



Avoca BUY

Current Price: **\$1.83**
Target Price: **\$2.83**

Ticker: AVO
Sector: Materials

Shares on Issue (m): 289.3
Market Cap (\$m): 528.1
Net Cash (\$m): -41.2
Enterprise Value (\$m): 569.3

52 wk High/Low: \$2.26 \$1.42
12m Av Daily Vol (m): 1.18

Key Metrics

	09A	10F	11F
P/E (x)	-32.4	9.5	5.7
EV/EBITDA (x)	20.0	4.6	4.1

Financials:

	09A	10F	11F
Revenue (\$m)	146.5	241.3	278.6
EBIT (\$m)	-14.0	84.1	104.5
NPAT (\$m)	-16.3	55.4	91.9

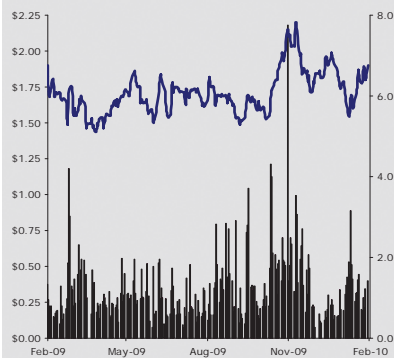
Net Assets (\$m) 157.3 287.9 435.1

Op CF (\$m) 51.9 101.8 134.6

Per Share Data:

	09A	10F	11F
EPS (cps)	-6.2	17.3	28.7
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	19.9	31.8	42.0

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

24 February 2010

Spoils of victory

The battle for Dioro Exploration (DIO) is over with Avoca (AVO) surpassing the 90% compulsory acquisition threshold after Ramelius (RMS) agreed to sell its DIO stake to AVO.

DIO owns 100% of the South Kalgoorlie operation including the 1.2Mtpa Jubilee gold plant, but the real prize is a 49% interest in the Frog's Leg mine (the remaining 51% is owned by TSX listed La Mancha). Frog's Leg is ramping up production to ~120kozpa.

The spoils of victory are significant for AVO – Removal of single mine risk, and expansion of annual production to ~250koz, reserves to >1.1Moz and resources to >4.0Moz.

Eldorado's (TSX:ELD) ~\$2.2b takeover bid for Sino Gold (SGX) and the removal of Centamin Egypt (CNT) from the ASX has created a further vacuum in the mid tier gold space. Outside of the \$1.2b Andean (AND) and the \$850m Kingsgate (KCN) a widening gulf exists between Lihir (LGL) with a market cap of \$6.6b down to a host of mid cap stocks producing 100-200kozpa.

Following the successful move on DIO, AVO could fill the vacuum due to:

- Quality management
- Low sovereign risk Australian domicile
- Production of ~250kozpa
- Cash costs of ~A\$450/oz (net of royalties of ~A\$100/oz)
- Growing mine life (Trident and Higginsville reserve updates planned for April 2010)
- Ability to execute value accretive corporate activity

AVO has offered interim NPAT guidance for the December H of \$29.4m (unaudited).

Argonaut's valuation is \$2.18. Applying a 1.3x multiple to NAV results in a target price of \$2.83.

BUY

Avoca Resources
Equities Research
Analyst: Troy Irvin

Recommendation BUY
Current Price \$1.83
Target Price (1.3x NAV) \$2.83
All Ords (XAO) 4,731

Sector Materials
Issued Capital (m) 289.3
Market Cap (m) \$528.1
Updated 24-February-2010

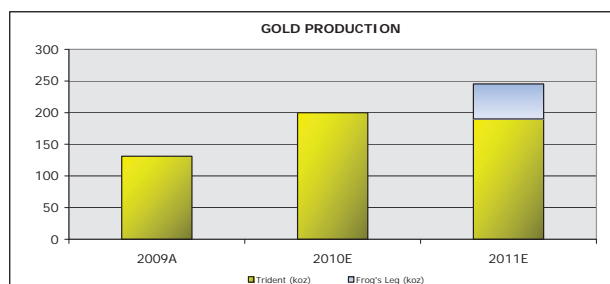
Profit & Loss (\$m) 30 June	2009A	2010E	2011E
Sales Revenue	146.5	241.3	278.6
Other Income	0.0	2.6	5.6
Operating Costs	105.8	113.3	136.9
Depn & Amort	42.4	38.4	34.6
Exploration Written Off	0.5	3.0	3.1
Corporate / Admin	2.3	5.0	5.1
Fair Value Loss on Derivatives	9.5	0.0	0.0
EBIT	-14.0	84.1	104.5
Finance Costs	9.3	5.0	3.4
Operating Profit	-23.3	79.1	101.1
Tax expense	-7.0	23.7	9.2
Minorities	0.0	0.0	0.0
NPAT	-16.3	55.4	91.9
Normalised NPAT	-16.3	55.4	91.9

