



Avoca BUY

Current Price: **\$1.49**
Valuation: **\$1.88**

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

Shares on Issue (m): **222.9**
Market Cap (\$m): **330.9**
Net Cash (Debt) (\$m): **19.1**
Enterprise Value (\$m): **311.9**

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

Key Metrics

	09F	10F	11F
P/E (x)	31.6	10.0	9.2
EV/EBITDA (x)	5.3	3.6	4.1

Financials:

	09F	10F	11F
Revenue (\$m)	168.1	189.1	178.0
EBIT (\$m)	26.7	53.0	53.6
NPAT (\$m)	10.5	33.2	35.9
Net Assets (\$m)	101.7	134.9	170.9
Op CF (\$m)	36.5	58.4	49.8

Per Share Data:

	09F	10F	11F
EPS (cps)	4.5	14.2	15.3
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	15.6	25.0	21.3

Share Price Graph



Analyst:
Troy Irvin

27 November 2008

AGM Update

Argonaut attended Avoca's (AVO) Annual General Meeting. Presentation notes include:

- Higginsville plant is running in excess of 1Mtpa nameplate rate
- Metallurgical recovery is in line with feasibility study levels of 97%
- Throughput grade is increasing as more higher grade stope ore is fed into the plant
- Sub-level open stoping from the Western Zone commenced in October – this bulk mining method will facilitate a ramp-up in the mining rate to match milling capacity
- Trident underground grade control drilling has returned stellar gold grades around the 1005 level (Figure 1) – current mine scheduling estimates this will be mined in the September quarter next year
- The Trident resource is open at depth – the last Artemis step-out hole hit 4m @ 7.4g/t
- Following a recent pre-feasibility study Chalice is potentially AVO's second underground operation (Argonaut valuation is \$25m assuming 4 year mine life, \$12m capital expenditure and \$565/oz cash costs)
- 2009 is expected to be a busy year for the project team with feasibility studies targeted for Two Boys (underground), Chalice (underground), Fairplay (open pit), Musket (open pit) and Wills (open pit)
- Exploration is focused on the 6km Higginsville line of lode where there is negligible drill testing below old open pits

Current funding is tight. At 30 September the Company had cash of \$8m, undrawn facilities of ~\$10m and interest bearing liabilities of ~\$95m. The outstanding risk is grade. Cash flow positive production is considered imminent unless the head grade fails to rise in line with the mine schedule. A solid gold price will assist - despite flat lining over the last 12 months in US\$ terms, in A\$ terms gold has risen 33% to ~A\$1,260/oz (Figure 2).

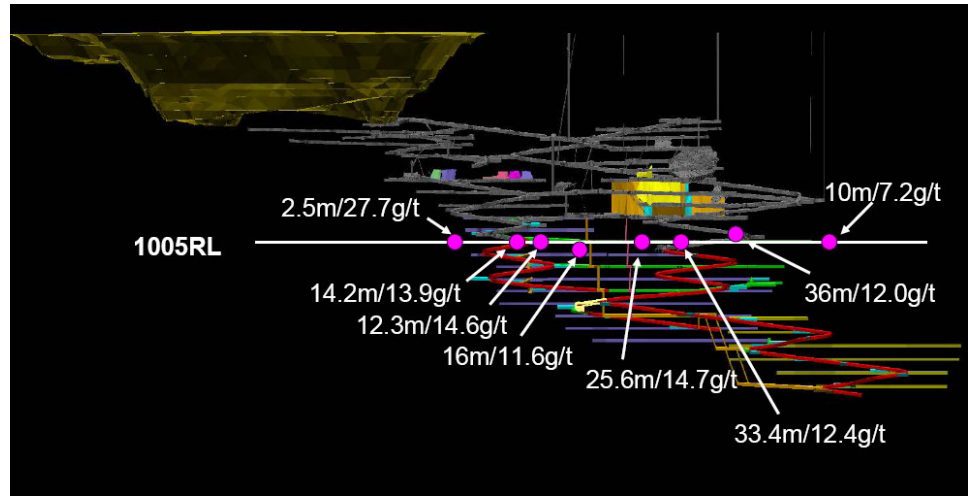
AVO is unhedged with revenue protection provided by put options for 438,933 ounces at a strike price of A\$830/oz.

