

# Avoca Resources Limited

## Site Visit - Higginsville

Materials | Metals & Mining | Australia

### Event:

- Site Visit - Higginsville on Thursday, 9 August 2007.
- No change to our production estimates - GSJBW production FY08: 34.6koz, FY09: 183.5koz.
- We note an updated resource and reserve statement is expected to be released to the market in November.
- It is unknown whether AVO will enter into a toll treatment/ore purchase agreement or if it will decide to stockpile the ore until the plant is ready mid-next year.

### Earnings and Valuation Impact:

- No change to earnings or valuation.

### Investment View:

- Our 12-month price target of \$1.97 is a combination of a forward PER (25x), our base and upside valuations and other catalysts.
- Open stoping is due to commence in October/November which is a key milestone for the company in transforming itself from a gold developer to a gold producer.
- We see the commencement of production (at AVO's standalone plant) in mid 2008 as the key catalyst for AVO over the next 12 months.
- No change to our positive view, based on both the production growth from Trident and the excellent exploration potential which exists in the Higginsville area.

**BUY**

### Key Information

Stock Code	AVO
Share Price	\$1.65
12 Month Price Target	\$1.97
Expected 12M Total Return	19.2%

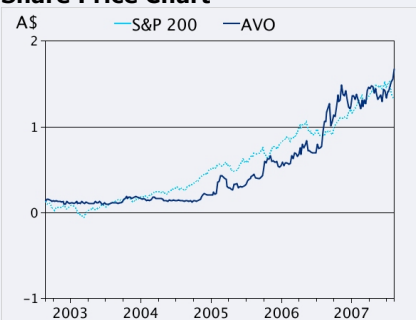
### Investment Data

Issued Capital	213.5m
Market Capitalisation	\$352m
% of S&P 200 Index	na
Free Float	100%
Turnover	\$11.7m/month
12 Month Price Range	180¢-98¢
Debt/Equity	-31.2%

### Investment Arithmetic

Jun year end	06A	07E	08E	09E
Net Profit Rep. (\$m)	-1.6	-3.7	3.1	34.6
NPAT Adj. (\$m)	-1.6	-3.7	3.1	34.6
EPS Adj. (¢)	-1.2	-2.3	1.5	16.2
EPS Growth (%)	na	91.7	-165.2	980.0
<b>PER (x)</b>	<b>nm</b>	<b>nm</b>	<b>110.0</b>	<b>10.2</b>
Relative PER (%)	nm	nm	650.9	-21.6
Dividend (¢)	0.0	0.0	0.0	8.2
<b>Yield (%)</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>5.0</b>
Franking (%)	0	0	0	0
FCFPS (¢)	-4.8	-5.9	-0.4	28.2
P:FCFPS (x)	nm	nm	nm	5.9
EV/EBITDA (x)	na	na	45.7	4.5
BV (¢)	18	53	44	52
P/BV (x)	9.2	3.1	3.7	3.2
Av. Full Dil. Shares (m)	133.0	164.6	213.8	213.8

### Share Price Chart



### Relative Price Performance

	1m	3m	12m
vs. S&P 200:	27.6%	26.6%	38.6%
vs. MSCI - World:	24.0%	24.3%	52.0%

Source: Company data, IRESS, and GSJBW Research estimates.

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## Site Visit

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### Key Points:

- Plant construction has commenced, with commissioning due in May/June 2008 and ore to begin to be commercially produced in June 2008.
- We note an updated resource and reserve statement is expected to be released to the market in November.
- We note no toll treatment/ore purchase agreement has been reached at this stage. Due to the plant being commissioned in May 2008, it is feasible AVO may decide to stockpile the ore mined on site instead of taking it to a third-party to mill.
- \$10m exploration budget for FY08, which involves the use of two service diamond drill rigs and a RC rig during the FY08.
- Noted the labour market for workers is still tight for their fly-in fly-out operation. AVO has recently expanded their workforce to ~100 people.
- Currently building a sustainable camp to house up to 150 people.

### Trident

- Open stoping to commence in October-November.
- Almost 1600m of underground development has been completed.
- Decline development progressing well around 120m per month.
- A second Jumbo has arrived and AVO expects development rates to increase to 600m/month.

### Chalice

- Exploration to begin by the end of the month.
- AVO sees potential for this to be a second mine at Higginsville.

### GSJBW View:

With open stoping due to commence in October/November, if AVO can construct its 1mt plant within the ~\$49m budget and on-time to be commissioned in May FY08, the market may re-rate the stock as AVO transforms itself from a gold developer to a gold producer. We note that AVO has signed a guaranteed maximum price contract for the construction of the mill.

