

2 July 2008

## Back in the zone

### Investment Highlights

- **Back in the zone.** AVO retreated 27% in June despite any negative news emerging. To the contrary, we understand commissioning at Higginsville is progressing well, and expect performance testing of key componentry in the coming week. At current share price levels AVO is attractive and accordingly, we have again upgraded our recommendation to BUY with a 12 month price target of A\$2.66/sh (unchanged from last week).
- **Site visit update to follow.** We are heading to Higginsville this Friday (4<sup>th</sup> July) with a more detailed update on project execution to follow. We had previously flagged revisiting to our recommendation post site visit however, yesterdays share price weakness presents a solid buying opportunity.
- **Plant coming together.** We understand mill activities are progressing well with the wet commissioning completed successfully and confirming circuit integrity. Performance testing of the crushing circuit is set to be completed over the coming week as a precursor to first commercial gold pour, most likely in the second week of July.
- **Mine continues to shine.** Trident mining activities continue to exceed expectations with AVO now advancing on 18 headings, relishing excellent ground conditions, and on-track to achieve annualised production rates of 1mtpa in the coming weeks.
- **Grade reconciliation the last hurdle.** With Trident slated to deliver significant grade overcall (head grade of +5g/t Au), we view positive reconciliation of stoping ore in 2H CY08 as the final obstacle to be cleared. While we rate mine grade as a key risk, mining costs will ultimately determine performance at Trident. To this end, the proposed mining method has consistently 'bulked-up' throughout development phases, and we identify positive implication for costs should the strategy preserve grade.

#### Company

<b>Stock code:</b>	<b>AVO</b>
<b>Share price:</b>	<b>\$2.04</b>
<b>Recommendation:</b>	<b>BUY</b>

\$2.39    \$2.93



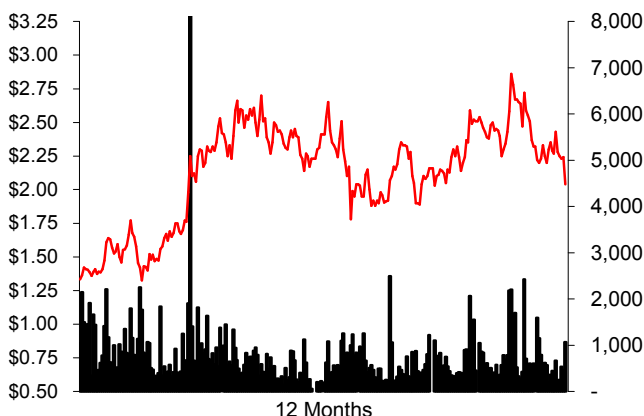
S&P/ASX 300 = 5143.7

#### Analyst

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#### Company Statistics & Performance

<b>Shares on Issue</b>	233.2m	<b>Daily Vol.</b>	714,393
<b>Market Cap.</b>	\$475.8m	<b>Debt est (inc. CB)</b>	\$78.1m
<b>52 Week Range</b>	\$1.33 - \$2.86	<b>Cash est</b>	\$4.8m



#### Investment Summary

Year End June 30	2008F	2009F	2010F	2011F
<b>Normalised Earnings</b>				
Net Profit (\$m)	(3.3)	23.8	40.0	47.8
EPS (cents)	(1.4)	10.2	17.2	20.5
EPS Growth (%)	na	na	na	19.3
PER (x)	(143.8)	20.0	11.9	10.0
<b>EBITDA</b>				
EBITDA (\$m)	(1.8)	79.3	116.5	128.6
EV/EBITDA (x)	na	na	4.7	4.3
<b>Cashflow Multiples</b>				
Gross Cashflow (\$m)	(15.1)	51.9	79.5	90.4
GCFPS (cents)	(6.5)	22.3	34.1	38.8
PGCF (x)	(31.5)	9.2	6.0	5.3
Free Cashflow (\$m)	(118.6)	39.8	69.2	79.8
FCFPS (cents)	(50.9)	17.1	29.7	34.2
PFCF (x)	(4.0)	12.0	6.9	6.0
<b>Dividend</b>				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

## Avoca Resources Limited (AVO)

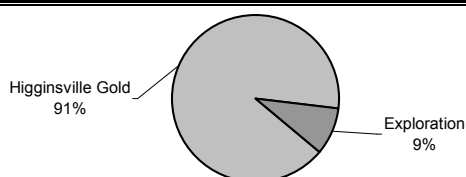
\$2.04

Valuation	A\$m	A\$/sh	
Higginsville Gold	378.9	1.62	
Exploration	37.6	0.16	
Corporate	(17.6)	(0.08)	
Unpaid Capital	8.4	0.04	
Cash est	4.8	0.02	
Debt est (inc. CB)	(78.1)	(0.33)	
<b>NPV</b>	<b>334</b>	<b>1.43</b>	
(@ 8% Discount rate)			
<b>Price Target</b>		<b>2.66</b>	
(50% NPV: 50% FME)			
<b>Sensitivity</b>	<b>-10%</b>	<b>+0%</b>	<b>+10%</b>
Gold	\$1.65	\$2.66	\$3.67
A\$:US\$	\$3.93	\$2.66	\$1.82