Argonaut anticipates that AVO will report maiden cost data at the end of the current quarter when the production ramp-up stabilises and representative average ore grades are fed into the plant. Longer term Argonaut is forecasting cash costs in the low US\$400's/oz.

AVO is trading at a 21% discount to NAV. Whilst acknowledging the elevated risk profile due to the tight cash position, management have performed well to date and are capable of delivering reserve grades and a cash positive gold mine.

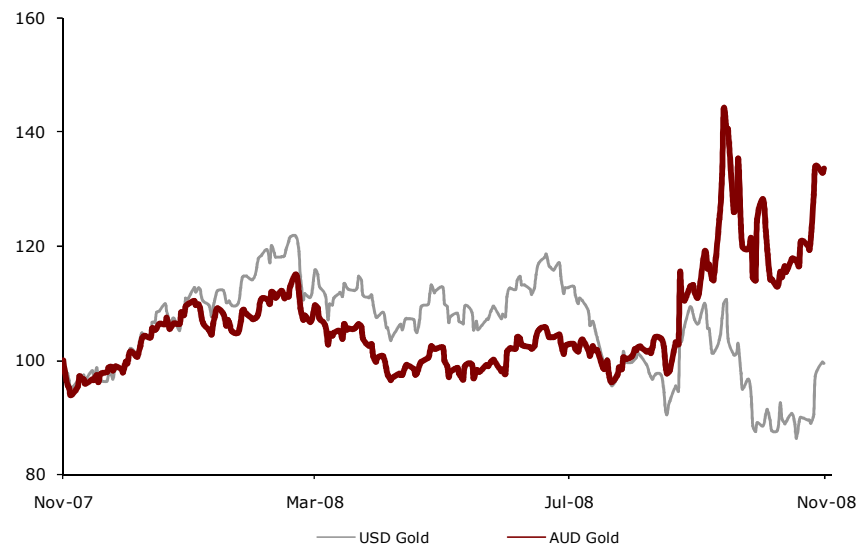
BUY

Figure 1: Trident grade control drilling 1000RL



Source: AVO

Figure 2: Gold price AUD v USD (rebased)



Source: Argonaut

Avoca Resources

Equities Research
Analyst: Troy Irvin

Recommendation BUY
Current Price \$1.49
DCF Valuation \$1.88
All Ords (XAO) 3,480

Sector Materials
Issued Capital (m) 222.9
Market Cap (m) \$330.9
Updated 27-November-2008

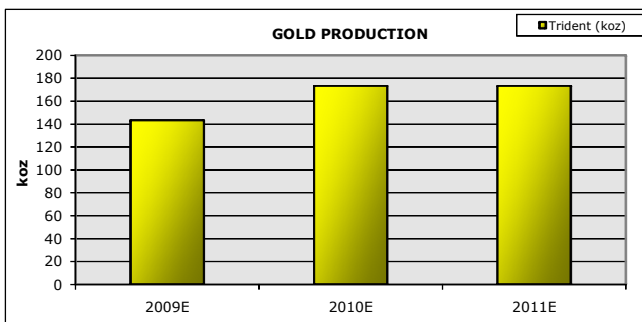
Profit & Loss (\$m) 30 June	2009E	2010E	2011E
Sales Revenue	168.1	189.1	178.0
Other Income	0.4	1.9	2.4
Operating Costs	102.9	97.5	97.2
Depn & Amort	32.0	33.4	22.3
Exploration Written Off	2.0	2.0	2.1
Corporate/Admin	5.0	5.1	5.2
Other	0.0	0.0	0.0
EBIT	26.7	53.0	53.6
Interest Paid	7.4	5.5	2.3
Operating Profit	19.3	47.5	51.3
Tax expense	8.8	14.2	15.4
Minorities	0.0	0.0	0.0
NPAT	10.5	33.2	35.9
Normalised NPAT	10.5	33.2	35.9

