



Avoca BUY

30 October 2008

September Quarterly Report

Current Price: **\$1.33**
Valuation: **\$1.82**

Ticker: **AVO**
Sector: **Materials**

Shares on Issue (m): **222.9**
Market Cap (\$m): **296.4**
Net Cash (Debt) (\$m): **-87.8**
Enterprise Value (\$m): **384.2**

52 wk High/Low: **\$2.91** **\$0.88**
12m Av Daily Vol (m): **0.67**

Key Metrics

	09F	10F	11F
P/E (x)	17.7	9.6	8.9
EV/EBITDA (x)	5.5	4.7	5.4

Financials:

	09F	10F	11F
Revenue (\$m)	179.2	189.1	178.0
EBIT (\$m)	35.1	47.9	48.3
NPAT (\$m)	16.8	30.8	33.2

Net Assets (\$m)	108.0	138.8	171.9
Op CF (\$m)	47.4	56.0	47.1

Per Share Data:

	09F	10F	11F
EPS (cps)	7.2	13.2	14.2
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	20.3	23.9	20.1

Share Price Graph



Analyst:
Troy Irvin

Avoca (AVO) poured the first gold bar from the Trident project in July. The operational ramp-up is well underway with the following physicals reported for the quarter:

- Gold production of 21.7koz
- Average price received of A\$993/oz
- Plant running in excess of 1Mtpa nameplate rate
- Recoveries of 96.7% (feasibility study 97%)
- Approximately 60% of gold production was recovered from the gravity circuit
- Stopping contribution to mine production increasing to 75% by quarter end
- Developed ore stocks total ~500,000t (~6 months production) (shown in grey in Figure 1)

Throughput grade averaged 2.9g/t for the September quarter due to the treatment of low grade commissioning material. As the quantity of higher grade stopping ore increases relative to lower grade development ore, the grade will move towards the 5.3g/t reserve estimate. Argonaut anticipates that AVO will report maiden cost data in the December quarter when the ramp-up stabilises and representative average ore grades are fed into the plant.

AVO announced a 58% increase in the Inferred Resource at Chalice to 123koz at an average grade of 5.2g/t. The resource sits in two underground shoots - Atlas and Olympus. Following completion of a pre-feasibility study demonstrating a robust IRR of >50% Chalice is shaping up as AVO's second underground operation. The deposit is located 30km from the new 1mtpa Higginsville gold plant with mine road and highway access in place. In the 1990's Chalice yielded 556koz predominantly from open pit mining.

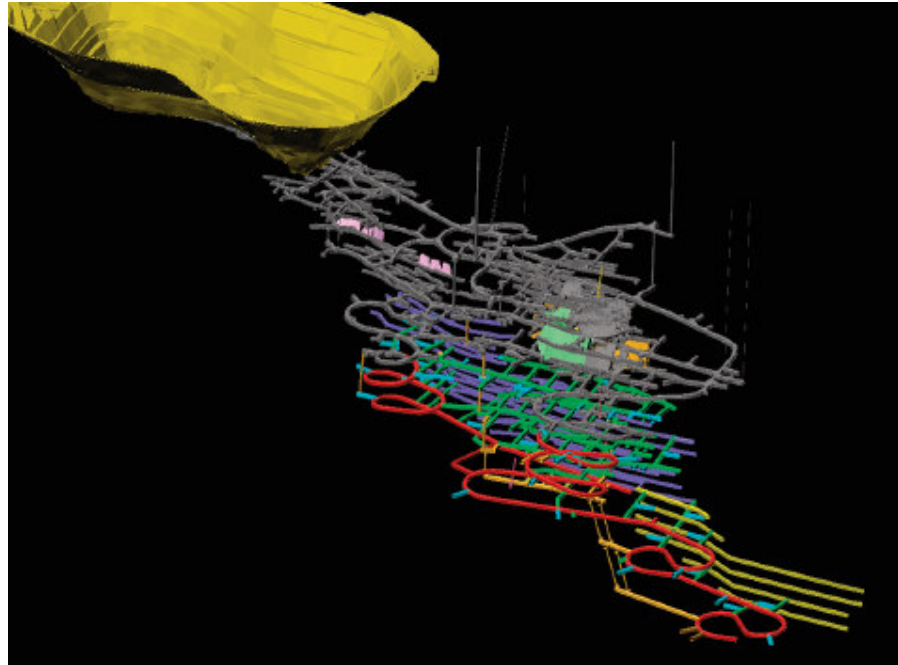
Gold prices have held up better than most during the recent market turmoil. Despite depreciating by almost 4% over the last 12 months in US\$ terms, in A\$ terms gold has risen 33% to ~A\$1130/oz (Figure 2). The gold price is expected to remain firm. Last week Argonaut revised its metal price and exchange rate forecasts. The short term outlook for each metal was adjusted downwards except for gold, which remains unchanged at US\$900/oz in FY09, US\$850/oz in FY10 and US\$800/oz in FY11.

