



Avoca BUY

Current Price: **\$1.88**
Valuation: **\$2.83**

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

Shares on Issue (m): **289.3**
Market Cap (\$m): **544.0**
Net Cash (Debt) (\$m): **-41.2**
Enterprise Value (\$m): **585.2**

52 wk High/Low: **\$2.26** **\$1.42**
12m Av Daily Vol (m): **1.17**

Key Metrics

	09A	10F	11F
P/E (x)	-33.4	9.8	5.9
EV/EBITDA (x)	20.6	4.8	4.2

Financials:

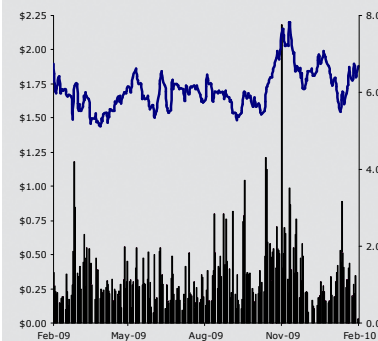
	09A	10F	11F
Revenue (\$m)	146.5	241.3	278.6
EBIT (\$m)	-14.0	84.3	105.1
NPAT (\$m)	-16.3	55.5	92.3

	09A	10F	11F
Net Assets (\$m)	157.3	288.0	435.8
Op CF (\$m)	51.9	121.7	138.7

Per Share Data:

	09A	10F	11F
EPS (cps)	-6.2	17.3	28.8
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	19.9	38.0	43.3

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

22 February 2010

Spoils of victory

The battle for Dioro Exploration (DIO) is over with Avoca (AVO) surpassing the 90% compulsory acquisition threshold after Ramelius (RMS) agreed to sell its DIO stake to AVO.

DIO owns 100% of the South Kalgoorlie operation including the 1.2Mtpa Jubilee gold plant, but the real prize is a 49% interest in the Frog's Leg mine (the remaining 51% is owned by TSX listed La Mancha). Frog's Leg is ramping up production to ~120kozpa.

The spoils of victory are significant for AVO – Removal of single mine risk, and expansion of annual production to ~250koz, reserves to >1.1Moz and resources to >4.0Moz.

Eldorado's (TSX:ELD) ~\$2.2b takeover bid for Sino Gold (SGX) and the removal of Centamin Egypt (CNT) from the ASX has created a further vacuum in the mid tier gold space. Outside of the \$1.2b Andean (AND) and the \$900m Kingsgate (KCN) a widening gulf exists between Lihir (LGL) with a market cap of \$6.6b down to a host of mid cap stocks producing 100-200kozpa.

Following the successful move on DIO, AVO could fill the vacuum due to:

- Quality management
- Low sovereign risk Australian domicile
- Production of ~250kozpa
- Cash costs of ~A\$450/oz (net of royalties of ~A\$100/oz)
- Growing mine life (Trident and Higginsville reserve updates planned for April 2010)
- Ability to execute value accretive corporate activity

AVO has offered interim NPAT guidance for the December H of \$29.4m (unaudited).

Argonaut's valuation is \$2.18. Applying a 1.3x multiple to NAV results in a target price of \$2.83.

BUY

Avoca Resources

Equities Research
Analyst: Troy Irwin

Recommendation BUY
Current Price \$1.88
Target Price (1.3x NAV) \$2.83
All Ords (XAO) 4,714

Sector Materials
Issued Capital (m) 289.3
Market Cap (m) \$544.0
Updated 22-February-2010

Profit & Loss (\$m) 30 June	2009A	2010E	2011E
Sales Revenue	146.5	241.3	278.6
Other Income	0.0	2.7	6.2
Operating Costs	105.8	113.3	136.9
Depn & Amort	42.4	38.4	34.6
Exploration Written Off	0.5	3.0	3.1
Corporate / Admin	2.3	5.0	5.1
Fair Value Loss on Derivatives	9.5	0.0	0.0
EBIT	-14.0	84.3	105.1
Finance Costs	9.3	5.0	3.4
Operating Profit	-23.3	79.2	101.7
Tax expense	-7.0	23.8	9.4
Minorities	0.0	0.0	0.0
NPAT	-16.3	55.5	92.3
Normalised NPAT	-16.3	55.5	92.3

Cash Flow (\$m)	2009A	2010E	2011E
Operating Cashflow	51.9	121.7	138.7
- Capex	55.4	21.5	66.8
- Exploration & Evaluation	8.0	12.0	12.2
- Asset purchases (+ asset sales)	-0.2	25.1	0.0
Free Cashflow	-11.3	63.1	59.7
- Dividends	0.0	0.0	0.0
+ Equity raised	29.5	0.0	0.0
+ Debt drawdown (- repaid)	19.2	(25.0)	(20.0)
Net Change in Cash	37.3	38.1	39.7
Cash at End Period	38.9	77.0	116.7

Balance Sheet (\$m)	2009A	2010E	2011E
Total Assets	287.4	364.5	453.0
Total Debt	86.5	61.5	41.5
Total Liabilities	130.1	76.5	17.2
Shareholders Funds	157.3	288.0	435.8

