



PRICE TARGET REVISION | COMMENT

January 26, 2009

Avoca Resources Ltd. (ASX: AVO)  
 Moving Up A Gear In Current Half  
 Outperform  
 Above Average Risk

Price:	1.60	Price Target:	2.50 ↓ 2.60
		Implied All-In Return:	56%
Shares O/S (MM):	243.4	Market Cap(MM):	389
Dividend:	0.00	Yield:	0.0%
NAVPS:	1.22	P/NAVPS:	1.3x
BVPS:	0.52	P/BVPS:	3.1x
ROE:	(1.0%)	Enterprise Val. (\$MM):	472.0
Float (MM):	197.0	Avg. Daily Volume	0.75
Debt to Cap:	22%	(MM):	

Event

Outlook update on A\$29m equity raising and Dec Q. Positive developments. Maintaining OP rating.

Investment Opinion

We update forecasts for Dec Q and A\$29m equity raising. The ramp-up has been slower than anticipated, but higher grade stopes are developed for the June half. Avoca remains a standout among the ASX small caps, in our view.

- **Equity raising:** Avoca issued 147m shares at A\$1.47 each for a A\$15m paste fill plant + working capital. Paste filling of underground stopes is essential for optimal recovery of ore reserves and is standard practice in the industry.
- **Dec Q:** Avoca produced 28koz in the Dec Q & 50koz in Dec half. The ramp-up is slower than forecast but high grade stopes have been developed, which should boost production in the June 09 Q. The quantity of high grade 1005 L ore will determine if 150koz target can be met. We reduce FY09 from 151koz to 137koz, but retain in excess of 170koz pa ahead.
- **Operations:** The high grade 1005L is developed and is almost ready to be blasted. Zones of ~25m thick grading 9.4g/t should ensure a very good June Q 09 production rate with improved unit costs. Prospectivity and upside on reserves remain very high.
- **Guidance** remains for 150-190koz, at cash cost of ~A\$430/oz this year. Avoca has debt totaling A\$61m, cash of A\$8m, and an undrawn A\$10m. We forecast ~40koz in the Dec Q, which should ensure cash outlays are readily covered.
- **Balance Sheet:** Prior to this raising, net debt was estimated to



Royal Bank of Canada - Sydney Branch

Geoff Breen (Analyst)

(+61) 2 9033-3022; [geoff.breen@rbccm.com](mailto:geoff.breen@rbccm.com)

Steuart McIntyre (Associate)

(+61) 2 9033-3066; [steuart.mcintyre@rbccm.com](mailto:steuart.mcintyre@rbccm.com)

FY Jun	2008E	2009E	2010E	2011E
Adj EPS - FD	(0.01)	0.10	0.20	0.19
Prev.	(0.06)	0.15	0.21	0.21
P/AEPS	NM	16.0x	8.0x	8.4x
Adj CFPS - FD	(0.01)	0.19	0.32	0.30
Prev.		0.26	0.34	0.32
P/ACFPS	NM	8.4x	5.0x	5.3x
Annual Div. - FD	0.00	0.00	0.00	0.03
Prev.			0.05	0.07
Prod.	0	137	173	177
Prev.		151	179	180
Adj EPS - FD		H1		H2
2008		(0.03)A		0.02E
Prev.				(0.03)E
2009		(0.02)E		0.12E
Prev.		0.05E		0.10E
2010		0.11E		0.09E
Prev.		0.10E		0.11E
2011		0.10E		0.09E
Prev.				0.11E
Adj CFPS - FD				
2008		0.00A		(0.01)E
2009		0.00E		0.19E
Prev.		0.09E		0.17E
2010		0.17E		0.15E
Prev.		0.16E		0.18E
2011		0.16E		0.14E
Prev.		0.15E		0.17E

All values in AUD unless otherwise noted.

be ~A\$62m excluding the A\$38m of Conv Bonds. As at 30 June 09, we forecast cash on hand of A\$43m and total debt of A\$93m - net debt A\$50m. On our forecasts, debt repayments beginning with A\$5m in March should be comfortably met.

