Avoca Resources (AVO.AX / AVO AU)

Rating	**UNDERPERFORM* [V]**
Price (30 Apr 10, A$)	2.22
Target price (A$)	(from 1.50) 2.20[1]
Market cap. (A$mn)	642.64
Yr avg. mthly trading (A$mn)	50
Last month's trading (A$mn)	61
Projected return:	
Capital gain (%)	-0.90
Gross yield (%)	—
Total return (%)	-0.90
52-week price range (A$)	2.31 - 1.48

** Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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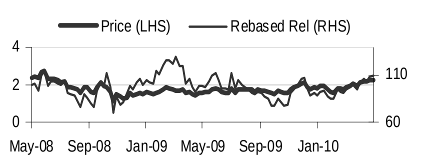
INCREASE TARGET PRICE

Higginsville solid, but the French still in control of Frog's Leg

- **After a 12-month battle for control, March quarter 2010 saw Avoca complete the acquisition of Kalgoorlie-based peers Dioro Exploration.** Operationally, the March quarter numbers reflected 'a foot having been taken off the pedal', in our opinion. Higginsville plant throughput was only slightly down, but gold production was 15% less than any of the prior three quarters. Despite the softer March quarter, FY10 production guidance of +190koz from Higginsville appears comfortably achievable, although we expect costs somewhat higher than A$452/oz guidance.
- **Under the leadership of one of the smartest geologists in the region, Avoca is a pure gold consolidation play.** The most obvious consolidation carrot, which it seems will be a little harder to get hold of than management had first anticipated, is JV partner La Mancha's 51% interest in the Frog's Leg mine. Other opportunities do exist, and if anyone is going to find them, it will be Avoca.
- **The new resource and reserve, which had been expected with the March quarter result, is now expected next month (May).** We continue to expect the new reserve to more than replace the mining depletion of ~250koz since the reserve was last stated at 581koz in December 2006.
- **We have increased our target price to $2.20/sh (from $1.50) based on 8x 24-month forward earnings, and 2x P/NPV of A$1.09/sh.** Although we find it difficult to reconcile the underlying figures, production guidance is well presented. The challenge with understanding >two-year forward earnings is that the company's projections include production and costs from ounces that are yet to be discovered.

Share price performance



The price relative chart measures performance against the Australia S&P/ASX 200 index which closed at 4807.4 on 30/04/10
On 30/04/10 the spot exchange rate was A$1.08/US$1

Performance Over	1M	3M	12M
Absolute (%)	12.1	37.0	47.0
Relative (%)	14.3	31.8	19.9

Financial and valuation metrics

Year	06/09A	06/10E	06/11E	06/12E
Revenue (A$mn)	136.3	274.6	317.7	338.3
EBITDA (A$mn)	27.8	128.2	132.4	147.5
EBIT (A$mn)	-14.6	81.6	80.3	92.8
Net income (A$mn)	-16.3	54.3	56.2	66.7
EPS (CS adj.) (Ac)	-6.91	19.89	19.47	23.10
Change from previous EPS (%)	n.a.	5.7	9.7	-11.4
Consensus EPS (Ac)	n.a.	19.90	18.70	19.30
EPS growth (%)	n.a.	n.a.	-2.1	18.7
P/E (x)	NM	11.2	11.4	9.6
Dividend (Ac)	—	—	—	—
Dividend yield (%)	—	—	—	—
P/B (x)	3.7	2.6	2.3	1.9
Net debt/equity (%)	30.3	net cash	net cash	net cash

*Source: Company data, ASX, Credit Suisse estimates, * Adj. for goodwill, notional interest and unusual items. Relative P/E against ASX/S&P200 based on pre GW in AUD. Company PE calculation is based on displayed EPS Currency*

DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Figure 1: **Financial summary**