AVO has cash of \$8.0m and interest bearing liabilities of ~\$95m. Argonaut's positive view on the stock is justified by:

- Quality management
- High grades
- Exploration upside
- Lack of domestic gold competition
- Unhedged
- Value - AVO is trading at a 27% discount to NAV

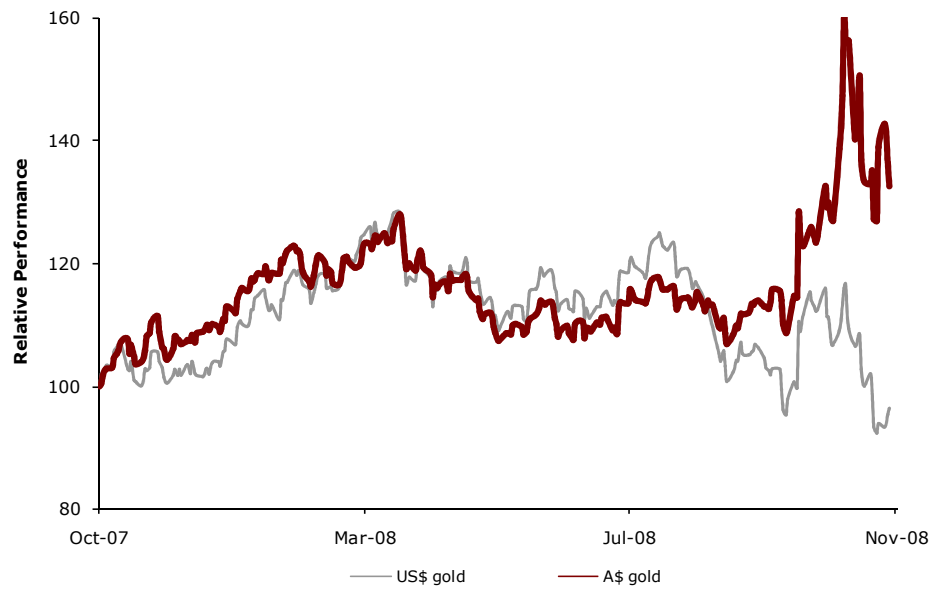
BUY

Figure 1: Status of completed development



Source: AVO

Figure 2: Gold price AUD v USD (rebased)



Source: Argonaut

Avoca Resources

Recommendation **BUY**
Current Price **\$1.33**
DCF Valuation **\$1.82**
All Ords (XAO) **3,893**

Sector **Materials**
Issued Capital (m) **222.9**
Market Cap (m) **\$296.4**
Updated **30-October-2008**

Profit & Loss (\$m) 30 June	2009E	2010E	2011E
Sales Revenue	179.2	189.1	178.0
Other Income	0.9	1.9	2.3
Operating Costs	103.8	102.6	102.4
Depn & Amort	34.2	33.4	22.3
Exploration Written Off	2.0	2.0	2.1
Corporate/Admin	5.0	5.1	5.2
Other	0.0	0.0	0.0
EBIT	35.1	47.9	48.3
Interest Paid	6.9	3.9	1.0
Operating Profit	28.2	44.0	47.4
Tax expense	11.5	13.2	14.2
Minorities	0.0	0.0	0.0
NPAT	16.8	30.8	33.2
Normalised NPAT	16.8	30.8	33.2

Cash Flow (\$m)	2009E	2010E	2011E
Operating Cashflow	47.4	56.0	47.1
- Capex	13.0	6.1	4.2
- Exploration & Evaluation	10.0	10.2	10.4
- Asset purchases (+ asset sales)	0.0	0.0	0.0
Free Cashflow	24.4	39.6	32.5
- Dividends	0.0	0.0	0.0
+ Equity raised	0.0	0.0	0.0
+ Debt drawdown (- repaid)	(40.0)	(31.8)	0.0
Net Change in Cash	-15.6	7.8	32.5
Cash at End Period	36.0	45.8	56.9

