

Avoca Resources Limited

1H10 Result

Materials | Metals & Mining | Australia

Result:

- **NPAT (adjusted - consolidated):** \$27.1m vs GSJBW \$29.0m versus loss -\$14.7m pcp
- **EPS:** 12.0¢ vs GSJBW 10.9¢
- **EBITDA:** \$61.5m vs GSJBW \$60.7m
- **EBIT:** \$38.7m vs GSJBW \$42.4m
- **Gross Operating Cash Flow:** \$59.31m vs GSJBW \$61.3m

Key Take-outs:

- Solid result which reflects the turnaround from developer to producer status.
- **Profit Matrix**
 - Clean result in line with our estimates from revenue, EBITDA to NPAT (adj.)
 - Good reconciliation between EBITDA \$61.5m and GOCF \$59.3m
 - **Net debt:** \$7.9m but AVO has \$36.7m of borrowings repayable; \$15m March 2010 and \$20m September 2010. Key to meeting these repayments is operating cash flow.
- **DIO T/O:** As at 24 February AVO had a 91.97% stake in DIO and has moved to compulsory acquisition. The full impact of the T/O on issued shares and cash will be evident in the FY10 result.

Earnings and Valuation Impact:

- We have only adjusted for the actual result.

	NPAT (\$m)			EPS (¢)			DPS (¢)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
F.'09a	-6.9	-6.9	0.0	-2.9	-2.9	0.0	0.0	0.0	n.a.
F.'10e	51.5	54.5	5.7%	19.0	20.0	4.9%	0.0	0.0	n.a.
F.'11e	47.8	51.1	6.9%	17.6	17.7	0.8%	0.0	0.0	n.a.
F.'12e	63.5	66.7	5.2%	23.3	23.1	-0.8%	0.0	0.0	n.a.
F.'13e	84.3	87.6	3.9%	31.0	30.3	-2.0%	0.0	0.0	n.a.
DCF Valuation (¢/share):				Old	New	% Chg.			
Base Valuation				1.46	1.37	-6.1%			

Source: Company data, GSJBW Research estimates

Investment View:

- Maintain BUY recommendation and 12 Mo PT of \$2.75.
- AVO has a strong, high-grade production profile and the acquisition of Dioro (DIO) means it can now fully participate in the production from Frog's Leg (DIO 49%). AVO is therefore multi-mine, thus reducing operational risk and is well on the way to being established as a mid-tier producer.

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BUY

Key Information

Stock Code	AVO
Share Price	\$1.79
12 Month Price Target	\$2.75
Expected 12M Total Return	53.6%

Investment Data

Issued Capital	285.1m
Market Capitalisation	\$510m
% of S&P 200 Index	0.0%
Free Float	100%
Turnover	\$41.0m/month
12 Month Price Range	226¢-142¢
Debt/Equity	15.7%

Investment Arithmetic

Jun year end	09A	10E	11E	12E
Net Profit Rep. (\$m)	-16.3	56.8	51.1	66.7
NPAT Pre-NRI's (\$m)	-6.9	54.5	51.1	66.7
EPS Adj. (¢)	-2.9	20.0	17.7	23.1
EPS Growth (%)	nm	nm	-11.5	30.5
PER (x)	nm	8.9	10.1	7.7
Relative PER (%)	nm	-44.5	-20.3	-29.6
Dividend (¢)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0	100	100	100
FCFPS (¢)	16.2	30.3	32.0	38.8
P:FCFPS (x)	11.0	5.9	5.6	4.6
EV/EBITDA (x)	12.5	4.3	3.9	2.6
BV (¢)	67	58	58	58
P/BV (x)	2.7	3.1	3.1	3.1
Av. Full Dil. Shares (m)	233.5	272.7	288.7	288.7