AVOCA RESOURCES LIMITED

In A$mn, unless otherwise stated — **Year ending 30 Jun**

Profit & Loss	2008A	2009A	2010F	2011F	2012F
Sales revenue	**0.0**	**145.8**	**276.4**	**321.4**	**338.3**
EBITDA	**-6.9**	**27.8**	**128.2**	**132.4**	**147.5**
Depr. & Amort.	0.1	42.4	46.6	52.1	54.7
Goodwill amort.	0.0	0.0	0.0	0.0	0.0
EBIT	**-7.0**	**-14.6**	**81.6**	**80.3**	**92.8**
Equity adjustment	na	na	na	na	na
Net interest	-3.1	8.7	2.9	0.0	-2.5
Profit before tax	**-3.9**	**-23.2**	**78.7**	**80.3**	**95.3**
Income tax	-2.6	-7.0	24.4	24.1	28.6
Profit after tax	**-1.3**	**-16.3**	**54.3**	**56.2**	**66.7**
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit after tax	**-1.3**	**-16.3**	**54.3**	**56.2**	**66.7**
Preferred dividends	na	na	na	na	na
Net profit after tax	**-1.3**	**-16.3**	**54.3**	**56.2**	**66.7**
Unusual item after tax	0.0	0.0	11.2	0.0	0.0
Reported profit after tax	**-1.3**	**-16.3**	**65.5**	**56.2**	**66.7**

Balance Sheet	2008A	2009A	2010F	2011F	2012F
Cash & equivalents	1.6	38.9	48.9	87.0	139.6
Inventories	11.4	5.7	6.1	6.2	6.8
Receivables	2.4	2.6	3.1	3.1	3.4
Other current assets	2.1	0.7	6.0	6.0	6.0
Current assets	**17.4**	**47.8**	**64.0**	**102.2**	**155.8**
Property, plant & equip.	173.0	176.7	195.1	205.0	212.3
Intangibles	0.0	0.0	0.0	0.0	0.0
Other non-current assets	45.3	62.8	79.9	79.9	79.9
Non-current assets	**218.3**	**239.6**	**275.0**	**284.9**	**292.2**
Total assets	**235.7**	**287.4**	**339.0**	**387.2**	**448.1**
Payables	20.2	30.7	33.7	34.2	37.5
Interest bearing debt	84.4	86.5	44.2	65.9	65.9
Other liabilities	15.4	12.9	14.1	14.1	14.1
Total liabilities	**120.0**	**130.1**	**91.9**	**114.1**	**117.5**
Net assets	**115.8**	**157.3**	**247.1**	**273.1**	**330.6**
Ordinary equity	115.8	157.3	247.1	273.1	330.6
Minority interests	0.0	0.0	0.0	0.0	0.0
Preferred capital	0.0	0.0	0.0	0.0	0.0
Total shareholder funds	**115.8**	**157.3**	**247.1**	**273.1**	**330.6**

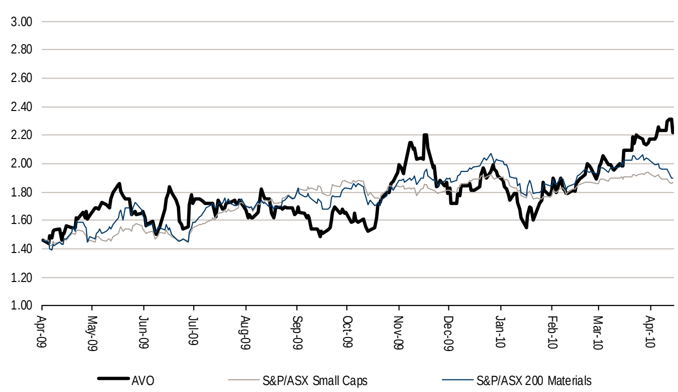
Cashflow	2008A	2009A	2010F	2011F	2012F
EBIT	-7.0	-14.6	81.6	80.3	92.8
Net interest	3.6	-5.2	-2.5	-1.1	1.1
Depr & Amort	0.1	42.4	46.6	52.1	54.7
Tax paid	0.0	0.0	-11.2	-26.1	-25.0
Working capital	-3.5	16.1	2.1	0.4	2.5
Other	7.7	13.3	3.6	10.5	4.6
Operating cashflow	**0.9**	**51.9**	**120.2**	**116.1**	**130.7**
Capex	-133.9	-55.4	-68.2	-62.0	-62.0
Acquisitions & Invest	0.0	0.0	-10.7	0.0	0.0
Asset sale proceeds	0.0	0.0	0.0	0.0	0.0
Other	-11.0	-7.8	-8.3	-16.0	-16.0
Investing cashflow	**-144.9**	**-63.2**	**-87.1**	**-78.0**	**-78.0**
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised	6.2	29.5	1.7	0.0	0.0
Net borrowings	30.0	19.2	-25.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing cashflow	**36.2**	**48.7**	**-23.4**	**0.0**	**0.0**
Net cashflow	**-107.8**	**37.4**	**9.8**	**38.1**	**52.7**

