

# Pure Aussie gold rises; earnings double on A\$ view



Anna Kassianos >> +61 2 9226 5630

Research Analyst  
Merrill Lynch (Australia)  
anna\_kassianos@ml.com

Mike Harrowell >> +61 2 9226 5840

Research Analyst  
Merrill Lynch (Australia)  
mike\_harrowell@ml.com

## FY09 earnings double with A\$ view; new PO = \$2.90/sh

AVO earnings increased: FY09 +90% (5x PER), FY10 +24% (4x PER) on the back of a downward revision to Merrill Lynch A\$:US\$ forecast (CY08 -6%, CY09 -21%, CY10 -9%). We maintain our BUY and upgrade 12 month PO 11% to \$2.90/sh (1.04x NAV) on today's announcement of its successful production ramp-up.

## Successful ramp-up qtr; reiterate our Buy recommendation

AVO announced a successful production ramp up for Sept quarter (22koz at A\$993/oz realised gold price). AVO is our top pick for ASX listed small to mid cap golds. **Following successful ramp-up, and full production now the focus, we believe AVO has got the plan tailored right for a step up into the Aussie gold mid cap rank.** The stock is trading at 0.5x NAV, at a substantial discount, and at the lower end of the 0.9x NAV peer average. We reiterate our Buy rating.

## Catalysts expected to consolidate upon today's 22% gain

Near term positive catalysts expected: Dec qtr cash and operating performance at full production (given 96.7% design recovery now achieved for low grade ore feed (3.8g/t Au) and 1Mtpa mill throughput exceeded nameplate in Sept month) and expecting resource upgrade with promising drill results from the \$11M exploration budget. **With all this upside and pure leverage to A\$ gold spot, we expect AVO to further consolidate upon today's strong 22% gain.**

## Full production expected for Dec qtr - no guidance change

Production guidance maintained at 160koz (FY09), moving to 190koz (FY10). Cash cost guidance excluding royalties has remained at A\$400 to A\$450/oz - we have modelled just a touch above the mid point at A\$433/oz (excl the current Sept qtr of production ramp-up).

## Estimates (Jun)

(A\$)	2007A	2008A	2009E	2010E	2011E
Net Profit b/f Abnormals	(4)	(1)	60	84	82
EPS	(0.023)	(0.006)	0.268	0.376	0.365
EPS Change (YoY)	-115.9%	73.6%	NM	40.2%	-2.8%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(0.123)	(0.649)	0.013	0.493	0.480

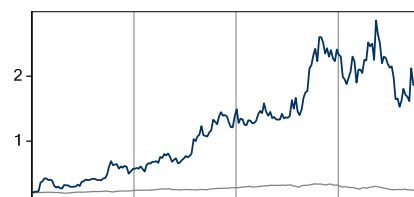
## Valuation (Jun)

	2007A	2008A	2009E	2010E	2011E
P/E	NM	NM	5.26x	3.75x	3.86x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	-42.67x	-108.14x	2.82x	1.53x	0.918x
Free Cash Flow Yield*	-7.61%	-45.03%	0.934%	35.30%	34.36%

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 7.

## Stock Data

Price	A\$1.41
Price Objective	A\$2.60 to A\$2.90
Date Established	30-Oct-2008
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	A\$0.875-A\$2.91
Mrkt Val / Shares Out (mn)	US\$210 / 222.5
Average Daily Volume	1,243,333
ML Symbol / Exchange	AVORF / ASX
Bloomberg / Reuters	AVO AU / AVO.AX
ROE (2009E)	41.2%
Net Dbt to Eqty (Jun-2008A)	41.4%
Est. 5-Yr EPS / DPS Growth	NA / NA
Free Float	100.0%



- Avoca Resources - ALL ORDINARIES INDEX

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Refer to important disclosures on page 8 to 9. Analyst Certification on Page 6. Price Objective Basis/Risk on page 6.

