

AVOCA RESOURCES LIMITED

GOLD
Analyst: Stephen Gorenstein
 Date: 4 July 2007
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All figures in A\$ unless otherwise advised

More excellent drill results from the Higginsville district

RECOMMENDATION:	S/Term: OUTPERFORM	L/Term: BUY
Stock Code: AVO	Share Price: \$1.37	Valuation: \$0.92
KEY POINTS:	<ul style="list-style-type: none"> Avoca has announced some excellent drill results from outside the existing resource area from a 26 hole underground drill program. <ol style="list-style-type: none"> High grade Athena 30 and 40 lodes extended by up to 200m 10-hole drilling program, several very high grade results were intersected at the targeted ore positions. Some of the best results were: <ul style="list-style-type: none"> ➢ 6.0m @ 148g/t Au from 100m; 5.5m @ 25.6g/t Au from 63.8m All intersections show the characteristic Athena-style mineralisation being gold-bearing laminated vein arrays. Very solid results from Poseidon South East-dipping Veins (E Veins) Some of the best intercepts were: <ul style="list-style-type: none"> ➢ 0.7m @ 88.0 g/t Au from 44.8m; 0.95 @ 23.5 g/t Au from 29.6m These show E vein mineralisation is characterised by Athena-like laminated quartz reefs with surrounding lower grade disseminated mineralisation. The E veins all lie within 100m of the Trident decline, thus it is not particularly difficult to access from the current design. AVO believes after completion of the resource estimates and subsequent mine design studies, the new ore zones could be developed and possibly mined toward the end of 2007. We expect AVO to announce an ungraded resource estimate during the 4QCY07 including results from Apollo, significant extensions to Athena 30 and 40 lodes and E-Veins. GSJBW View: Excellent drill results. This is the underlying reason why we remain positive on the AVO story. The next step for AVO is to deliver on the operational front by hitting production targets (i.e. troll treating ore by August 2007 and commissioning of the standalone plant during 1HCY08). 	
Higginsville district continues to be very prospective...		
Very high grade Au up to 148g/t in some areas...		
Athena style mineralisation, with gold-bearing veins in quartz...		
The quartz veins contain coarse gold up to 5mm in size...		
AVO believes the new zones could be stoped as soon as the end of 2007...		
No change to our positive OP/B recommendation		

INVESTMENT ARITHMETIC (AIFRS based)

ASX Code:	AVO	12 month Price Range:	160¢-72¢		
Issued Capital:	210m	Market Capitalisation:	\$287m		
% of S&P200 Index:	0.02%	Turnover:	\$16m/month		
Debt/Equity:	-32.5%	Interest Cover:	-12.8 times		
Year End June	2006 Actual	2007 Estimate	2008 Estimate	2009 Estimate	2010 Estimate
Net Profit - Reported (\$m)	-1.6	-3.9	7.8	34.5	38.6
NET PROFIT - Adj¹ (\$m)	-1.6	-3.9	7.8	34.5	38.6
- EPS Adj (¢)	-1.2	-2.4	3.7	16.3	18.3
- EPS Growth (%)	N/A	N/A	N/A	340.5	12.3
- PER (x)	nm	nm	36.9	8.4	7.5
Relative PER (%)	nm	nm	141.4	-37.9	-41.8
Dividend (¢)	0.0	0.0	0.0	8.2	9.1
- Yield (%)	0.0	0.0	0.0	6.0	6.7
- Franking (%)	0	0	0	0	0
FCFPS (¢)	-1.2	10.2	8.6	50.7	53.4
P:FCFPS (x)	nm	13.4	15.9	2.7	2.6
EV/EBITDA	nm	nm	14.1	3.4	2.7
BV (\$)	0.18	0.53	0.47	0.55	0.64
P/BV	7.6	2.6	2.9	2.5	2.1
Avg. Fully Diluted Shares (m)	133.0	164.1	211.6	211.6	211.6
Relative Price Performance			1 month	3 months	12 months
vs. S&P 200:			2.2%	-5.8%	63.6%
vs. MSCI - World (Ex Aust):			3.9%	-3.3%	81.4%

Source: Company data, IRESS, and GSJBW Research estimates. For non Dec. year end stocks, 2004 data is AGAAP based.