Share Price: A$2.22

Financial Summary		2008A	2009A	2010F	2011F	2012F
NPAT	$mn	-1.3	-16.3	54.3	56.2	66.7
Credit Suisse NPAT	$mn	-1.3	-16.3	54.3	56.2	66.7
Credit Suisse EPS	c	-0.6	-6.9	19.9	19.5	23.1
EPS growth	%	74.8	-1005.2	388.1	-2.1	18.7
P/E	x	-355.3	-32.1	11.2	11.4	9.6
P/Earnings Growth	x	na	na	1.4	0.5	na
Dividend payout ratio	%	0.0	0.0	0.0	0.0	0.0
Dividend	c	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0
Operating CFPS	c	0.4	22.0	44.0	40.2	45.3
P/OCF	x	521.4	10.1	5.0	5.5	4.9
EV/EBITDA	x	-100.1	24.9	5.4	5.2	4.7
FCF yield	%	-28.3	-0.7	8.6	8.4	10.7

Financial Ratios		2008A	2009A	2010F	2011F	2012F
Profitability Ratios						
EBITDA margin	%	na	19.1	46.4	41.2	43.6
EBIT margin	%	na	-10.0	29.5	25.0	27.4
Return on equity	%	-1.1	-10.3	22.0	20.6	20.2
Return on assets	%	-3.0	-5.9	28.1	26.8	30.1
ROCE	%	-5.9	-7.2	36.5	32.5	36.5
Effective tax rate	%	66.0	30.0	31.0	30.0	30.0
Balance Sheet Ratios						
Net debt	$mn	82.9	47.6	-4.7	-21.1	-73.7
Net debt/Equity	%	71.6	30.3	-1.9	-7.7	-22.3
Net debt/Capital	%	41.7	23.2	-1.9	-8.4	-28.7
Interest cover	x	2.2	-1.7	28.3	2573.4	-37.6
Capex/Sales	%	na	-38.0	-24.7	-19.3	-18.3
Capex/Depn	%	-1151.7	-1.3	-1.5	-1.2	-1.1
Working capital/Sales	%	na	11.0	0.7	0.1	0.7
Share Items						
Equiv. FPO (period avg.)	mn	212	236	273	289	289