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# iQprofile<sup>SM</sup> Avoca Resources

Key Income Statement Data (Jun)	2007A	2008A	2009E	2010E	2011E
<b>(A\$ Millions)</b>					
Sales	0	4	221	259	249
Operating Expenses	(5)	(7)	(92)	(95)	(94)
<b>EBITDA</b>	<b>(5)</b>	<b>(3)</b>	<b>128</b>	<b>164</b>	<b>155</b>
Depreciation & Amortization	0	0	(37)	(44)	(44)
<b>EBIT</b>	<b>(5)</b>	<b>(3)</b>	<b>92</b>	<b>121</b>	<b>111</b>
Net Interest & Other income	1	0	(6)	0	6
Associates	NA	NA	NA	NA	NA
Pretax Income	(5)	(4)	86	121	117
Tax (expense) / Benefit	0	3	(26)	(36)	(35)
<b>Net Profit b/f Abnormals</b>	<b>(4)</b>	<b>(1)</b>	<b>60</b>	<b>84</b>	<b>82</b>
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	(4)	(1)	60	84	82
Avg F Diluted Shares Outstanding	194	218	224	224	224

## Key Cash Flow Statement Data

EBITDA	(5)	(3)	128	164	155
Change in Working Capital	3	0	1	0	(1)
Deferred Taxation Charge	0	(2)	0	0	0
Other Adjustments, Net	1	7	6	3	3
<b>Cash Flow from Operations</b>	<b>(1)</b>	<b>4</b>	<b>103</b>	<b>131</b>	<b>128</b>
<b>Capital Expenditure</b>	<b>(23)</b>	<b>(145)</b>	<b>(100)</b>	<b>(20)</b>	<b>(20)</b>
(Acquisition) / Disposal of Investments	(2)	0	0	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
<b>Cash Flow from Investing</b>	<b>(25)</b>	<b>(145)</b>	<b>(100)</b>	<b>(20)</b>	<b>(20)</b>
Shares Issue / (Repurchase)	76	6	0	0	0
Cost of Dividends Paid	0	0	0	0	0
<b>Cash Flow from Financing</b>	<b>129</b>	<b>36</b>	<b>14</b>	<b>(35)</b>	<b>0</b>
<b>Free Cash Flow</b>	<b>(24)</b>	<b>(141)</b>	<b>3</b>	<b>111</b>	<b>108</b>
<b>Net Debt</b>	<b>(61)</b>	<b>48</b>	<b>42</b>	<b>(69)</b>	<b>(178)</b>
Change in Net Debt	NA	NA	NA	NA	NA

## Key Balance Sheet Data

Property, Plant & Equipment	50	204	262	235	204
Other Non-Current Assets	1	15	15	15	15
Trade Receivables	1	2	2	2	2
Cash & Equivalents	109	2	19	94	204
Other Current Assets	0	2	2	2	2
<b>Total Assets</b>	<b>161</b>	<b>236</b>	<b>311</b>	<b>360</b>	<b>438</b>
Long-Term Debt	35	44	26	26	26
Other Non-Current Liabilities	0	42	42	42	42
Short-Term Debt	13	6	35	0	0
Other Current Liabilities	0	4	4	13	9
<b>Total Liabilities</b>	<b>59</b>	<b>120</b>	<b>135</b>	<b>100</b>	<b>96</b>
<b>Total Equity</b>	<b>102</b>	<b>116</b>	<b>176</b>	<b>260</b>	<b>342</b>
Total Equity & Liabilities	161	236	311	360	438

## iQmethod<sup>SM</sup> - Bus Performance\*

Return on Capital Employed	-4.2%	-0.9%	26.3%	28.3%	22.3%
Return on Equity	-7.1%	-1.5%	41.2%	38.7%	27.2%
Operating Margin	NA	-	41.6%	46.5%	44.6%
		1,408,328.8			
		%			
EBITDA Margin	NA	-86.1%	58.1%	63.3%	62.3%

## iQmethod<sup>SM</sup> - Quality of Earnings\*

Cash Realization Ratio	0.1x	-2.2x	1.7x	1.6x	1.6x
Asset Replacement Ratio	66.1x	1,246.0x	2.7x	0.5x	0.5x
Tax Rate (Reported)	6.0%	66.0%	30.0%	30.0%	30.0%
Net Debt-to-Equity Ratio	-60.2%	41.4%	24.0%	-26.3%	-52.1%
Interest Cover	-7.5x	-7.5x	13.3x	29.1x	52.1x

## Key Metrics

Franking	0%	0%	0%	0%	0%
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 \* For full definitions of iQmethod<sup>SM</sup> measures, see page 7.

## Company Description

Avoca Resources is an emerging gold miner in Western Australia with its Trident deposit. First production is targeted 2H08 with an attractive growth profile and significant upside from exploration.