⁽¹⁾ Net Profit - Adjusted is after share based compensation and pref dividends, and before goodwill amortisation, NRI's and other non-operating AIFRS adjustments.

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Avoca Resources Ltd							Recommendation (ST):		OUTPERFORM								
Current Price A\$: \$1.37		Mkt Cap. : \$280m		Free Float 100%			Recommendation (LT):		BUY								
GSJBW DCF: \$0.97		ASX Code: AVO					Analyst:		Stephen Gorenstein								
Industry: GOLD		Turnover (mth) \$16m					Data as at:		4-Jul-07								
Investments Statistics							Profit & Loss (A\$m)										
Year end		June	2006a	2007e	2008e	2009e	2010e	Year end			June	2006a	2007e	2008e	2009e	2010e	
Net Profit (reported)		(A\$m)	-1.6	-3.9	7.8	34.5	38.6	Sales Revenue (excl JV & Assoc.)		0	0	54	166	177			
- EPS (Reported) 1		(¢)	-1.2	-2.4	3.7	16.3	18.3	Operating costs		2	5	32	87	94			
- PER (Reported) 1		(X)	-114.2	-57.8	37.1	8.4	7.5	Operating EBITDA		-2	-5	22	79	83			
NET PROFIT (Adj.) 2		(A\$m)	-1.6	-3.9	7.8	34.5	38.6	D&A		0	0	10	30	29			
- EPS (Adj.) 2		(¢)	-1.2	-2.4	3.7	16.3	18.3	Operating EBIT		-2	-5	11	49	54			
- EPS Growth		(%)	n.a.	n.a.	n.a.	342%	n.a.	JV & Assoc.		0	0	0	0	0			
- PER (Adj.) 2		(X)	n.a.	n.a.	37	8	8	EBIT		-2	-5	11	49	54			
Dividend		(¢)	0.0	0.0	0.0	8.2	9.1	Net Interest Exp./(Rev)		0	0	0	0	-1			
- Yield		(%)	0.0%	0.0%	0.0%	6.0%	6.7%	PreTax Profit (pre ab's)		-2	-5	11	49	55			
- Franking		(%)	0	0	0	0	0	Tax Expense (pre abs)		0	-2	3	15	17			
Free Cash Flow		(A\$m)	-6	-10	18	58	62	Minorities (after Tax)		0	0	0	0	0			
- P/FCF 4		(X)	n.a.	n.a.	16.1	5.0	4.7	Prof. Dividends		0	0	0	0	0			
EV (Adj.)/EBITDA 3		(X)	n.a.	n.a.	14.2	3.4	2.7	NET PROFIT (Pre NRI's) 1		-2	-4	8	34	39			
Avg. Shares (diluted)		(mill)	133	164	212	212	212	Abnormal Items (after Tax)		0	0	0	0	0			
								Reported NPAT (post ab's)		-2	-4	8	34	39			
								Sales Growth		(%)		45106%	208%	6%			
								Op. EBITDA Growth		(%)	n.a.	n.a.	n.a.	263%	5%		
								NPAT (Adj.) Growth		(%)	n.a.	n.a.	n.a.	342%	12%		
								EPS (Adj.) Growth		(%)	n.a.	n.a.	n.a.	342%	n.a.		
								Op. EBITDA Margin		(%)		##	40.3%	47.5%	47.0%		
								Interest Cover - EBITDA		(X)	n.a.	-13.2	53.9	n.a.	n.a.		
								Return on Equity 5		(%)	-6%	-4%	8%	30%	28%		
EV Analysis / DCF Valuation							Cash Flow Analysis (A\$m)										
A\$ DCF Valuation:		0.97	Upside DCF:		1.58		Year end		June	2006a	2007e	2008e	2009e	2010e			
Price / DCF:		1.42	WACC:		10.9%		Operating EBITDA		-2	-5	22	79	83				
Ke:		13.7%	RF:		6.5%		change in working cap.		1	2	1	1	2				
Kd:		5.3%	MRP:		6.0%		Gross Cashflow		-2	-3	22	79	85				
BETA:		1.20					Net Interest Paid		0	0	0	0	1				