- **Earnings:** We decrease FY09 by 35% to A\$23m following lower Dec Q production but FY10 at A\$51m and A\$49m in FY10 are largely unchanged. We project Avoca to be net debt free during FY11.
- **Valuation:** We lower our target to A\$2.50 (from A\$2.60) on an unchanged 10x FY10E CFM and 1.5x P/NPV. These multiples compare favourably to RBC's comparable golds. We maintain our Outperform rating. Financial risk was relatively low but has been lowered with this equity raising.

For full Comment click [here](#).

Priced as of prior trading day's market close, EST (unless otherwise stated).

[For required disclosures, please see Required Disclosures section at the end of this comment.](#)

## Valuation

We lower our target to A\$2.50 (from A\$2.60) based on an unchanged 10x FY10E CFM and 1.5x P/NPV. These multiples compare favourably to RBC's comparable golds. We maintain our Outperform rating, noting that mine performance in the near term and exploration in the medium term are the key share price drivers - aside from the gold price, of course.

## Price Target Impediment

Impediments to Avoca reaching our forecast earnings and price targets include commissioning risk, lower than estimated head grade and gold production, lower realized gold prices and single-mine exposure. Construction risk is gone and ground conditions are good at Trident, but commissioning risk is being addressed now. Head grade is the key risk, in our view.

## Company Description

Avoca Resources is a gold mining and exploration company based in Perth, Australia. It was listed on the ASX in April 2002 after being spun out of nickel company, Heron Resources. In late 2004, Avoca paid A\$6.25m to Goldfields Ltd for the Higginsville Project, 120km south of Kalgoorlie, where it is developing a 1Mtpa gold project. The high-grade Trident orebody, discovered in Dec 2004, forms the basis of the Project with an initial 581koz reserve and management is confident of 10+ years mine life. Avoca raised A\$125m in April 2007 and production is on schedule to begin June 2008, reaching 190koz pa in F2010. The Higginsville field produced ~1.2moz between 1989-1999 and all but 50koz was mined from open pits. The geology is the same as the 15+moz St Ives field immediately north and the 6+moz Norseman field immediately south, both having ~75% of their endowment from underground mines. Exploration has led to the discovery of new high-grade orebodies near Trident, including **Athena & Apollo**, and total resource presently stands at 1.45moz for the region.

## Required Disclosures

## Explanation of RBC Capital Markets Rating System

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

**Ratings**

**Top Pick (TP):** Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

**Risk Qualifiers (any of the following criteria may be present):**

**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

**Above Average Risk (AA):** Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

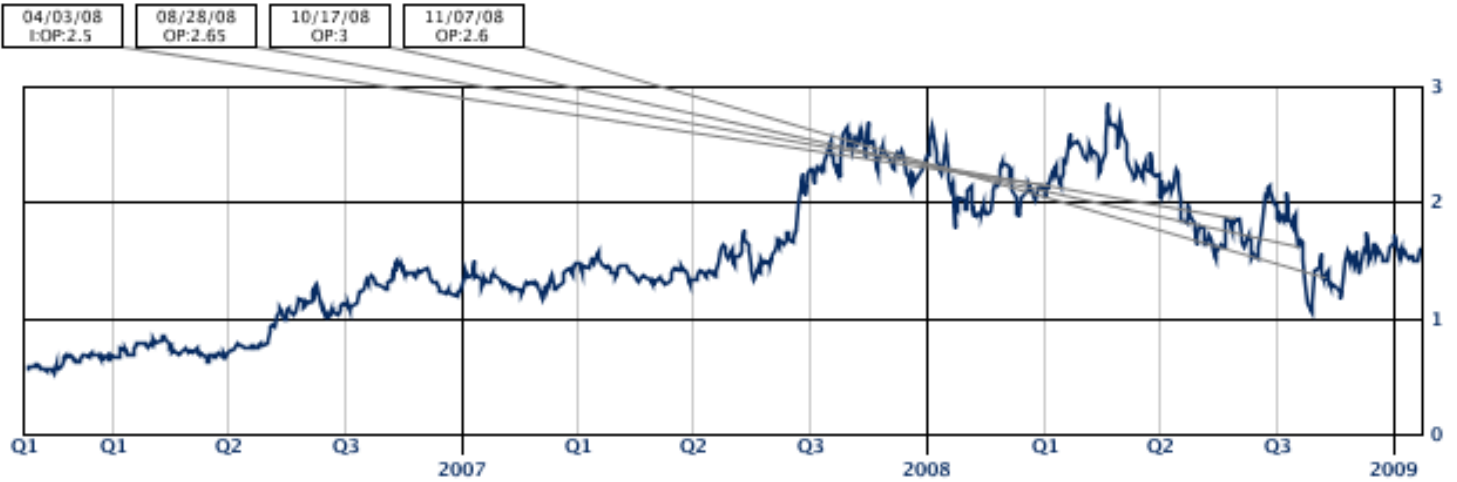
**Speculative (Spec):** Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