## Investment Thesis

Avoca is a single gold mine developer ramping up to full production following a successful gold pour commissioning in July 2008. While production performance are risks, we see good value with full production expected very soon, and FY09 production of 160koz, moving up to 190koz in FY10. Exploration drill results and potential resource upgrades are also expected to be an ongoing positive feature in AVO newsflow.

## Stock Data

Price to Book Value 1.8x

## Expecting more good news in Dec qtr

Full production is expected to now be “all systems go”, with design targets now achieved and even exceeded (96.7% recovery, +1Mtpa mill throughput, 60% of gold produced recovered from the gravity circuit) from treatment of low grade commissioning material in July and subsequent blend of underground mine feed and low grade stockpiles (averaging 2.9g/t Au), we are expecting the Dec qtr and the remainder of FY09 to be inline with our estimates:

1. We believe that around a 4.6g/t Au mill feed grade average can be achieved for FY09.
  - a. Stopping production for the Sept qtr amounted to 97kt @ 4g/t Au – sourced mainly from the sub level stopes in the Eastern zone; Ore development contributed 82kt @ 3.6g/t Au.
  - b. Underground development to date has focussed on the Western Zone, Eastern Zone and Athena lodes. By quarter end, 500kt ore had been developed ready for stoping. These ore structures currently support a JORC Indicated Resource grade ranging between 5.3 to 10.7g/t Au), and
2. as the plant begins to process ore sourced from the higher grade zones, a higher recovery (plant design recovery = 96%) will also begin to feature.

## 46% trading discount to spot

Factoring in long term spot assumptions (real) and 10% real discount rate , AVO is valued at \$2.60ps, and trading at a 46% discount to today's \$1.41ps closing price. Spot assumptions are based on 30/10/08 4:15AM NY time:

- Spot Gold = US\$772/oz or A\$1130/oz
- A\$:US\$ = 0.6851

## Valuation

Our base case valuation at a 10% real discount rate has been upgraded 7% on the back of the revised Merrill Lynch view of A\$:US\$ forecast. Pre-feasibility study for Chalice underground (in close proximity to Higginsville plant) was yesterday announced as complete. We continue to value this as exploration, as production and cost metrics are considered too early stage. Exploration spend for near mine exploration targets and deposits has been used as the basis for estimating exploration upside potential.

Table 1: AVO NAV @ 10% real WACC

	A\$m	A\$/share
Higginsville Gold	745.31	3.35
Taxation	-194.73	-0.88
Hedging	3.93	0.02
Exploration	57.33	0.26
Net (Debt)/Cash	7.96	0.04
<b>Total</b>	<b>619.80</b>	<b>2.79</b>

Source: Merrill Lynch

## AVO production summary

**Table 2: Production Statistics**

Higginsville Production (koz)	07A	08A	09E	10E	11E
Gold	0	0	159	189	191
<b>Cash Operating Costs<sup>1</sup></b>	<b>07A</b>	<b>08A</b>	<b>09E</b>	<b>10E</b>	<b>11E</b>
Higginsville (US\$/oz)	0	0	337	336	336
Higginsville (A\$/oz)	0	0	467	461	448
<b>Total Cash Costs<sup>1</sup></b>	<b>07A</b>	<b>08A</b>	<b>09E</b>	<b>10E</b>	<b>11E</b>
Higginsville (US\$/oz)	0	0	567	566	566
Higginsville (A\$/oz)	0	0	786	776	755