Share Price Chart



Relative Price Performance

	1m	3m	12m
vs. S&P 200:	2.6%	-12.0%	-34.0%
vs. MSCI - World:	0.2%	-15.8%	-2.4%

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

RESULT DETAILS

AVOCA RESOURCES LIMITED							
PROFIT & LOSS							
		1H09	2H09	FY09	1H10	% chg on pcp	
Revenue:	Sales	A\$m	50.1	96.3	146.4	120.9	
	Other	A\$m	0.0	0.0	0.0	2.5	
EBITDA (pre Equity Accounting)		A\$m	2.6	34.7	37.3	61.5	2307%
Depreciation and non-intangible amortisation		A\$m	18.3	24.2	42.5	22.8	
EBIT		A\$m	-15.7	10.6	-5.2	38.7	n.a
Net interest expense / (income)		A\$m	5.3	3.4	8.7	2.2	
Consolidated Pre-tax Profit (pre NRIs)		A\$m	-21.0	7.2	-13.8	36.5	
Less: Tax		A\$m	-6.3	-0.6	-7.0	9.4	
Consolidated NPAT (pre NRIs)		A\$m	-14.7	7.8	-6.9	27.1	
Equity Share of Associate Profits (after tax)		A\$m	0.0	0.0	0.0	0.0	
Less: Minorities		A\$m	0.0	0.0	0.0	-5.2	
Preference Dividends		A\$m	0.0	0.0	0.0	0.0	
NET PROFIT (pre NRIs)		A\$m	-14.7	7.8	-6.9	32.4	n.a
Non Recurring Items (after tax)		A\$m	0.0	-9.5	-9.5	2.3	
Reported Net Profit (after NRIs)		A\$m	-14.7	-1.7	-16.3	34.6	
EPS (pre NRI's)		A\$m	-6.6	3.6	-2.9	12.0	
Reported EPS (post NRI's)		A\$m	-6.6	-0.4	-7.0	12.9	
P&L RATIOS:							
EBITDA / Sales	%		5%	36%	25%	51%	
EBIT / Sales	%		n.a.	11%	n.a.	32%	
Net interest cover	x		-3.0	3.1	-0.6	17.4	
Tax rate	%		30.2	-8.7	50.4	25.7	
DIVIDENDS:							
Interim / Final	¢ps		0.0	0.0	0.0	0.0	
Franking	%		0.0	0.0	0.0	0.0	
@ corporate tax rate	%		30.0	30.0	30.0	30.0	
CASH FLOW							
		1H09	2H09	FY09	1H10	% chg on pcp	
Receipts from customers	A\$m	49.9	105.0	154.9	127.1		
Payments to suppliers and employees	A\$m	-29.1	-68.6	-97.7	-67.7		
GROSS OPERATING CASH FLOW	A\$m	20.8	36.3	57.2	59.3	185%	
Dividends Received: Associates	A\$m	0.0	0.0	0.0	0.0		
Other	A\$m	0.0	0.0	0.0	0.0		
Net Interest Paid	A\$m	-3.6	-1.6	-5.2	-1.3		
Income Taxes Paid	A\$m	0.0	0.0	0.0	0.2		
Other	A\$m	0.0	0.0	0.0	0.0		
NET OPERATING CASH FLOW	A\$m	17.2	34.8	52.0	58.1	238%	
Capital Expenditure	A\$m	-31.5	-23.8	-55.4	-44.1		
Proceeds from Sale of PP&E	A\$m	0.0	0.0	0.0	0.0		
Net Proceeds from Sale of Investments / Assets	A\$m	0.0	0.0	0.0	6.6		
Exploration	A\$m	-4.6	-3.4	-8.0	0.0		
Other	A\$m	0.0	0.0	0.0	0.0		
NET INVESTING CASH FLOW	A\$m	-36.1	-27.2	-63.4	-37.5	n.a	
Dividends Paid	A\$m	0.0	0.0	0.0	0.0		
Proceeds from Equity Issues	A\$m	0.2	29.3	29.5	1.7		
Proceeds from Convertible Debt	A\$m	0.0	0.0	0.0	0.0		
Payments for Share Buy-back	A\$m	0.0	0.0	0.0	0.0		
Proceeds from borrowings	A\$m	20.0	-0.8	19.2	-10.0		
NET FINANCING CASH FLOW	A\$m	20.2	28.5	48.7	-8.4	-141%	
NET CHANGE IN CASH	A\$m	1.3	36.0	37.3	12.3	863%	
CASH FLOW RECONCILIATION:							
EBITDA	A\$m	2.6	34.7	37.3	61.5		
Net Decrease / (Increase) in Working Capital	A\$m	7.6	8.4	16.0	-4.2		
Other	A\$m	10.7	-6.8	3.9	2.0		
GROSS OPERATING CASH FLOW	A\$m	20.8	36.3	57.2	59.3		
CASH FLOW RATIOS:							
Gross Operating Cash Flow / EBITDA	%	815%	105%	153%	96%		
Capital Expenditure / Depreciation	x	1.7	1.0	1.3	1.9		
Capital Expenditure / Sales	x	n.a.	n.a.	n.a.	n.a.		
Free Cash Flow (pre Dividends)	A\$m	-18.9	7.5	-11.4	14.1		
(post Dividends)	A\$m	-18.9	7.5	-11.4	14.1		