No change to our positive view, driven by both the volume growth at Trident and exploration potential that exists in the Higginsville area.

## Financial Summary | AVO

Avoca Resources Ltd							Recommendation: <b>BUY</b>						
Current Price A\$: <b>\$1.65</b>		Mkt Cap.: <b>\$359m</b>		Free Float <b>100%</b>			Price Target: <b>\$1.97</b>		Analyst: <b>Stephen Gorenstein</b>				
GSJBW DCF: <b>\$0.90</b>		ASX Code: <b>AVO</b>					Analyst: <b>Stephen Gorenstein</b>		Data as at: <b>13-Aug-07</b>				
Industry: <b>GOLD</b>		Turnover (mth): <b>\$29m</b>											
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	-3.7	3.1	34.6	38.6	Sales Revenue (excl JV & Assoc.)	0	0	28	159	177	
- EPS (Reported) 1	(¢)	-1.2	-2.3	1.5	16.2	18.1	Operating costs	2	5	19	80	93	
- PER (Reported) 1	(X)	-137.5	-73.2	112.5	10.2	9.1	Operating EBITDA	-2	-5	8	79	84	
NET PROFIT (Adj.) 2	(A\$m)	-1.6	-3.7	3.1	34.6	38.6	D&A	0	0	5	28	29	
- EPS (Adj.) 2	(¢)	-1.2	-2.3	1.5	16.2	18.1	Operating EBIT	-2	-5	3	50	54	
- EPS Growth	(%)	n.a.	n.a.	n.a.	1003%	n.a.	JV & Assoc.	0	0	0	0	0	
- PER (Adj.) 2	(X)	n.a.	n.a.	113	10	9	EBIT	-2	-5	3	50	54	
Dividend	(¢)	0.0	0.0	0.0	8.2	9.1	Net Interest Exp./ (Rev)	0	0	0	1	-1	
- Yield	(%)	0.0%	0.0%	0.0%	5.0%	5.5%	PreTax Profit (pre ab's)	-2	-5	3	49	55	
- Franking	(%)	0	0	0	0	0	Tax Expense (pre abs)	0	-2	0	15	17	
Free Cash Flow	(A\$m)	-6	-10	-1	60	62	Minorities (after Tax)	0	0	0	0	0	
- P/FCF 4	(X)	n.a.	n.a.	n.a.	5.8	5.7	Pref. Dividends	0	0	0	0	0	
EV(Adj.) / EBITDA 3	(X)	n.a.	n.a.	45.9	4.5	3.8	NET PROFIT (Pre NRI's) 1	-2	-4	3	35	39	
Avg. Shares (diluted)	(mill)	133	165	214	214	214	Abnormal Items (after Tax)	0	0	0	0	0	
EV Analysis / DCF Valuation							Reported NPAT (post ab's)						
A\$ DCF Valuation:		0.90		Upside DCF: 1.45			Sales Growth	(%)	n.a.	n.a.	n.a.	470%	11%
Price / DCF:		1.84		WACC: 10.9%			Op. EBITDA Growth	(%)	n.a.	n.a.	n.a.	832%	6%
Ke:		13.7%		RF: 6.5%			NPAT (Adj.) Growth	(%)	n.a.	n.a.	n.a.	1003%	12%
Kd:		5.3%		MRP: 6.0%			EPS (Adj.) Growth	(%)	n.a.	n.a.	n.a.	1003%	n.a.
BETA:		1.20					Op. EBITDA Margin	(%)	n.a.	n.a.	n.a.	49.5%	47.4%
Year end June 2006a 2007e 2008e 2009e 2010e							Cash Flow Analysis (A\$m)						
EV (Adj.) 3	(A\$m)	212	216	388	356	315	Year end	June	2006a	2007e	2008e	2009e	2010e
EV (Adj.) / EBITDA	(X)	n.a.	n.a.	45.9	4.5	3.8	Operating EBITDA	-2	-5	8	79	84	
EV (Adj.) / Sales	(X)		1807.4	13.9	2.2	1.8	change in working cap.	1	2	1	1	2	
EV (Adj.) / Gross CF	(X)	n.a.	n.a.	42.9	4.5	3.7	Gross Cashflow	-2	-3	9	79	86	
Balance Sheet (A\$m)							Net Interest Paid						
Year end	June	2006a	2007e	2008e	2009e	2010e	Tax Paid (inc. abs)	0	0	0	-11	-17	
Cash		7	56	56	88	130	Exploration	-5	-7	-10	-4	-4	
Property, Plant, Equip		1	12	102	87	63	Operating Cash Flow	-6	-10	-1	64	66	
Other Assets		18	23	33	36	38	Sustaining Capex	0	0	0	-3	-4	
Debt		0	0	92	92	92	FREE CASH FLOW	-6	-10	-1	60	62	
Shareholders Equity		24	87	95	112	131	Dividends Paid	0	0	0	-18	-20	
Net Debt / Equity	(%)	n.a.	n.a.	38%	3%	n.a.	Expansion Capex	0	-11	-96	-10	-1	
Net Debt / (D+E)	(%)	n.a.	n.a.	27%	3%	n.a.	Acquisitions	0	3	0	0	0	
Annual Production							Asset Sales						
Year end	June	2006a	2007e	2008e	2009e	2010e	Dividends Received	0	0	0	0	0	
Gold	000 oz	0	0	35	184	189	Share Issues/Repurchases	12	70	5	0	0	
Cash Costs							Change in Cash						
Year end	June	2006a	2007e	2008e	2009e	2010e	Gross CF / Op. EBITDA	(X)	n.a.	0.64	1.07	1.01	1.02