Source: Merrill Lynch

## Profit & Loss

**Table 3: Financial Report and Ratio Analysis**

Profit and Loss	07A	08A	09E	10E	11E
Sales	0.0	0.0	220.9	259.4	248.6
Other Revenue	0.0	3.9	0.0	0.0	0.0
Total Revenue	0.0	3.9	220.9	259.4	248.6
Operating Costs	-1.1	-0.7	-81.6	-87.2	-85.8
Exploration	-0.9	-2.9	-5.9	-2.9	-2.9
Other Costs	-3.0	-3.5	-5.0	-5.0	-5.0
EBITDA	-5.0	-3.3	128.4	164.2	154.8
Depreciation & Amortisation	-0.4	-0.1	-36.6	-43.5	-44.0
EBIT	-5.3	-3.4	91.8	120.7	110.8
Net Interest	0.6	-0.5	-5.9	-0.2	6.3
Pretax Profit	-4.7	-3.9	85.9	120.5	117.1
Tax	0.3	2.6	-25.8	-36.2	-35.1
Operating NPAT	-4.5	-1.3	60.1	84.4	82.0
OEI	0.0	0.0	0.0	0.0	0.0
<b>NPAT (Normalised for FCA)</b>	<b>-4.5</b>	<b>-1.3</b>	<b>60.1</b>	<b>84.4</b>	<b>82.0</b>
Significant Items	0.0	0.0	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>-4.5</b>	<b>-1.3</b>	<b>60.1</b>	<b>84.4</b>	<b>82.0</b>
Normalised EPS (¢)	-2.3	-0.7	26.8	37.6	36.5
Reported EPS (¢)	-2.3	-0.6	26.8	37.6	36.5
PER (X)	-62.6	-237.1	5.4	3.8	3.9
DPS (¢)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EPS Growth	115.9%	n/a	3556.3%	40.2%	-2.8%
EBIT/Sales (%)	n/a	n/a	41.6%	46.5%	44.6%
Effective Tax Rate	6%	66%	30%	30%	30%
Interest Cover (X)	-0.1	0.1	-0.1	0.0	0.1
Dividend Cover (X)	0.0	0.0	0.0	0.0	0.0

Source: Merrill Lynch

<sup>1</sup> Merrill Lynch estimate of cash operating costs, and total cash costs are inclusive of royalties. Includes a 4% NSR to Morgan Stanley after 100koz production and a 10% royalty for every dollar above a A\$600/oz gold price.

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Table 4: Global gold valuation comparables