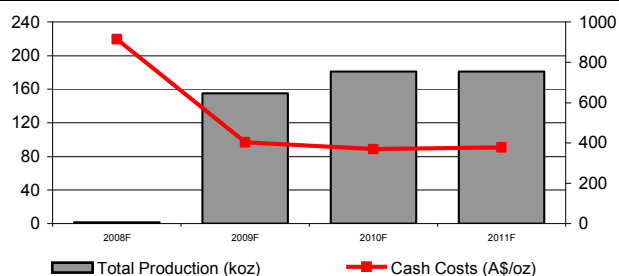
  

Hedging	koz	1-Year	3-years	% Reserve
Committed Production	nil	0%	0%	0%

## Valuation Summary of Operating Assets



## Gold Production Summary



## Reserves &amp; Resources

Reserves	Mt	Au g/t	Au koz
Trident	3.4	5.30	581

Resources	Mt	Au g/t	Au koz
Trident (including Athena Lodes)	5.0	5.80	927
Fairplay	3.6	1.80	209
Palaeochannels	1.4	2.00	88
Chalice	0.5	5.30	78
Other	1.3	1.20	51
<b>Total</b>	<b>11.7</b>	<b>3.60</b>	<b>1,353</b>

## Directors

Name	Position
Robert Reynolds	Non-Executive Chairman
Rohan Williams	Managing Director
David Quinlivan	Non-Executive Director
Stephanie Unwin	Non-Executive Director
Jan Castro	Non-Executive Director

## Substantial Shareholders

Substantial Shareholders	Shares(m)	(%)
Pala Investments AG	39.0	17.6
CBA	19.1	8.6
JP Morgan Chase & Co	13.6	6.1

Top 20 78.3 52.6

Commodity Assumptions	2008F	2009F	2010F	2011F
A\$:US\$	0.90	0.89	0.83	0.81
Gold (US\$/oz)	824	913	951	980
Silver (US\$/oz)	15.49	17.60	17.98	18.61
Gold (A\$/oz)	920	1029	1146	1217
Silver (A\$/oz)	17.31	19.84	21.66	23.12

Year End June 30

Production Summary	2008F	2009F	2010F	2011F
<b>Gold Production</b>				
Higginsville Gold	1	155	181	181
<b>Total Production (koz)</b>	<b>1</b>	<b>155</b>	<b>181</b>	<b>181</b>

Cost summary	2008F	2009F	2010F	2011F
Cash Costs (A\$/oz)	915	404	370	379
Total Costs (A\$/oz)	1,085	574	540	549
Realised price (A\$/oz)	918	1,030	1,146	1,218

Profit & Loss (A\$m)	2008F	2009F	2010F	2011F
<b>Sales Revenue</b>	<b>1.4</b>	<b>160.8</b>	<b>207.8</b>	<b>220.8</b>
Other Income	3.9	0.8	3.2	5.8
Operating Costs	1.3	73.4	85.4	88.8
Exploration Exp.	1.6	2.8	2.8	2.9
Corporate/Admin	4.1	6.1	6.2	6.3
<b>EBITDA</b>	<b>(1.8)</b>	<b>79.3</b>	<b>116.5</b>	<b>128.6</b>
Depn & Amort	0.2	26.4	30.8	30.8
<b>EBIT</b>	<b>(2.0)</b>	<b>53.0</b>	<b>85.7</b>	<b>97.8</b>
Interest	2.7	4.5	4.0	0.3
<b>Operating Profit</b>	<b>(4.7)</b>	<b>48.5</b>	<b>81.7</b>	<b>97.5</b>
Tax expense	0.0	14.5	24.5	29.2
FX Adjustment	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>(4.7)</b>	<b>33.9</b>	<b>57.2</b>	<b>68.2</b>
AIIRS Derivatives Adjustment	0.0	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>(4.7)</b>	<b>33.9</b>	<b>57.2</b>	<b>68.2</b>

Normalised NPAT (3.3) 23.8 40.0 47.8

Cash Flow (A\$m)	2008F	2009F	2010F	2011F
Adjusted Net Profit	(4.7)	33.9	57.2	68.2
+ Interest/Tax/Expl Exp	4.3	21.8	31.3	32.5
- Interest/Tax/Expl Inc	14.9	30.2	39.9	41.2
+ Depn/Amort	0.2	26.4	30.8	30.8
+/- Other	0.0	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>(15.1)</b>	<b>51.9</b>	<b>79.5</b>	<b>90.4</b>
- Capex (+asset sales)	104.1	12.1	10.3	10.5
- Working Capital Increase	(0.6)	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>(118.6)</b>	<b>39.8</b>	<b>69.2</b>	<b>79.8</b>
+ Dividends (ords & pref)	0.0	0.0	0.0	0.0
+ Equity raised	2.8	0.0	0.0	0.0
+ Debt drawdown (repaid)	25.1	(2.9)	(9.7)	(25.6)
<b>Net Change in Cash</b>	<b>(104.4)</b>	<b>36.9</b>	<b>59.5</b>	<b>54.3</b>
Cash at End Period	4.8	41.8	101.3	155.5
Net Cash/(LT Debt)	(33.3)	6.5	75.7	155.5

Balance Sheet (A\$m)	2008F	2009F	2010F	2011F
Cash/Bullion	4.8	41.8	101.3	155.5
Total Assets	211.2	254.5	292.3	326.2
Total Debt	38.1	35.3	25.6	0.0
Total Liabilities	109.7	129.2	126.9	113.1
Shareholders Funds	101.5	125.3	165.3	213.1
<b>Ratios</b>				
Net Debt/Equity (%)	32.8%	na	na	na
Interest Cover (x)	na	11.8	21.6	312.9
Return on Equity (%)	na	0.3	0.3	0.3

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