Share Price Performance — **52 week range: $1.44 - $2.31**



Source: ASX — Share price as of 30 Apr 10, 19:26 AET

Source: Company data, Credit Suisse estimates

Earnings changes

Figure 2: **Earnings changes**

		FY10					FY11			FY12		
		Old	1H	2H	New	% change	Old	New	% change	Old	New	% change
Higginsville Revenue	A$mn	231.8	120.6	109.7	**230.3**	-1%	205	**226**	10%	241	**248**	3%
Jubilee Revenue	A$mn	41.6	0.0	45.9	**45.9**	10%	83	**96**	15%	86	**90**	5%
Hedging	A$mn	-4.3	-1.9	-2.4	**-4.3**	0%	-4	**-4**	0%	0	**0**	-
Total Revenue	A$mn	271.9	121.5	153.1	**274.6**	1%	284	**318**	12%	328	**338**	3%
Higginsville EBIT	A$mn	73.0	45.0	35.5	**74.9**	3%	56	**62**	11%	79	**75**	-5%
Jubilee EBIT	A$mn	23.2	10.6	15.3	**25.9**	12%	27	**29**	6%	32	**25**	-22%
EBITDA	A$mn	126.5	59.6	68.6	**128.2**	1%	120	**132**	10%	156	**148**	-5%
Depreciation & Amortisation	A$mn	-49.5	-22.8	-23.8	**-46.6**	6%	-48	**-52**	-8%	-52	**-55**	-5%
EBIT	A$mn	77.0	36.8	44.8	**81.6**	6%	72	**80**	11%	104	**93**	-11%
Net Interest	A$mn	-2.5	-2.2	-0.7	**-2.9**	-15%	1	**0**	-103%	3	**2**	-29%
NPBT	A$mn	74.5	34.6	44.1	**78.7**	6%	73	**80**	10%	108	**95**	-11%
Taxation	A$mn	-23.2	-11.2	-13.2	**-24.4**	-5%	-22	**-24**	-10%	-32	**-29**	11%
Minorities	A$mn	0.0	0.0	0.0	**0.0**	-	0	**0**	-	0	**0**	-
NPAT (operating)	A$mn	51.4	23.4	30.9	**54.3**	6%	51	**56**	10%	75	**67**	-11%
EPS (operating)	A¢	18.8	8.8	11.0	**19.9**	6%	17.7	**19.5**	10%	26.1	**23.1**	-11%
Abnormal items (after tax)	A$mn	11.2	11.2	0.0	**11.2**	0%	0	**0**	-	0	**0**	-
NPAT (reported)	A$mn	62.5	34.6	30.9	**65.5**	5%	51	**56**	10%	75	**67**	-11%
EPS (reported)	A¢	22.9	13.0	11.0	**24.0**	5%	17.7	**19.5**	10%	26.1	**23.1**	-11%

Source: Company data, Credit Suisse estimates

Our earnings changes are a result of:

- We have deviated from house gold price assumptions and used a JunQ 2010 gold price assumption on US$1,150/oz; and
- Reconciliation of MarQ10 actuals, and CY2010 guidance for Frog's Leg.

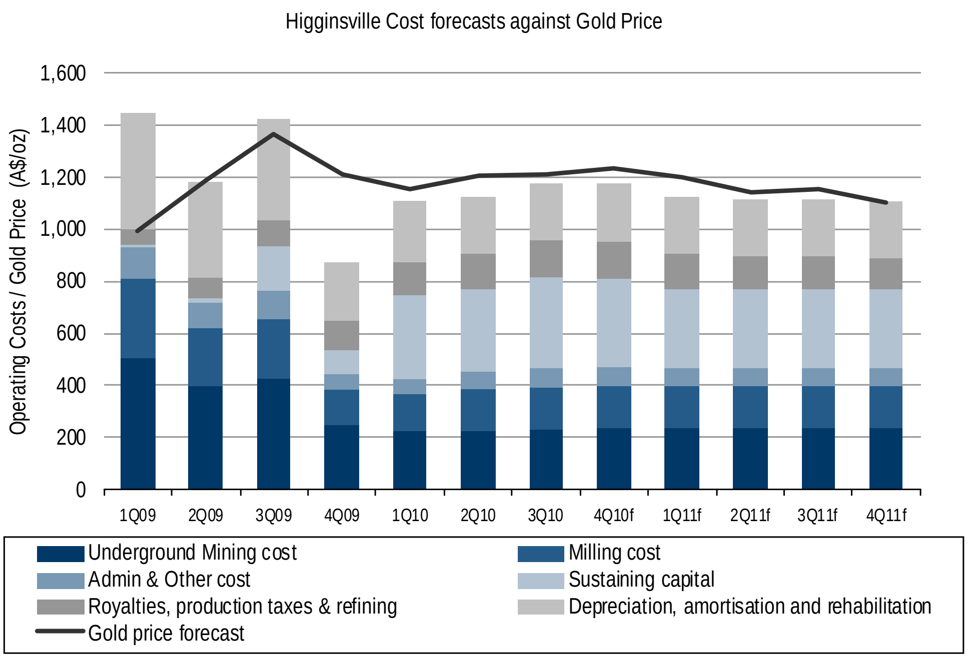
MarQ review

Certainly, the challenge of keeping two mills full is greater than the challenge of keeping one full, and the Jubilee mill appears less supported by resources than the Higginsville mill. However, the large ground position and flexibility to now pursue small satellite deposits suggests that mine life extension can grow beyond current projections. The question is how much one should pay for ore that is yet to be discovered.