**Distribution of Ratings**

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

<b>Distribution of Ratings</b>				
<b>RBC Capital Markets, Equity Research</b>				
<b>Rating</b>	<b>Count</b>	<b>Percent</b>	<b>Investment Banking</b>	
			<b>Serv./Past 12 Mos.</b>	
			<b>Count</b>	<b>Percent</b>
<b>BUY[TP/O]</b>	<b>491</b>	<b>44.60</b>	<b>127</b>	<b>25.87</b>
<b>HOLD[SP]</b>	<b>508</b>	<b>46.10</b>	<b>94</b>	<b>18.50</b>
<b>SELL[U]</b>	<b>102</b>	<b>9.30</b>	<b>13</b>	<b>12.75</b>

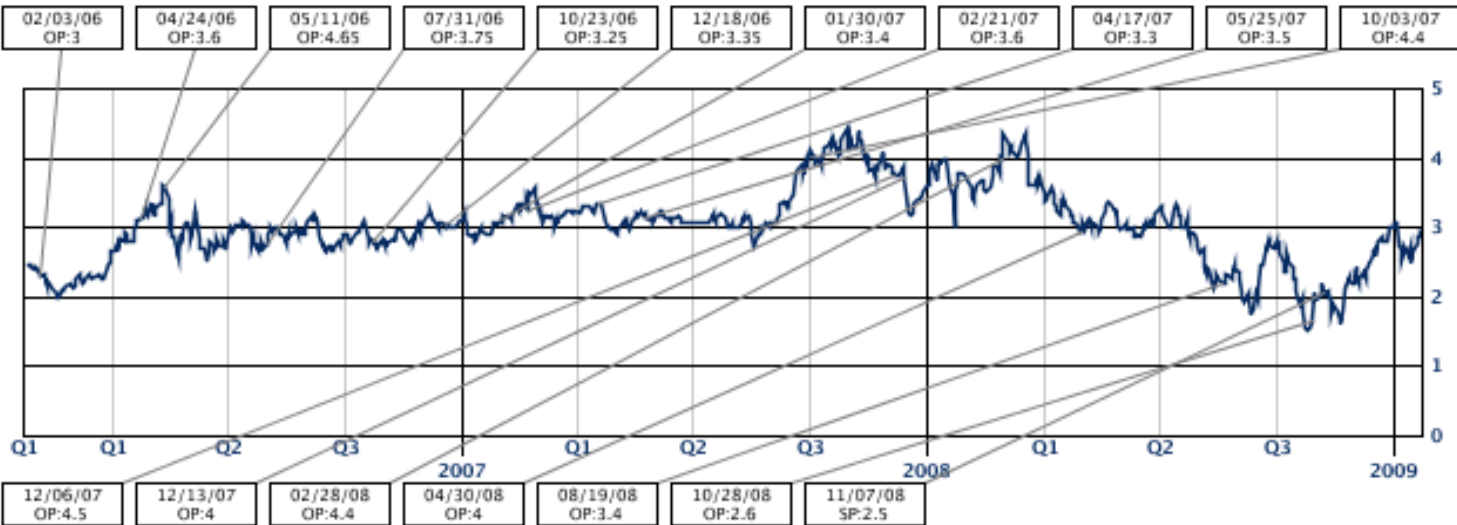
**Rating and Price Target History for: Avoca Resources Ltd. as of 01-23-2009 (in AUD)**