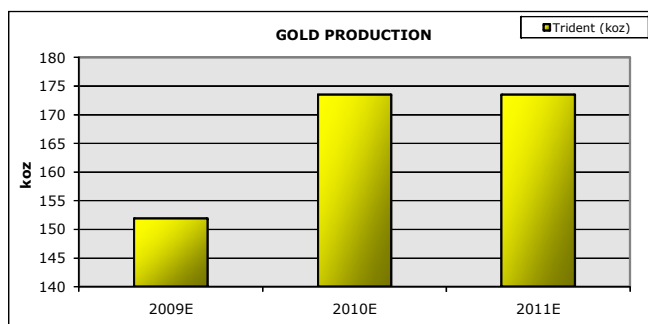
Balance Sheet (\$m)	2009E	2010E	2011E
Total Assets	200.7	193.3	191.9
Total Debt	75.8	35.8	4.0
Total Liabilities	92.7	54.6	20.0
Shareholders Funds	108.0	138.8	171.9

Production Summary	2009E	2010E	2011E
Trident (koz)	152	174	174
Total	152	174	174

Gold Cash Cost (US\$/oz)	535	461	460
Gold Total Cost (US\$/oz)	711	611	560
Gold Price Realised (US\$/oz)	900	850	800

Reserves & Resources

Reserves	Mt	g/t	Moz
Trident	3.4	5.3	0.58
Resources	Mt	g/t	Moz
Trident including stockpiles	5.2	5.8	0.98
Fairplay	3.6	1.8	0.21
Palaeochannels	1.4	2.0	0.09
Chalice	0.7	5.2	0.12
Other	1.3	1.2	0.05
Total	12.3	3.7	1.45



Financial Summary	2009E	2010E	2011E
Reported Earnings			
Net Profit (\$m)	16.8	30.8	33.2
EPS (cents)	7.2	13.2	14.2
PER (x)	17.7	9.6	8.9
Normalised Earnings			
Net Profit (\$m)	16.8	30.8	33.2
EPS (cents)	7.2	13.2	14.2
EPS Growth (%)		83.8	7.7
PER (x)	17.7	9.6	8.9
Cashflow			
Operating Cashflow (\$m)	47.4	56.0	47.1
GCFPS (cents)	20.3	23.9	20.1
PCF (x)	6.6	5.6	6.6
Dividend			
Dividend (cents)	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0
Franking %	100	100	100

Financial Ratios	2009E	2010E	2011E
Balance Sheet Ratios			
Total Debt / Equity (%)	70	26	2
Interest Cover (x)	5.1	12.1	50.2
Acid test ratio (x)	1.1	1.4	1.7

Profitability Ratios	2009E	2010E	2011E
Net Profit Margin (%)	9.3	16.3	18.6
Return on Assets (%)	21.3	32.5	35.8
Return on Equity (%)	15.5	22.2	19.3

Valuation Summary	A\$m	A\$/sh
Trident	292.6	1.31
Forwards	0.0	0.00
Corporate	-8.6	-0.04
Non Trident Resources	68.2	0.31
Exploration	130.0	0.58
Unpaid Capital	11.1	0.05
Cash (30 June 2008)	8.0	0.04
Debt	-95.8	-0.43

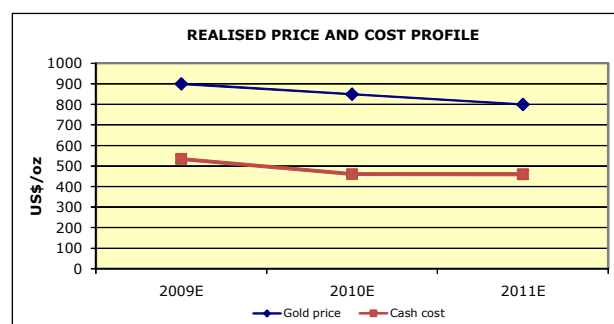
Total @ 7% discount rate **405** **1.82**

Directors

Name	Position
Robert Reynolds	Non-Executive Chairman
Rohan Williams	Managing Director
Stephanie Unwin	Non-Executive Director
David Quinlivan	Non-Executive Director
Jan Castro	Non-Executive Director

Substantial Shareholders

Shareholder	%
Pala Investment Holdings	18.9%
Commonwealth Bank	7.7%
JP Morgan Chase and Co	6.2%



Important Disclosures

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