							Tax Paid (inc. abs)		0	0	0	-14	-17				
							Exploration		-5	-7	-4	-4	-4				
							Operating Cash Flow		-6	-10	18	62	66				
							Sustaining Capex		0	0	0	-3	-4				
							FREE CASH FLOW		-6	-10	18	58	62				
							Dividends Paid		0	0	0	-17	-19				
							Expansion Capex		0	-36	-70	-1	-1				
							Acquisitions		0	0	0	0	0				
							Asset Sales		0	0	0	0	0				
							Dividends Received		0	0	0	0	0				
							Share Issues/Repurchases		12	70	5	0	0				
							Change in Cash		5	24	-47	40	42				
							Gross CF / Op. EBITDA		(X)	n.a.	0.64	1.03	1.01	1.02			
							Maint. Capex / Sales		(%)	n.a.	0.0%	0.0%	2.1%	2.0%			
							Total Capex / Sales		(%)	n.a.	n.a.	129.8%	2.9%	2.9%			
							Maint. Capex / D&A		(X)	n.a.	0.00	0.12	0.12				
							Total Capex / D&A		(X)	n.a.	6.79	0.16	0.17				
							Maint. Capex / GCF		(%)	n.a.	0.0%	0.0%	4.3%	4.2%			
Balance Sheet (A\$m)							ROE Analysis										
Year end		June	2006a	2007e	2008e	2009e	2010e	Year end		June	2006a	2007e	2008e	2009e	2010e		
Cash			7	28	28	68	109	EBIT/Sales		(X)	n.a.	n.a.	0.21	0.30	0.30		
Property, Plant, Equip			1	36	96	71	47	Pretax Profit/EBIT		(X)	n.a.	n.a.	0.96	1.00	1.03		
Other Assets			18	23	27	30	32	NPAT/ Pretax Profit		(X)	n.a.	n.a.	19.35	-316.87	-26.31		
Debt			0	0	47	47	47	Sales/Assets		(X)	n.a.	n.a.	0.36	0.98	0.94		
Shareholders Equity			24	87	99	116	136	Assets/Equity		(X)	n.a.	n.a.	1.52	1.45	1.39		
Net Debt / Equity		(%)	n.a.	n.a.	19%	n.a.	n.a.	Return on Equity (ROE)		(%)	-6%	-4%	8%	30%	28%		
Net Debt / (D+E)		(%)	n.a.	n.a.	16%	n.a.	n.a.										
Annual Production							ROCE WACC Analysis										
Year end		June	2006a	2007e	2008e	2009e	2010e	Year end		June	2006a	2007e	2008e	2009e	2010e		
Gold		000 oz	0	0	67	192	189	Adjusted NOPAT		(A\$m)	-2	-4	8	34	39		
								Adj Cap employed		(A\$m)	16	37	88	107	85		
								ROCE		(%)	-9.7%	-10.4%	8.8%	32.2%	45.5%		
								WACC		(%)	10.9%	10.9%	10.9%	10.9%	10.9%		
								ROCE Spread		(abs)	-21%	-21%	-2%	21%	35%		
								Change in ROCE		(abs)	n.a.	-1%	19%	23%	13%		
Cash Costs																	
Year end		June	2006a	2007e	2008e	2009e	2010e										
Trident (incl. royalty)		A\$/oz	0	0	445	381	405										
Commodity Prices																	
Year Average to		June	2006a	2007e	2008e	2009e	2010e										
Currency		A\$/US\$	0.75	0.78	0.84	0.80	0.78										
Gold Price Spot		A\$/oz	527	819	796	866	933										
Gold Price Received		A\$/oz	n.a.	n.a.	796	866	933										
Earnings Sensitivity																	
Year end		June	2006a	2007e	2008e	2009e	2010e										
Gold Price (+/-US\$10/oz)		A\$m	n.a.	0.1	0.8	1.5	1.4										
AUD:USD (+/- 1¢)		A\$m	n.a.	0.1	0.7	1.4	1.4										