Source: Company data

Financial Summary | AVO

Avoca Resources Ltd							Current Price A\$: \$1.79		Mkt Cap.: \$489m		Free Float 76%		Recommendation: BUY						
							GSJBW DCF: \$1.37		ASX Code: AVO		Price Target: \$2.75		Analyst: Ian Preston						
							Industry: Gold		T'over (mth): \$71m		Data as at: 26-Feb-10		26-Feb-10						
Investments Statistics							Profit & Loss (A\$m)												
Year end June 2009a 2010e 2011e 2012e 2013e							Year end June 2009a 2010e 2011e 2012e 2013e												
Net Profit (reported)	(A\$m)	-16	57	51	67	88	Sales Revenue (excl JV & Assoc.)	146	235	269	294	324	Operating costs	109	119	142	145	160	
-EPS (Reported) 1	(¢)	-7.0	20.8	17.7	23.1	30.3	Operating EBITDA	37	116	127	149	174	D&A	42	44	52	55	55	
-PER (Reported) 1	(X)	-25.6	8.6	10.1	7.7	5.9	Operating EBIT	-5	72	75	94	119	JV & Assoc.	0	0	0	0	0	
NET PROFIT (Adj.) 2	(A\$m)	-7	54	51	67	88	EBIT	-5	72	75	94	119	Net Interest Exp/(Rev)	9	4	2	-2	-7	
-EPS (Adj.) 2	(¢)	-2.9	20.0	17.7	23.1	30.3	PreTax Profit (pre ab's)	-14	68	73	95	125	Tax Expense (pre abs)	-7	9	22	29	38	
-EPS Growth	(%)	400%	n.a.	-1%	n.a.	3%	Minorities (after Tax)	0	0	0	0	0	Minorities (after Tax)	0	0	0	0	0	
-PER (Adj.) 2	(X)	n.a.	9.0	10.1	7.7	5.9	Prof. Dividends	0	0	0	0	0	NET PROFIT (Pre NRI's) 1	-7	49	51	67	88	
Dividend	(¢)	0.0	0.0	0.0	0.0	4.0	Abnormal Items (after Tax)	-9	8	0	0	0	Reported NPAT (post ab's)	-6	57	51	67	88	
-Yield	(%)	0.0%	0.0%	0.0%	0.0%	2.2%	Sales Growth	(%)	n.a.	60%	5%	9%	10%	Op. EBITDA Growth	(%)	n.a.	21%	10%	7%
-Franking	(%)	0	100	100	100	100	NPAT (Adj.) Growth	(%)	n.a.	n.a.	4%	3%	3%	EPS (Adj.) Growth	(%)	400%	n.a.	-11%	n.a.
Free Cash Flow	(A\$m)	38	83	92	12	133	Op. EBITDA Margin	(%)	25.5%	49.4%	47.3%	50.6%	53.6%	Interest Cover - EBITDA	(X)	4.3	29.3	65.8	n.a.
-P/FCF 4	(X)	11.0	5.9	5.6	4.6	3.9	Return on Equity 5	(%)	-4%	23%	24%	31%	41%						
EV(Adj.)/EBITDA 3	(X)	12.5	4.5	3.9	2.6	1.5													
Avg. Shares (diluted)	(mill)	234	273	289	289	289													
EV Analysis / DCF Valuation																			
A\$ DCF Valuation: 1.37			Upside DCF: 2.53				WACC: 10.9%												
Price / DCF: 1.31			WACC: 6.5%				RF: 6.0%												
Ke: 13.7%			MRP: 6.0%																
Kd: 5.3%																			
BETA: 120																			
Year end June 2009a 2010e 2011e 2012e 2013e																			
EV (Adj.) 3	(A\$m)	466	522	500	388	255	EV (Adj.) / EBITDA	(X)	12.5	4.5	3.9	2.6	1.5	EV (Adj.) / Sales	(X)	3.2	2.2	1.9	1.3
EV (Adj.) / Sales	(X)	3.2	2.2	1.9	1.3	0.8	EV (Adj.) / Gross CF	(X)	8.1	4.5	3.8	2.6	1.5						
EV (Adj.) / Gross CF	(X)	8.1	4.5	3.8	2.6	1.5													
Balance Sheet (A\$m)																			
Year end June 2009a 2010e 2011e 2012e 2013e																			
Cash		39	12	62	174	307	Property, Plant, Equip	177	161	161	136	92	Other Assets	72	97	99	100	101	
