
Analyst Ideas of the Week – Amerigo Updates Technical Report

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Amerigo Updates Technical Report

Amerigo Resources' (TSX: ARG) shares have had a spectacular run since we initiated coverage in December 2016. ARG's share price hit a record high of C\$0.83 per share since we initiated coverage at C\$0.34 per share, and is currently at C\$0.62 per share.



Source: S&P Capital IQ

On March 30, 2017, the company filed an updated technical report, which **showed inferred resources of 0.47 billion lbs of copper at 0.11% of fresh tailings, 0.85 billion lbs at 0.47% at Cauquenes, and 0.15 billion lbs at 0.23% at Colihues, totaling 1.46 billion lbs of copper.** The resource estimate also included molybdenum resources of 38 Mlbs at 0.01%.

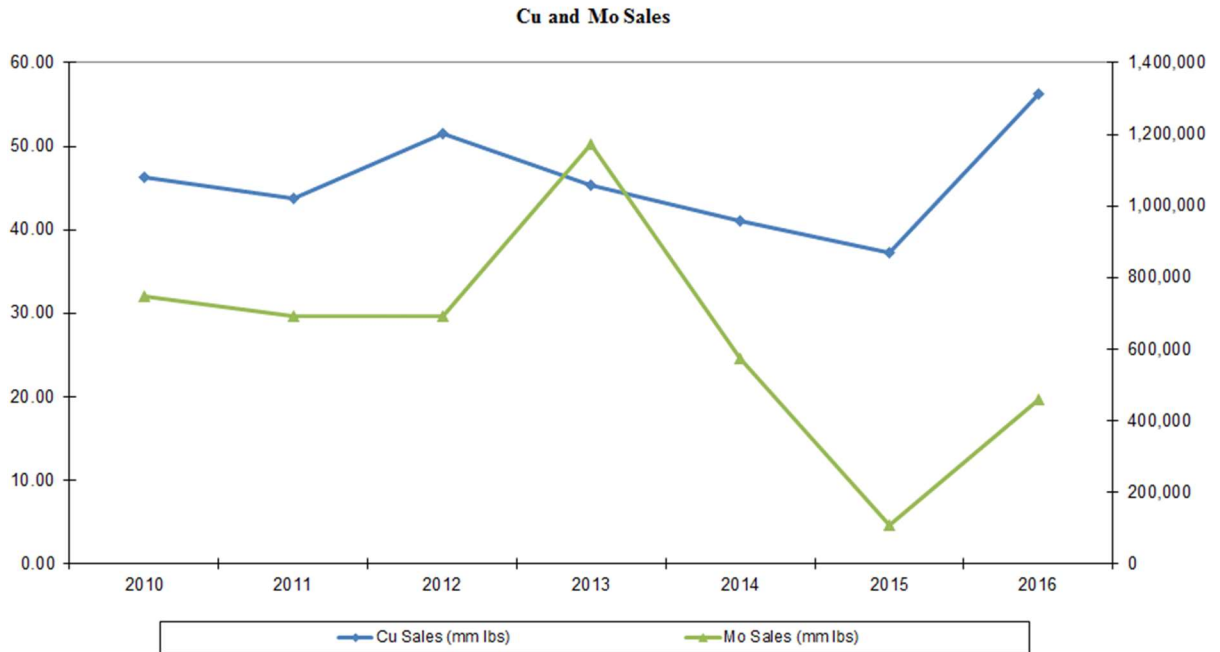
Tailings Deposit	Tonnes (t)	Grade (% Cu)	Mill Recovery (%)	Recoverable Copper (M lbs)
Colihues	77,280,000	0.229	37	145
Cauquenes	305,000,000	0.267	47	847
Fresh	796,267,115	0.111	24	469
Total	1,178,547,115	0.159	35	1,461

Tailings Deposit	Tonnes (t)	Grade (% Mo)	Mill Recovery (%)	Recoverable Molybdenum (M lbs)
Colihues	77,280,000	0.01	21	4
Cauquenes	305,000,000	0.021	20	28
Fresh	796,267,115	0.005	7	6
Total	1,178,547,115	0.01	15	38

The company had completed the first phase of its expansion project at Cauquenes in 2015, which resulted in an increase in copper production from 37 Mlbs in 2015, to 57 Mlbs in 2016. Management expects production to increase to 90 Mlbs once the second phase of the Cauquenes expansion project (costing \$30 million) is completed (expected by the second half of 2018).

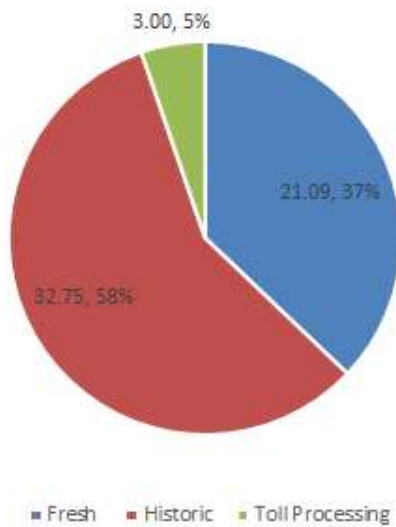
The report indicated an after-tax NPV @ 7% of \$389 million based on a long-term copper price of \$3.00/lb, and \$217 million based on a copper price of \$2.50/lb.

The following chart shows the company’s copper and molybdenum sales since 2010.