Cash Flow (\$m)	2009E	2010E	2011E
Operating Cashflow	36.5	58.4	49.8
- 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	13.5	42.1	35.2
- Dividends	0.0	0.0	0.0
+ Equity raised	0.0	0.0	0.0
+ Debt drawdown (- repaid)	(40.0)	(41.8)	(14.0)
Net Change in Cash	-26.5	0.3	21.2
Cash at End Period	33.9	46.2	50.0

Balance Sheet (\$m)	2009E	2010E	2011E
Total Assets	198.5	195.9	187.2
Total Debt	95.8	55.8	14.0
Total Liabilities	96.8	60.9	16.3
Shareholders Funds	101.7	134.9	170.9

Production Summary	2009E	2010E	2011E
Trident (koz)	144	174	174
Open pits (koz)			
Total	144	174	174
Gold Cash Cost (US\$/oz)	561	438	437
Gold Total Cost (US\$/oz)	736	588	537
Gold Price Realised (US\$/oz)	900	850	800
Exchange Rate (USD:AUD)	0.78	0.78	0.78

Reserves & Resources	Mt	g/t	Moz
Reserves			
Trident	3.4	5.3	0.58
Resources			
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)	10.5	33.2	35.9
EPS (cents)	4.5	14.2	15.3
PER (x)	31.6	10.0	9.2
Normalised Earnings			
Net Profit (\$m)	10.5	33.2	35.9
EPS (cents)	4.5	14.2	15.3
EPS Growth (%)		217.1	8.1
PER (x)	31.6	10.0	9.2
Cashflow			
Operating Cashflow (\$m)	36.5	58.4	49.8
GCFPS (cents)	15.6	25.0	21.3
PCF (x)	9.5	5.9	7.0
Dividend			
Dividend (cents)	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0
Franking %	100	100	100

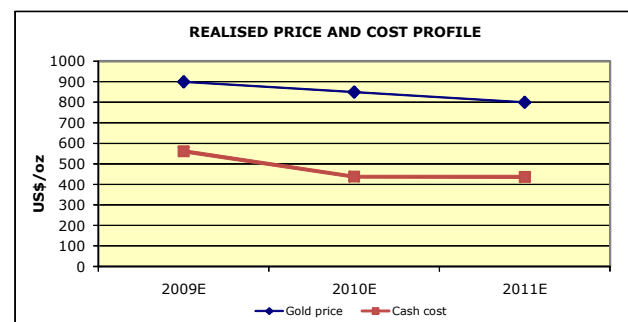
Financial Ratios	2009E	2010E	2011E
Balance Sheet Ratios			
Total Debt / Equity (%)	94	41	8
Interest Cover (x)	3.6	9.6	23.1
Acid test ratio (x)	1.1	1.3	1.6

Profitability Ratios	2009E	2010E	2011E
Net Profit Margin (%)	6.2	17.6	20.2
Return on Assets (%)	16.2	35.4	39.1
Return on Equity (%)	10.3	24.6	21.0

Valuation Summary	A\$m	A\$/sh
Trident	317.4	1.42
Chalice	24.6	0.11
Forwards	0.0	0.00
Corporate	-8.0	-0.04
Other Resources	52.5	0.24
Exploration	110.0	0.49
Unpaid Capital	11.1	0.05
Cash (30 September 2008)	8.0	0.04
Debt	-95.8	-0.43
Total @ 7% discount rate	516	1.88

Directors	Position
Name	
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	%
Pala Investment Holdings	18.9%
Commonwealth Bank	6.6%
JP Morgan Chase and Co	6.2%



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