Debt		87	45	45	45	45	Shareholders Equity	157	215	215	215	215	Net Debt / Equity	(%)	30%	16%	n.a.	n.a.	
Shareholders Equity		157	215	215	215	215	Net Debt / (D+E)	(%)	23%	14%	n.a.	n.a.							
Annual Production																			
Year end June 2009a 2010e 2011e 2012e 2013e																			
Gold	000 oz	131	165	167	166	166													
Cash Costs																			
Year end June 2009a 2010e 2011e 2012e 2013e																			
Trident (excl. royalty)	A\$/oz	653	446	488	504	520													
Commodity Prices																			
Year Average to June 2009a 2010e 2011e 2012e 2013e																			
Currency	A\$/US\$	0.75	0.91	0.90	0.86	0.81	Gold Price Spot	A\$/oz	167	168	164	161	159	Gold Price Received	A\$/oz	115	103	104	101
Gold Price Spot	A\$/oz	167	168	164	161	159													
Gold Price Received	A\$/oz	115	103	104	101	99													
Earnings Sensitivity																			
Year end June 2009a 2010e 2011e 2012e 2013e																			
Gold Price (+/-US\$ 1/oz)	A\$m	0.9	17	14	11	0.8	AUD/USD (+/- 1%)	A\$m	-11	-19	-17	-15	-13						
AUD/USD (+/- 1%)	A\$m	-11	-19	-17	-15	-13													
(1) Net Profit - A 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 M kt. Value of minorities																			
(4) ROE excludes Preference Capital																			
Source: Company data, IRESS, and GSJBW Research estimates.																			
Cash Flow Analysis (A\$m)																			
Year end June 2009a 2010e 2011e 2012e 2013e																			
Operating EBITDA		37	116	127	149	174	change in working cap.	20	0	3	3	2	Gross Cashflow	57	116	130	152	175	
change in working cap.		20	0	3	3	2	Net Interest Paid	-5	-4	-2	0	5	Tax Paid (inc. abs)	0	-9	-21	-26	-35	
Gross Cashflow		57	116	130	152	175	Exploration	-9	-2	-4	-4	-2	Operating Cash Flow	44	92	102	122	143	
Net Interest Paid		-5	-4	-2	0	5	Sustaining Capex	-6	-9	-10	-10	-11	FREE CASH FLOW	38	83	92	112	133	
Tax Paid (inc. abs)		0	-9	-21	-26	-35	Dividends Paid	0	0	0	0	0	Expansion Capex	-49	-43	-42	0	0	
Exploration		-9	-2	-4	-4	-2	Acquisitions	0	-33	0	0	0	Asset Sales	0	0	0	0	0	
Operating Cash Flow		44	92	102	122	143	Dividends Received/Other	8	5	0	0	0	Share Issues/Repurchases	29	2	0	0	0	
Sustaining Capex		-6	-9	-10	-10	-11	Change in Cash	36	14	50	112	133	Gross CF / Op. EBITDA	(X)	153	100	103	102	
FREE CASH FLOW		38	83	92	112	133	Share Issues/Repurchases	29	2	0	0	0	Maint. Capex / Sales	(%)	4.1%	3.8%	3.7%	3.5%	
Dividends Paid		0	0	0	0	0	Total Capex / Sales	(%)	37.8%	21.9%	19.4%	3.5%	3.3%	Maint. Capex / D&A	(X)	0.14	0.20	0.19	0.19
Expansion Capex		-49	-43	-42	0	0	Total Capex / D&A	(X)	130	17	100	0.19	0.19	Total Capex / GCF	(%)	10.5%	7.6%	7.7%	6.8%
Acquisitions		0	-33	0	0	0													
Asset Sales		0	0	0	0	0													
Dividends Received/Other		8	5	0	0	0													
Share Issues/Repurchases		29	2	0	0	0													