Date: 4 July 2007

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Sector: Gold

CRF: AU

(1) Net Profit - Adjusted is after share based compensation and pref dividends, and before goodwill amortisation, NRI's and other non-operating AIFRS adjustments.
 (2) Net Profit (Adj.) is before goodwill amortisation, NRI's and after Pref. Divs.
 (3) EV Includes 100% of Mkt. Value of minorities
 (4) ROE excludes Preference Capital.
 Source: Company data, IRESS, and GSJBW Research estimates.

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RECOMMENDATION DEFINITIONS

Short Term

Underperform (UP) Stock is expected to underperform the S&P/ASX 200 on a 0-6 month timeframe
 Marketperform (MP) Stock is expected to perform in line with the S&P/ASX 200 on a 0-6 month timeframe
 Outperform (OP) Stock is expected to outperform the S&P/ASX 200 on a 0-6 month timeframe

Long Term

Sell (S) Stock is expected to underperform the S&P/ASX 200 for beyond 6 months
 Hold (H) Stock is expected to perform in line with the S&P/ASX 200 for beyond 6 months
 Buy (B) Stock is expected to outperform the S&P/ASX 200 for beyond 6 months

Other Definitions

NR Not rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or Goldman Sachs JBWere policies in circumstances when Goldman Sachs JBWere is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

Research Criteria Definitions

The above recommendations are primarily determined with reference to the recommendation criteria outlined below. Analysts can introduce other factors when determining their recommendation, with any material factors stated in the written research where appropriate. Each criterion is clearly defined for the research team to ensure consistent consideration of the relevant criteria in an appropriate manner.

SHORT TERM (0-6 MONTHS)

Relative Earnings Outlook: Forward looking assessment of risk to consensus EPS estimates relative to estimated EPS risk across the market.
 Earnings Revision: The percentage change in the current consensus EPS estimate for the stock (year 1) over the consensus EPS estimate for the stock 3 months ago. Stocks are rated according to their relative rank, effectively making it a market relative measure.
 News Flow: The consideration of stock specific news flow, market and/or cyclical thematic and other issues such as index changes. Addresses two issues: (1) What is the potential news flow; and (2) What is the share price reflecting?
 Relative Performance: Historic rolling 3 month performance versus the broader market. Stocks are rated according to their relative ranking.
 Valuation Support: Considers a range of valuation methodologies, including discounted cash flow (DCF) valuation, PER, dividend yield and any other relevant measure.

LONG TERM (> 6 MONTHS)

Industry Structure: Based on Goldman Sachs JBWere industry structure ranking. All industries relevant to the Australian equity market are ranked, based on a combination of Porter's Five Forces of industry structure as well as an industry's growth potential, relevant regulatory risk and probable technological risk. A company's specific ranking is based on the proportion of funds employed in particular industry segments, aggregated to determine an overall company rating, adjusted to reflect a view of the quality of a company's management team.
 EVA™ Trend: ¹ EVA™ trend forecast for coming two years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe. (An ROE measure is used for insurance stocks in conjunction with an assessment of the strength of an insurer's balance sheet).
 Growth Option: A qualitative and quantitative assessment of a company's long term growth options that the analyst believes should be considered and possibly recognised by the market.
 Price:Base Case DCF: The premium or discount to base case DCF valuation at which the stock is trading relative to the average premium or discount across the market.

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For Insurers

Return On Equity: Rating taking into account the expected level and trend of ROE over the next two to three years.
 Balance Sheet: Analyst's assessment of the quality and strength of the insurer's balance sheet, including conservatism of provisioning, sufficiency of capital, and quality of capital.

For REITs

EPU Growth: Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.
 Strategy: Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
 Yield: Yield relative to the REIT sector average. Used instead of Valuation Support.

For NZ Companies

Relevant Index: If a research report is published by the New Zealand affiliate of Goldman Sachs JBWere, the recommendation of a company or trust is based on their performance relative to the NZSX 50 Index (Gross) and not the S&P/ASX 200 index.

Distribution of Recommendations - As at 31 March 2007

Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	12%	12%	Sell	5%	5%
Marketperform	65%	62%	Hold	60%	61%
Outperform	24%	26%	Buy	35%	34%

* No direct linkage with overall distribution as the latter relates to the full GSJBW stock coverage (>200 companies). The above table combines the corporate relationships and recommendations of both Goldman Sachs JBWere Pty Ltd and its affiliate in New Zealand, Goldman Sachs JBWere (NZ) Limited.