Trident (incl. royalty)	A\$/oz	0	0	490	381	405	Maint. Capex / Sales	(%)	n.a.	0.0%	0.0%	2.1%	2.0%
Commodity Prices							Total Capex / Sales						
Year Average to	June	2006a	2007e	2008e	2009e	2010e	Maint. Capex / D&A	(X)	n.a.	n.a.	342.4%	8.6%	2.9%
Currency	A\$/US\$	0.75	0.79	0.84	0.80	0.78	Total Capex / D&A	(X)	n.a.	n.a.	17.81	0.48	0.17
Gold Price Spot	A\$/oz	527	816	794	865	933	Maint. Capex / GCF	(%)	n.a.	0.0%	0.0%	4.2%	4.2%
Gold Price Received	A\$/oz	n.a.	n.a.	794	865	933	ROE Analysis						
Earnings Sensitivity							Year end June 2006a 2007e 2008e 2009e 2010e						
Year end	June	2006a	2007e	2008e	2009e	2010e	EBIT/Sales	(X)	n.a.	n.a.	0.11	0.32	0.31
Gold Price (+/-US\$10/oz)	A\$m	n.a.	0.1	0.8	1.5	1.4	Pretax Profit/EBIT	(X)	n.a.	n.a.	1.01	0.98	1.01
AUD:USD (+/- 1¢)	A\$m	n.a.	0.1	0.7	1.4	1.4	NPAT/ Pretax Profit	(X)	n.a.	n.a.	-80.43	36.56	-50.98
(1) Net Profit - Adjusted is after share based compensation and pref dividends, before goodwill amortisation, NRI's and other non-operating AIFRS adjustments.							Sales/Assets						
(2) Net Profit (Adj.) is before goodwill amortisation, NRIs and after Pref. Divs.							(X) n.a. n.a. 0.15 0.75 0.77						
(3) EV Includes 100% of Mkt. Value of minorities							Assets/Equity						
(4) ROE excludes Preference Capital.							(X) n.a. n.a. 2.01 1.90 1.76						
Source: Company data, IRESS, and GSJBW Research estimates.							Return on Equity (ROE)						
							(%) -6% -4% 3% 31% 30%						
							ROCE WACC Analysis						
							Year end June 2006a 2007e 2008e 2009e 2010e						
							Adjusted NOPAT (A\$m) -2 -4 3 35 39						
							Adj Cap employed (A\$m) 16 24 81 123 104						
							ROCE (%) -9.7% -15.7% 3.9% 28.2% 37.2%						
							WACC (%) 10.9% 10.9% 10.9% 10.9% 10.9%						
							ROCE Spread (abs) -21% -27% -7% 17% 26%						
							Change in ROCE (abs) n.a. -6% 20% 24% 9%						

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Sell (S)	Stock is expected to underperform the S&P/ASX 200 for 12 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for 12 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for 12 months

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CS	Coverage Suspended. GSJBW has suspended coverage of this company.
NC	Not Covered. GSJBW does not cover this company.

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Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon.

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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: <sup>1</sup>	EVA™ trend forecast for coming 2 years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe.
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<sup>1</sup> EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart

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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.

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Strategy:	Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
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## Distribution of Recommendations – as at 30 June 2007

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	14%	13%
Hold	51%	54%
Buy	35%	33%

\* No direct linkage with overall distribution as the latter relates to the full Goldman Sachs JBWere stock coverage (>250 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.