ROE Analysis																			
Year end June 2009a 2010e 2011e 2012e 2013e																			
EBIT/Sales	(X)	-0.04	0.31	0.28	0.32	0.37	Pretax Profit/EBIT	(X)	2.67	0.94	0.97	1.02	1.06	NPAT / Pretax Profit	(X)	-0.79	2.39	26.45	-4.193
Pretax Profit/EBIT	(X)	2.67	0.94	0.97	1.02	1.06	Sales/Assets	(X)	0.51	0.81	0.79	0.72	0.65	Assets/Equity	(X)	183	135	159	191
NPAT / Pretax Profit	(X)	-0.79	2.39	26.45	-4.193	-3.38	Return on Equity (ROE)	(%)	-4%	23%	24%	31%	41%						
Sales/Assets	(X)	0.51	0.81	0.79	0.72	0.65													
Assets/Equity	(X)	183	135	159	191	232													
ROCE WACC Analysis																			
Year end June 2009a 2010e 2011e 2012e 2013e																			
Adjusted NOPAT	(A\$m)	-7	54	51	67	88	Adj Cap employed	(A\$m)	202	227	223	142	20	ROCE	(%)	-3.4%	24.0%	22.9%	46.9%
Adj Cap employed	(A\$m)	202	227	223	142	20	WACC	(%)	10.9%	10.9%	10.9%	10.9%	10.9%	ROCE Spread	(abs)	-14%	13%	12%	36%
ROCE	(%)	-3.4%	24.0%	22.9%	46.9%	440.3%	Change in ROCE	(abs)	-2%	27%	-1%	24%	393%						
WACC	(%)	10.9%	10.9%	10.9%	10.9%	10.9%													
ROCE Spread	(abs)	-14%	13%	12%	36%	429%													
Change in ROCE	(abs)	-2%	27%	-1%	24%	393%													

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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

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
CS	Coverage Suspended. GSJBW has suspended coverage of 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.

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.

Prior to 20 July 2007, GSJBW had a dual-horizon recommendation system: Short Term & Long Term. The Short Term factors were Relative Earnings Outlook, Earnings Momentum, News Flow, Relative Performance, and Valuation Support. The Long Term factors were Industry Structure, EVA Trend, Growth Option and Price/DCF.

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 2 years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe.
Earnings Momentum:	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
Catalysts:	A qualitative and quantitative assessment of a company's long term catalysts 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.

For Insurers

EVA Trend: ¹	ROE is used as a proxy for EVA. Rating takes into account the expected level and trend of ROE over the next 2-3 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

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

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.
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¹ EVA is a registered trademark of the U.S. consultancy firm Stern Stewart

Distribution of Recommendations – as at 31 December 2009

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	8%	6%
Hold	54%	43%
Buy	38%	51%

* 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.