The Chalice reserve is a nice supplementary ore source, but at 118koz, and anticipated higher cost of extraction, it is hardly a valuation needle mover. With an 84% resource conversion achieved, the challenge is now to grow the resource. Deeper drilling at Chalice is indicating potential for extension.

The long expected Trident reserve and resource upgrade was expected with the March quarter but has been delayed pending final review. The new resource and reserve is now expected next month (May). We continue to expect the new reserve to more than replace the mining depletion of ~250koz since the reserve was last stated at 581koz in December 2006. The new reserve will be as at December 2009 and will need to be around 750koz to support the eight-year conceptual mine plan that implies around 1.5moz of production from Higginsville.

Figure 3: **Higginsville total cost of production**



Source: Company data, Credit Suisse estimates

Avoca remains very much an exploration play, but with increased optionality around a larger exploration area and the dual milling operations. The significant sunk capital reduces the hurdle rate for a discovery to be commercial, but increases the time pressure to find replacement ounces. Growth looks more likely to be achieved through further regional consolidation of relatively discounted assets than from a significant discovery.

Valuation

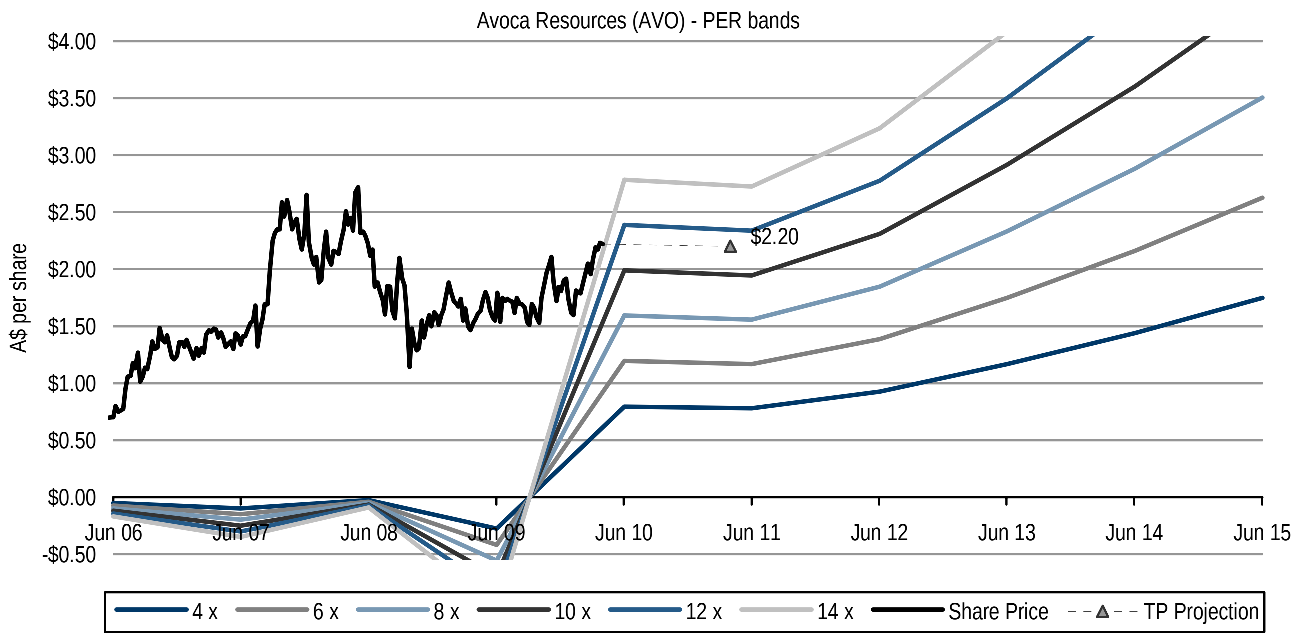
Figure 4: **Net present value**

	DCF		Equity	Attributable NPV	
Operational	A$mn	A$/sh	Interests	A$mn	A$/sh
Higginsvile	187	0.65	100%	187	0.65
Jubilee	142	0.49	100%	142	0.49
Sub-Total	329	1.14		329	1.14
	DCF		Equity	Attributable NPV	
Non-Operational	A$m	A$/sh	Interests	A$mn	A$/sh
Net Debt	7	0.03	100%	7	0.03
Corporate	-34	-0.12	100%	-34	-0.12
Put Options	-11	-0.04	100%	-11	-0.04
Sub-Total	-37	-0.13		-37	-0.13
Non-Project	koz	A$ per oz		A$m	A$/sh
Non-project resources	237	100	100%	24	0.08
Net Present Value	315	1.09		315	1.09
'Gold Premium' applied to Operational assets =				2.0 x	
Valuation =	1.14	x 2.0	- 0.05	=	2.23

Source: Company data, Credit Suisse estimates

We estimate that AVO's all in cost of production is >A$1000/oz, offering massive earnings leverage to our gold price assumptions, which increase from A$1,150 in FY11 to A$1,543/oz in FY15.