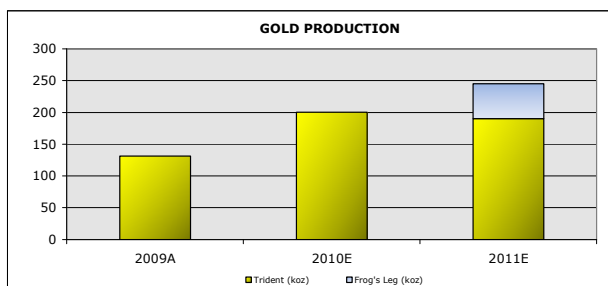
Production Summary	2009A	2010E	2011E
Trident (koz)	131	200	190
Frog's Leg (koz)	0	0	55
Total	131	200	245
Gold Cash Cost (A\$/oz)	745	566	598
Gold Price Realised (A\$/oz)	1209	1202	1136
Exchange Rate (USD:AUD)	0.75	0.89	0.88

Attributable Reserves & Resources

Reserves	Mt	g/t	Moz
Trident (Dec 2006)	3.4	5.3	0.58
Fairplay	1.1	1.9	0.06
Chalice (Dec 2009)	0.7	5.1	0.12
Dioro	6.8	2.8	0.62
Total	12.0	3.6	1.38

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 (Dec 2009)	1.3	4.5	0.19
Other Higginsville	1.3	1.2	0.05
Dioro	38.6	2.1	2.60
Total	51.4	2.5	4.12

EV / Reserve (\$/oz) \$365
EV / Resource (\$/oz) \$122



Financial Summary	2009A	2010E	2011E
Reported Earnings			
Net Profit (\$m)	(16.3)	55.5	92.3
EPS (cents)	(6.2)	17.3	28.8
PER (x)	(33.4)	9.8	5.9
Normalised Earnings			
Net Profit (\$m)	(16.3)	55.5	92.3
EPS (cents)	(6.2)	17.3	28.8
EPS Growth (%)		(377.3)	66.4
PER (x)	(33.4)	9.8	5.9
Cashflow			
Operating Cashflow (\$m)	51.9	121.7	138.7
GCFPS (cents)	19.9	38.0	43.3
PCF (x)	9.4	4.9	4.3
Dividend			
Dividend (cents)	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0
Franking %	100	100	100

Financial Ratios	2009A	2010E	2011E
Balance Sheet Ratios			
Total Debt / Equity (%)	55	21	10
Interest Cover (x)	-1.5	16.8	30.6
Acid test ratio (x)	0.7	1.9	2.2
Profitability Ratios			
Net Profit Margin (%)	-11.1	23.0	33.1
Return on Assets (%)	-5.6	29.3	31.3
Return on Equity (%)	-10.4	19.3	21.2

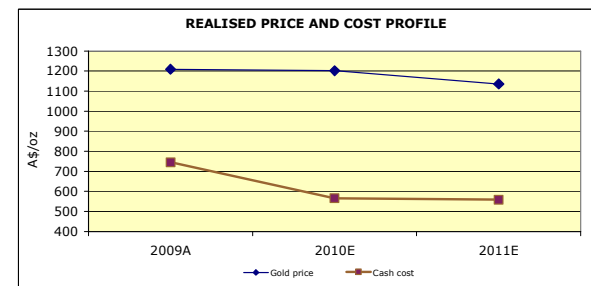
Valuation Summary	A\$m	A\$/sh
Trident	395.1	1.37
Chalice	43.3	0.15
Frog's Leg	103.2	0.36
Forwards	0.0	0.00
Corporate	-17.7	-0.06
Other Resources	52.5	0.18
Exploration	50.0	0.17
Listed Investments	4.0	0.01
Unpaid Capital	11.6	0.04
Tax Losses	30.0	0.10
Cash Estimate	33.8	0.12
Debt	-75.0	-0.26
Total @ 7% discount rate	631	2.18

Directors

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 21.2%



Contact Details**Research:****Ian Christie**

Director Research
+61 8 9224 6872

Troy Irvin

Associate Director
+61 8 9224 6871

Tim Serjeant

Analyst
+61 8 9224 6806

Institutional Sale:**Paul Carter**

Executive Director
+61 8 9224 6864

Chris Wippl

Senior Institutional Dealer
+61 8 9224 6875

John Santul

Consultant, Sales & Research
+61 8 9224 6859

Damian Rooney

Senior Institutional Dealer
+61 8 9224 6862

Ben Willoughby

Institutional Dealer
+61 8 9224 6876

Corporate and Retail Sales:**Kevin Johnson**

Executive Director
+61 8 9224 6880

Glen Colgan

Executive Director
+61 8 9224 6874

Geoff Barnesby-Johnson

Senior Dealer
+61 8 9224 6854

James McGlew

Senior Dealer
+61 8 9224 6866

Andrew Venn

Dealer
+61 8 9224 6865

Rob Hamilton

Dealer
+61 8 9224 6830

Melaney Brans

Dealer
+61 8 9224 6873

General Disclosure and Disclaimer

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") for the use of the clients of ASPL and its related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services Licence No. 274099 and is a Market Participant of the Australian Stock Exchange Limited.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act. This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL has made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's overall revenues.

© 2010. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited. Argonaut Securities Pty Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.