Cash Flow (\$m)	2009A	2010E	2011E
Operating Cashflow	51.9	101.8	134.6
- Capex	55.4	21.5	66.8
- Exploration & Evaluation	8.0	12.0	12.2
+ Asset purchases (+ asset sales)	-0.2	25.1	0.0
Free Cashflow	-11.3	43.2	55.6
- Dividends	0.0	0.0	0.0
+ Equity raised	29.5	0.0	0.0
+ Debt drawdown (- repaid)	19.2	(25.0)	(20.0)
Net Change in Cash	37.3	18.2	35.6
Cash at End Period	38.9	57.1	92.7

Balance Sheet (\$m)	2009A	2010E	2011E
Total Assets	287.4	354.5	438.9
Total Debt	86.5	61.5	41.5
Total Liabilities	130.1	66.6	3.8
Shareholders Funds	157.3	287.9	435.1

Production Summary	2009A	2010E	2011E
Trident (koz)	131	200	190
Frog's Leg (koz)	0	0	55
Total	131	200	245
Gold Cash Cost (A\$/oz)	745	566	558
Gold Price Realised (A\$/oz)	1209	1202	1136
Exchange Rate (USD:AUD)	0.75	0.89	0.88

Attributable Reserves & Resources			
Reserves	Mt	g/t	Moz
Trident (Dec 2006)	3.4	5.3	0.58
Fairplay	1.1	1.9	0.06
Chalice (Dec 2009)	0.7	5.1	0.12
Dioro	6.8	2.8	0.62
Total	12.0	3.6	1.38
Resources	Mt	g/t	Moz
Trident including stockpiles	5.2	5.8	0.98
Fairplay	3.6	1.8	0.21
Palaeochannels	1.4	2.0	0.09
Chalice (Dec 2009)	1.3	4.5	0.19
Other Higginsville	1.3	1.2	0.05
Dioro	38.6	2.1	2.60
Total	51.4	2.5	4.12
EV / Reserve (\$/oz)			\$353
EV / Resource (\$/oz)			\$118



Financial Summary	2009A	2010E	2011E
Reported Earnings			
Net Profit (\$m)	(16.3)	55.4	91.9
EPS (cents)	(6.2)	17.3	28.7
PER (x)	(32.4)	9.5	5.7
Normalised Earnings			
Net Profit (\$m)	(16.3)	55.4	91.9
EPS (cents)	(6.2)	17.3	28.7
EPS Growth (%)		(376.9)	65.9
PER (x)	(32.4)	9.5	5.7
Cashflow			
Operating Cashflow (\$m)	51.9	101.8	134.6
GCFFPS (cents)	19.9	31.8	42.0
PCF (x)	9.2	5.7	4.3
Dividend			
Dividend (cents)	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0
Franking %	100	100	100

Financial Ratios	2009A	2010E	2011E
Balance Sheet Ratios			
Total Debt / Equity (%)	55	21	10
Interest Cover (x)	-1.5	16.8	30.4
Acid test ratio (x)	0.7	1.7	2.0
Profitability Ratios			
Net Profit Margin (%)	-11.1	23.0	33.0
Return on Assets (%)	-5.6	28.3	30.2
Return on Equity (%)	-10.4	19.2	21.1

Valuation Summary	A\$m	A\$/sh
Trident	395.1	1.37
Chalice	43.3	0.15
Frog's Leg	103.2	0.36
Forwards	0.0	0.00
Corporate	-17.7	-0.06
Other Resources	52.5	0.18
Exploration	50.0	0.17
Listed Investments	4.0	0.01
Unpaid Capital	11.6	0.04
Tax Losses	30.0	0.10
Cash Estimate	33.8	0.12
Debt	-75.0	-0.26
Total @ 7% discount rate	631	2.18

Directors	
Robert Reynolds	Non-Executive Chairman
Rohan Williams	Managing Director
Stephanie Urwin	Non-Executive Director
David Quinlivan	Non-Executive Director
Jan Castro	Non-Executive Director

Substantial Shareholders	%
Pala Investment Holdings	21.2%