Figure 5: **PER bands**



Source: Company data, Credit Suisse estimates

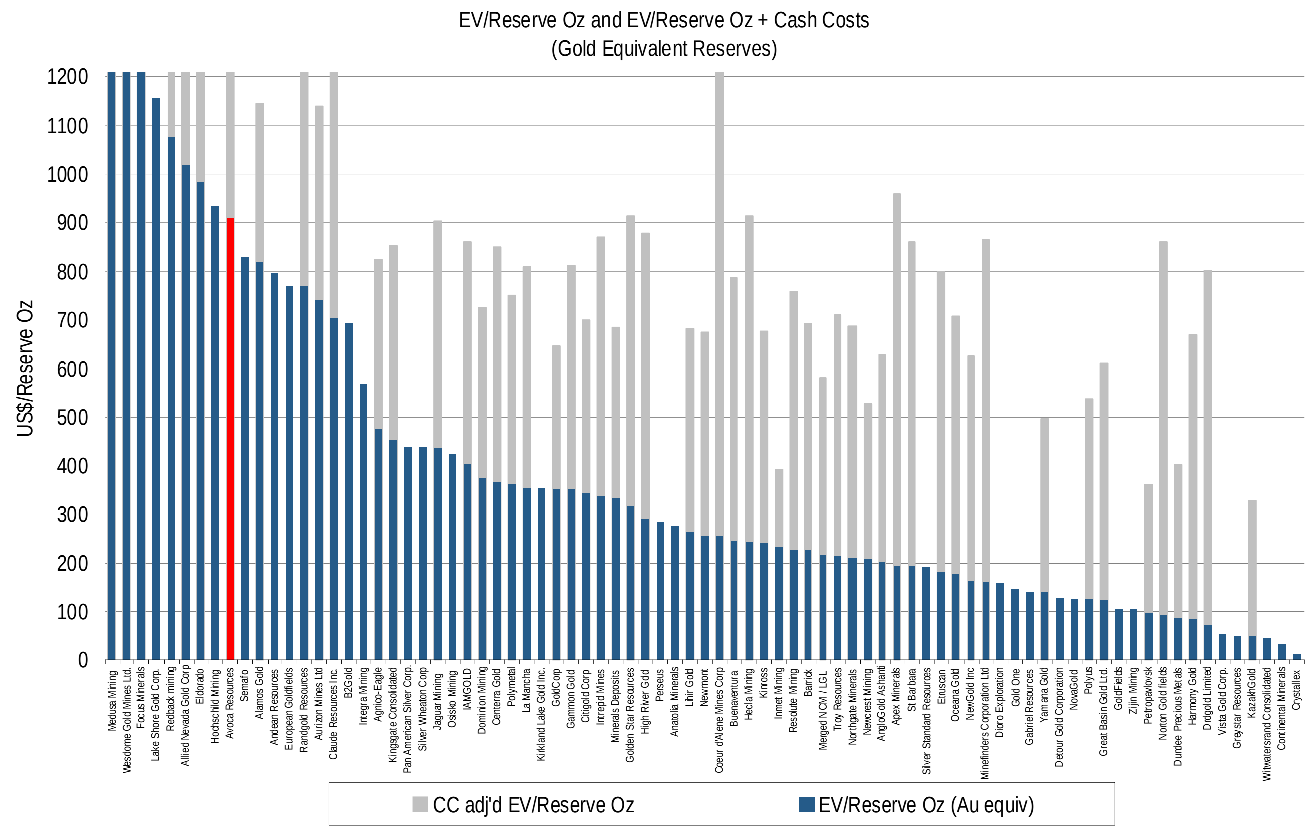
Figure 6: PER derived valuations

	EPS (A$/sh)	PER multiple implied target price								
		2. x	3. x	4. x	5. x	6. x	7. x	8. x	9. x	10. x
12 mth forward	0.191	$0.38	$0.57	$0.76	$0.96	$1.15	$1.34	$1.53	$1.72	$1.91
24 mth forward	0.261	$0.52	$0.78	$1.05	$1.31	$1.57	$1.83	$2.09	$2.35	$2.61
36 mth forward	0.342	$0.68	$1.03	$1.37	$1.71	$2.05	$2.40	$2.74	$3.08	$3.42

Source: Company data, Credit Suisse estimates

At US$907 per reserve ounce, Avoca is clearly priced for discovery, and one of the most expensive gold stocks in our universe. In terms of regional prospectivity, and resource growth momentum, we prefer Andean Resources (A$4.50/sh, OUTPERFORM), which currently trades at US$795 per reserve ounce.

Figure 7: EV per reserve ounce



Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 30 Apr 10)*
Andean Resources (AND.AX, A$3.20, OUTPERFORM [V], TP A$4.50)
Avoca Resources (AVO.AX, A$2.22, UNDERPERFORM [V], TP A$2.20)
La Mancha Resources (LMA.TO, C$2.00)

Disclosure Appendix

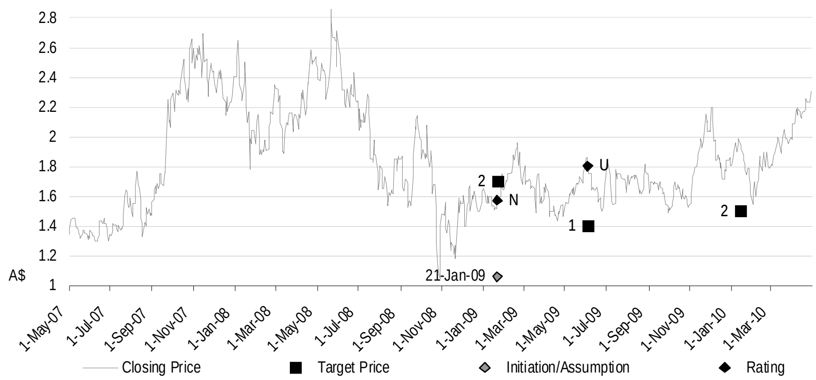
Important Global Disclosures

I, Michael Slifirski, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for AVO.AX

AVO.AX Date	Closing Price (A$)	Target Price (A$)	Rating	Initiation/ Assumption
21-Jan-09	1.575	1.7	N	X
3-Jun-09	1.805	1.4	U	
14-Jan-10	1.945	1.5		



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts' stock ratings are defined as follows:

Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks a 22% and a 12% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively, subject to analysts' perceived risk. The 22% and 12% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively, subject to analysts' perceived risk.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark**:

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*
***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

	Global Ratings Distribution	
Outperform/Buy*	44%	(61% banking clients)
Neutral/Hold*	41%	(61% banking clients)
Underperform/Sell*	13%	(54% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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See the Companies Mentioned section for full company names.
Price Target: (12 months) for (AVO.AX)
Method: Our $2.20 target price on Avoca Resources is set using 8x 24mth forward EPS and 2x P/NPV
Risks: The risks to AVO to acheiving our $2.20 target price include gold price, ramp up/production risk, mine life risk and exchange rate risk.

Please refer to the firm's disclosure website at www.credit-suisse.com/researchdisclosures for the definitions of abbreviations typically used in the target price method and risk sections.

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