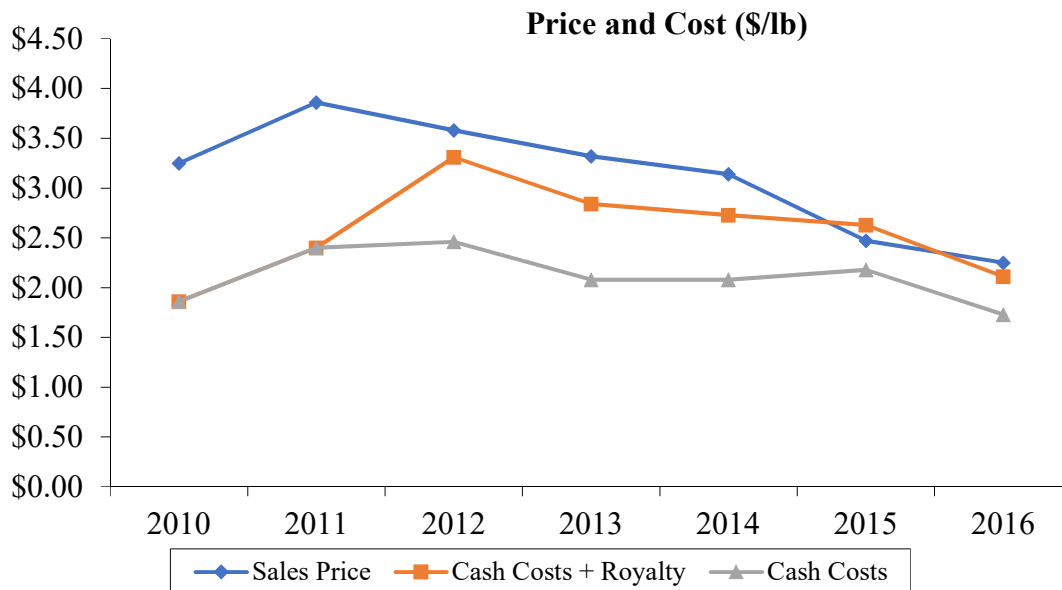


In 2016, approximately 58% of the copper production came from historic tailings (Cauquenes), 37% from fresh tailings, and the remaining 5% from toll processing (third-party ore).

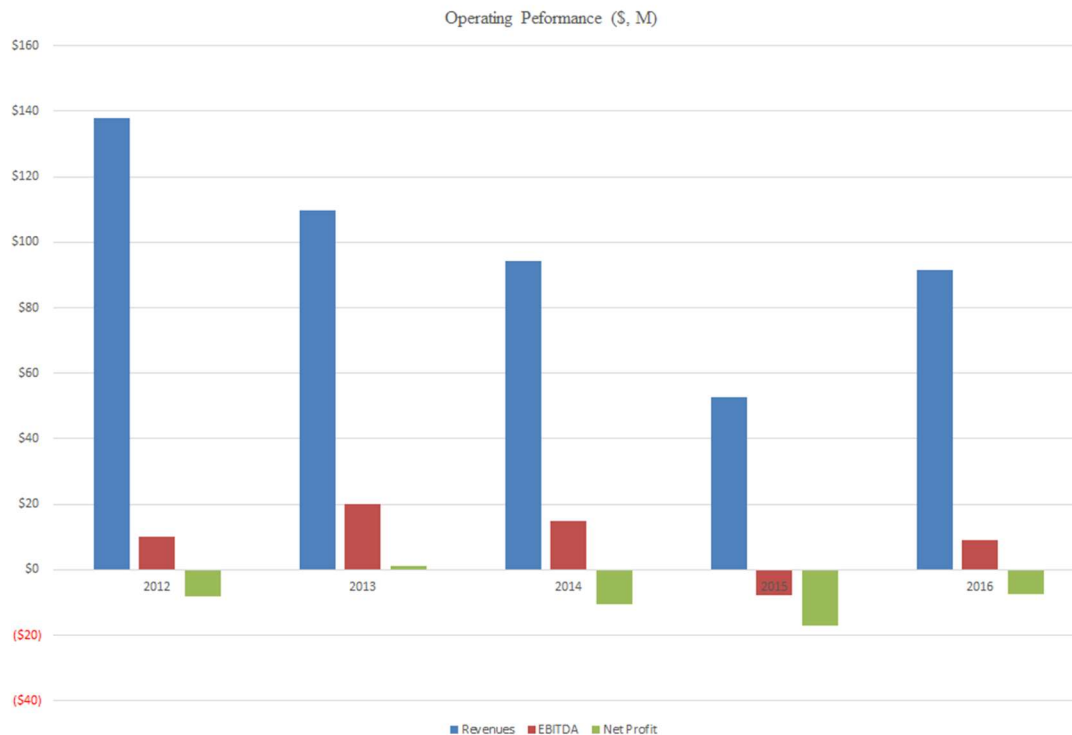
Copper Production (Mlbs, % of Total)



In 2016, the cash cost was \$1.73 / lb (versus \$2.18 / lb in 2015), and the cash cost plus royalties was \$2.11 / lb (versus \$2.63 / lb in 2015). The last time costs were so low was in 2009. The strong production growth was the reason for the drop in cash costs. The following chart shows the significant decline in cash costs in 2016.



The company reported \$9 million in EBITDA in 2016, versus -\$8 million in 2015.



Our 2017 revenue forecast is \$107 million (copper sales of 64 Mlbs). The company is expected to release Q1-2017 results shortly. ARG is also in discussions related to debt financing required to fund the Cauquenes expansion project. We expect that positive news related to a financing will be a major catalyst for the share price. Our fair value estimate on the shares is C\$0.90 per share.

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