**Legend:**  
 TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List – RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

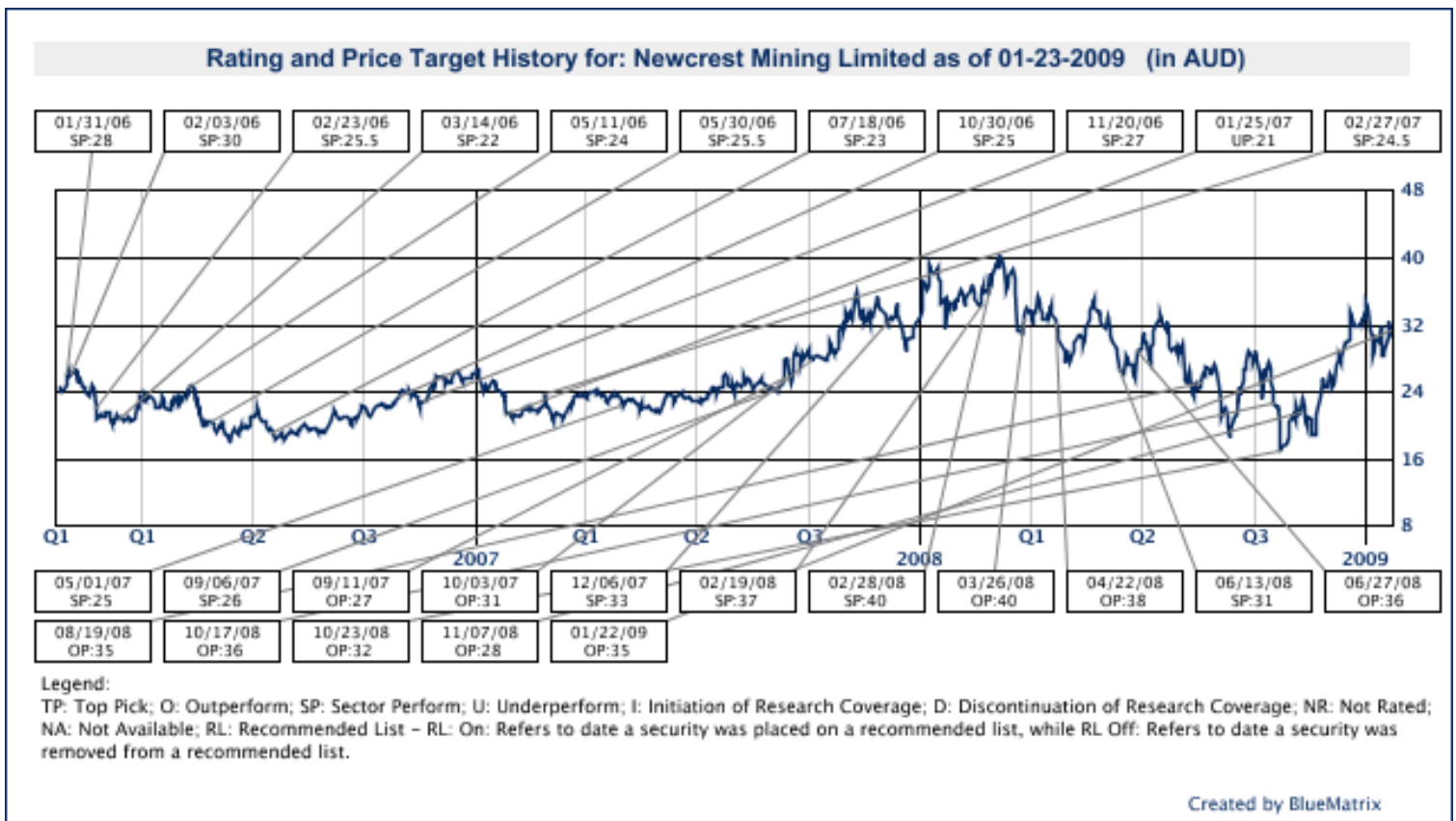
Created by BlueMatrix

**Rating and Price Target History for: Lihir Gold Limited as of 01-23-2009 (in AUD)**



**Legend:**  
 TP: Top Pick; O: Outperform; SP: Sector Perform; U: Underperform; I: Initiation of Research Coverage; D: Discontinuation of Research Coverage; NR: Not Rated; NA: Not Available; RL: Recommended List – RL: On: Refers to date a security was placed on a recommended list, while RL Off: Refers to date a security was removed from a recommended list.

Created by BlueMatrix



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a business unit of the Wealth Management Division of RBC Capital Markets Corporation. These Recommended Lists include the Prime Opportunity List (RL 3), the Private Client Prime Portfolio (RL 4), the Prime Income List (RL 6), the Guided Portfolio: Large Cap (RL 7), and the Guided Portfolio: Dividend Growth (RL 8). The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

## Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research. RBC Capital Markets also provides eligible clients with access to a database which may contain Short-Term trading calls on certain of the subject companies for which it currently provides equity research coverage. The database may be accessed via the following hyperlink <https://www2.rbccm.com/cmonline/index.html>. The information regarding Short-Term trading calls accessible through the database does not constitute a research report. These Short-Term trading calls are not formal ratings and reflect the research analyst's views with respect to market and trading events in the coming days or weeks and, as such, may differ from the price targets and recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company. Thus, it is possible that a subject company's common equity that is considered a long-term 'sector perform' or even an 'underperform' might be a Short-Term buying opportunity as a result of temporary selling pressure in the market; conversely, a subject company's common equity rated a long-term 'outperform' could be considered susceptible to a Short-Term downward price correction.

## Conflicts Disclosures

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to <http://www.rbccm.com/cm/file/0,,63022,00.pdf>