ML Ticker	Share Price	Shares O/S	Market Cap	EV	Rating	Price v VWAP (% var)				EPS (cps)			P/CFPS (x)			P/E (x)			NAV	P/NAV	
						30d	90d	120d	240d	2008	2009	2010	2008	2009	2010	2008	2009	2010			
						A/E	E	E	A/E	E	E	A/E	E	E							
<b>Australian</b>						<b>30</b>	<b>90</b>	<b>120</b>	<b>240</b>												
Avoca Resources	AVORF	1.41	223	256	291	1 - Buy	-18%	-21%	-28%	-32%	-1	26	38	0.87	0.03	0.02	n/a	5.3	3.7	2.79	0.51
Kingsgate	KSKGF	2.46	93	226	225	2 - Neutral	-43%	-49%	-50%	-48%	37	61	54	0.04	0.03	0.01	6.6	4.0	4.6	5.43	0.45
Lihir Gold	LIHRF	2.05	2,188	3,764	2,405	3 - Underperform	-10%	-17%	-22%	-32%	7	14	14	0.16	0.08	0.08	28.5	15.0	14.2	2.25	0.91
Newcrest Mining	NCMGF	20.52	453	8,478	8,872	1 - Buy	-12%	-19%	-22%	-30%	114	175	225	0.09	0.07	0.06	18.0	11.8	9.1	22.70	0.90
Oceana Gold	OCGDF	0.27	162	40	344	1 - Buy	-30%	-52%	-72%	-86%	13	45	52	0.00	0.00	0.00	2.1	0.6	0.5	1.83	0.15
Sino Gold	SIOGF	3.65	291	891	919	1 - Buy	-11%	-18%	-21%	-31%	12	44	67	2.36	0.06	0.04	31.6	8.3	5.4	5.57	0.66
<b>Market Cap Wt Avge</b>							<b>-12%</b>	<b>-19%</b>	<b>-23%</b>	<b>-31%</b>	<b>74</b>	<b>117</b>	<b>150</b>	<b>0.27</b>	<b>0.07</b>	<b>0.06</b>	<b>21.2</b>	<b>12.2</b>	<b>10.1</b>		<b>0.87</b>
<b>Americas Seniors</b>																					
Barrick Gold	ABX	22.74	872	19,829	24,145	1 - Buy	-24%	-33%	-35%	-42%	198	239	250	0.07	0.06	0.06	11.5	9.5	9.1	20.00	1.14
Goldcorp	GG	18.98	712	13,514	17,551	1 - Buy	-28%	-40%	-42%	-46%	66	82	104	0.13	0.14	0.09	28.8	23.1	18.3	16.50	1.15
Kinross Gold	KGC	10.36	615	6,371	7,791	1 - Buy	-23%	-35%	-37%	-45%	46	90	95	0.12	0.07	0.07	22.5	11.5	10.9	9.00	1.15
Newmont Mining	NEM	25.90	454	11,759	17,934	2 - Neutral	-22%	-36%	-38%	-43%	220	279	317	0.07	0.06	0.05	11.8	9.3	8.2	20.00	1.30
<b>Market Cap Wt Avge</b>							<b>-25%</b>	<b>-36%</b>	<b>-38%</b>	<b>-44%</b>	<b>150</b>	<b>188</b>	<b>208</b>	<b>0.09</b>	<b>0.08</b>	<b>0.07</b>	<b>17.5</b>	<b>13.3</b>	<b>11.5</b>		<b>1.18</b>
<b>Americas Mid-Tiers</b>																					
Agnico-Eagle Mines	AEM	27.06	144	3,897	4,705	1 - Buy	-39%	-48%	-50%	-53%	53	123	243	0.25	0.10	0.05	51.1	22.0	11.1	23.50	1.15
Centerra Gold	YCG	1.25	216	270	209	2 - Neutral	-56%	-68%	-73%	-85%	82	121	110	0.01	0.01	0.01	1.5	1.0	1.1	4.95	0.25
Eldorado Gold	EGO	4.42	366	1,618	1,538	1 - Buy	-16%	-33%	-36%	-35%	27	38	51	0.11	0.09	0.06	16.4	11.6	8.7	4.30	1.03
Gammon Gold	YGAM	4.49	119	534	528	3 - Underperform	-32%	-48%	-49%	-46%	21	37	55	0.07	0.05	0.04	21.4	12.1	8.2	4.15	1.08
Golden Star Resources	GSS	0.96	236	227	379	3 - Underperform	-25%	-47%	-54%	-67%	1	25	28	0.05	0.02	0.02	96.1	3.8	3.4	1.70	0.57
IAMGOLD	IAG	3.28	296	971	1,059	2 - Neutral	-26%	-38%	-40%	-50%	45	60	44	0.04	0.03	0.03	7.3	5.5	7.5	5.25	0.62
Northgate Minerals	NXG	0.68	255	173	193	3 - Underperform	-36%	-59%	-66%	-73%	31	21	26	0.01	0.01	0.01	2.2	3.2	2.6	1.60	0.43
Royal Gold	RGLD	27.69	34	950	871	3 - Underperform	-18%	-17%	-16%	-13%	83	80	125	0.18	0.15	0.12	33.4	34.6	22.2	18.20	1.52
Yamana Gold	AUY	4.75	668	3,173	4,022	1 - Buy	-29%	-49%	-53%	-62%	60	73	104	0.05	0.04	0.03	7.9	6.5	4.6	5.50	0.86
<b>Market Cap Wt Avge</b>							<b>-30%</b>	<b>-44%</b>	<b>-46%</b>	<b>-50%</b>	<b>51</b>	<b>82</b>	<b>135</b>	<b>0.14</b>	<b>0.08</b>	<b>0.05</b>	<b>27.4</b>	<b>14.5</b>	<b>9.0</b>		<b>1.00</b>
<b>South African</b>																					
AngloGold Ashanti	AULGF	165.00	351	57,926	67,935	2 - Neutral	-10%	-21%	-25%	-33%	-1164	3177	4024	-4.41	0.04	0.03	n/a	5.2	4.1	282.23	0.58
DRDGOLD	DRDGF	3.90	377	1,469	1,919	3 - Underperform	-13%	-15%	-20%	-38%	30	57	103	0.60	0.03	0.03	12.9	6.9	3.8	3.16	1.23
Gold Fields	GFIOF	63.00	653	41,149	50,018	3 - Underperform	-13%	-18%	-22%	-35%	484	623	1122	0.05	0.04	0.03	13.0	10.1	5.6	90.17	0.70
Harmony Gold	HGMCF	73.00	403	29,438	35,181	2 - Neutral	-11%	-6%	-9%	-12%	19	564	950	0.17	0.10	0.06	3.9	0.1	0.1	90.83	0.80
<b>Market Cap Wt Avge</b>							<b>-11%</b>	<b>-16%</b>	<b>-20%</b>	<b>-29%</b>	<b>-361</b>	<b>1741</b>	<b>2365</b>	<b>-1.91</b>	<b>0.05</b>	<b>0.04</b>	<b>5.2</b>	<b>5.6</b>	<b>3.7</b>		<b>0.68</b>

