	\$0.04	\$0.11
P/CF	nm	nm	nm	nm
EPS	-\$0.08	-\$0.02	\$0.01	\$0.08
EPS Growth	nm	nm	-161%	553%
PER	nm	nm	nm	nm
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	-298%	-34%	18%	54%
ROIC	-15%	-11%	9%	52%
Debt/Equity	0%	25%	0%	0%
Net Interest Cover	nm	-113.0x	26.0x	446.4x
Book Value/share	\$0.03	\$0.06	\$0.07	\$0.15
Price/Book Value	8.8x	4.3x	3.5x	1.6x
EV/FCF	nm	nm	nm	nm

Source: EAR & Canaccord Genuity estimates

## Appendix: Important Disclosures

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### Investment Recommendation

Date and time of first dissemination: November 06, 2017, 14:29 ET

Date and time of production: December 06, 2017, 13:41 ET

### Target Price / Valuation Methodology:

Echo Resources Limited - EAR

Our A\$0.40/sh price target is based on an NPV10% for the Yandal gold project, net of corporate and other adjustments. We have also assumed A\$20m in equity raised to complete in the funding for the project (50:50 debt/equity) and our valuation is diluted to account for these assumptions.

### 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 11/06/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	565	60.49%	39.65%
Hold	255	27.30%	25.10%
Sell	23	2.46%	13.04%
Speculative Buy	91	9.74%	67.03%
	934*	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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**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

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**12-Month Recommendation History** (as of date same as the **Global Stock Ratings** table)

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**Echo Resources Limited Rating History as of 11/03/2017****Online Disclosures**

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