or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

An analyst involved in the preparation of this report has visited certain material operations of Lihir Gold Limited.

RBC Capital Markets Corp. makes a market in the securities of Lihir Gold Limited and may act as principal with regard to sales or purchases of this security.

An analyst involved in the preparation of this report has visited certain material operations of Newcrest Mining Limited.

An analyst involved in the preparation of this report has visited certain material operations of Avoca Resources Ltd.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Avoca Resources Ltd. in the next three months.

RBC Capital Markets is currently providing Avoca Resources Ltd. with investment banking services.

## Additional Disclosures

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

**Additional information is available on request.**

### **To U.S. Residents:**

This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation.

### **To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

### **To U.K. Residents:**

This publication has been approved by Royal Bank of Canada Europe Limited ('RBCEL') which is authorized and regulated by Financial Services Authority ('FSA'), in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FSA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

### **To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before

acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

**To Hong Kong Residents:**

This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance or, by Royal Bank of Canada, Hong Kong Branch, a registered institution under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited or Royal Bank of Canada, Hong Kong Branch at 17/ Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

**To Singapore Residents:**

This publication is distributed in Singapore by RBC (Singapore Branch), a registered entity granted offshore bank status by the Monetary Authority of Singapore. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance.

**®Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.**

**Copyright © RBC Capital Markets Corporation 2009 - Member SIPC**

**Copyright © RBC Dominion Securities Inc. 2009 - Member CIPF**

**Copyright © Royal Bank of Canada Europe Limited 2009**

**Copyright © Royal Bank of Canada 2009**

**All rights reserved**