(1) Presented in local currencies

(2) Gold price assumptions: CY08 \$910/oz, long-term \$800/oz

(3) VWAP = Volume Weighted Average Price

Source: Merrill Lynch

## Price objective basis & risk

### Avoca Resources (AVORF)

Our PO of \$2.90/sh is at 1.04x our NAV of \$2.79/sh (10% real discount rate). AVO is currently trading at 0.51x, ie below the current P/NAV for the Australian gold sector of 0.87x. We believe that once full production is achieved, the company could re-rate and trade significantly higher than its current level, and longer term trade at a gold premium to NAV. Risks to our valuation are exchange rate, gold prices, as well as operating costs for the Higginsville project.

## Analyst Certification

I, Anna Kassianos, hereby certify that the views expressed in this research report about securities and issuers accurately reflect the research model applied in such analysis. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### Australia-Metals, Mining & Steel Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Atlas Iron	ATLGF	AGO AU	Mike Harrowell
	Avoca Resources	AVORF	AVO AU	Anna Kassianos
	BlueScope Steel	BLSFF	BSL AU	Mike Harrowell
	Felix Resources Limited	FLRFF	FLX AU	Stuart Howe
	Gloucester Coal	GCRLF	GCL AU	Stuart Howe
	Iluka Resources	ILKAF	ILU AU	Mike Harrowell
	Mount Gibson Iro	MTGRF	MGX AU	Mike Harrowell
	Newcrest Mining	NCMGF	NCM AU	Anna Kassianos
	Oceana Gold	OCGDF	OGC AU	Anna Kassianos
	OM Holdings Ltd	XOMHF	OMH AU	Vicky Binns
	Sims Group	SMUPF	SGM AU	Mike Harrowell
	Sino Gold	SIOGF	SGX AU	Anna Kassianos
<b>NEUTRAL</b>				
	Alumina	AWCMF	AWC AU	Vicky Binns
	Alumina Ltd-ADR	AWC	AWC US	Vicky Binns
	Energy Res Aust	EGRAF	ERA AU	Olivia Ker
	Kingsgate Consolidated Ltd	KSKGF	KCN AU	Anna Kassianos
	Macarthur Coal Ltd.	MACDF	MCC AU	Stuart Howe
	OneSteel	OSTLF	OST AU	Mike Harrowell
	OZ Minerals Ltd	OZMLF	OZL AU	Mike Harrowell
	Paladin Energy	PALAF	PDN AU	Olivia Ker
<b>UNDERPERFORM</b>				
	Centennial Coal Company	CCOAF	CEY AU	Stuart Howe
	Lihir Gold Ltd	LIHRF	LGL AU	Anna Kassianos
	Lihir Gold-ADR	LIHR	LIHR US	Anna Kassianos
	Midwest Corp Ltd	MISKF	MIS AU	Mike Harrowell
	Minara Resources	MREJF	MRE AU	Mike Harrowell
	Murchison Metals	MUMTF	MMX AU	Mike Harrowell
	Panoramic Resources Ltd	PANRF	PAN AU	Mike Harrowell
<b>RESTRICTED</b>				
	BHP Billiton Ltd	BHPLF	BHP AU	Vicky Binns
	BHP Billiton-ADR	BHP	BHP US	Vicky Binns
	Rio Tinto Ltd	RTNTF	RIO AU	Vicky Binns

30 October 2008

**iQmethod<sup>SM</sup> Measures Definitions**

<b>Business Performance</b>	<b>Numerator</b>	<b>Denominator</b>
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

*iQmethod<sup>SM</sup>* is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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### AVORF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of September 30, 2008 or such later date as indicated.

### Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	56.74%	Buy	15	21.13%
Neutral	32	22.70%	Neutral	11	44.00%
Sell	29	20.57%	Sell	6	27.27%

### Investment Rating Distribution: Global Group (as of 01 Oct 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1647	45.31%	Buy	429	28.83%
Neutral	858	23.60%	Neutral	240	31.41%
Sell	1130	31.09%	Sell	227	22.02%

\* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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