



Research



Avoca BUY

Current Price: **\$2.09**
Target Price: **\$2.70**

Ticker: **AVO**
Sector: **Materials**

Shares on Issue (m): **289.5**
Market Cap (\$m): **605.0**
Net Cash (\$m): **-41.6**
Enterprise Value (\$m): **646.6**
52 wk High/Low: **\$2.37** **\$1.48**
12m Av Daily Vol (m): **1.26**

Key Metrics

	09A	10F	11F
P/E (x)	-37.2	9.2	6.8
EV/EBITDA (x)	17.1	4.9	4.8

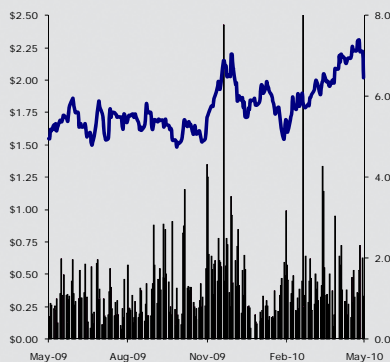
Financials:

	09A	10F	11F
Revenue (\$m)	146.5	270.5	319.0
EBIT (\$m)	-4.5	87.8	94.0
NPAT (\$m)	-16.3	65.7	89.5
Net Assets (\$m)	157.3	197.3	341.3
Op CF (\$m)	51.9	123.0	139.5

Per Share Data:

	09A	10F	11F
EPS (cps)	-6.2	20.5	27.9
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	19.9	38.3	43.5

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

6 May 2010

Willing and able

Avoca's (AVO) winning streak continued in the March Q with another solid production effort at the Trident mine and the completion of the Dioro (DIO) acquisition.

Q-on-Q production variances at Trident were:

- Output down 16% to 42,922oz (2% less ore milled, at an 11% lower grade)
- Cash costs 7% higher at A\$636/oz (excluding royalties of \$144/oz)

The mine is on track to achieve the upper end of FY10 production guidance of 190koz at cash costs of \$452/oz (net of royalties). A \$2.8m crusher upgrade at the Higginsville Treatment Plant will allow a 30% increase in steady state throughput to 1.3Mtpa in FY11. The project is on schedule for a mid-2010 completion.

AVO will advise the market of the resource and reserve update in May.

The battle for DIO is over with AVO now the registered holder of 100% of DIO's issued share capital. This hands AVO 100% of the South Kalgoorlie operation including the 1.2Mtpa Jubilee gold plant, and a prized 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.

Consolidated gold production of 58,946 ounces was achieved in the Q (AVO commenced equity accounting DIO's gold production for the months of February and March).

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 >3.7Moz.

Qualitatively the transaction underlines the willingness and ability of management to execute value accretive corporate activity.

Incorporating the implications under the proposed Resource Super Profit Tax (RSPT) has seen Argonaut's price target (1.3x NAV) fall to \$2.70 (was \$3.07).

BUY



Avoca Resources

Recommendation BUY
Current Price \$2.09
Target Price (1.3x NAV) \$2.70
All Ords (XAO) 4,601

Sector Materials
Issued Capital (m) 289.5
Market Cap (m) \$605.0
Updated 06-May-2010

Profit & Loss (\$m) 30 June	2009A	2010E	2011E	2012E
Sales Revenue	146.5	270.5	319.0	389.6
Other Income	0.0	6.9	3.2	2.3
Operating Costs	105.8	137.4	178.1	210.9
Exploration Written Off	0.5	3.0	3.0	3.1
Corporate / Admin	2.3	5.0	5.1	5.2
EBITDA	37.9	132.0	136.0	172.8
Depn & Amort	42.4	44.2	42.0	28.7
EBIT	-4.5	87.8	94.0	144.1
Finance Costs	9.3	4.7	3.0	0.8
Fair Value Loss on Derivatives	9.5	1.9	0.0	0.0
Operating Profit	-23.3	81.1	91.0	143.3
Tax expense	-7.0	15.5	1.5	17.6
Minorities	0.0	0.0	0.0	0.0
NPAT	-16.3	65.7	89.5	125.8
Normalised NPAT	-16.3	65.7	89.5	125.8

Cash Flow (\$m)	2009A	2010E	2011E	2012E
Operating Cashflow	51.9	123.0	139.5	162.7
- Capex	55.4	40.5	61.1	18.5
- Exploration & Evaluation	8.0	12.0	12.2	12.4
- Asset purchases (+ asset sales)	-0.2	29.6	0.0	0.0
Free Cashflow	-11.3	40.9	66.3	131.8
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	29.5	0.0	0.0	0.0
+ Debt drawdown (- repaid)	19.2	(31.5)	(20.0)	(35.0)
Net Change in Cash	37.3	9.4	46.3	96.8
Cash at End Period	38.9	48.3	94.6	191.4

Balance Sheet (\$m)	2009A	2010E	2011E	2012E
Total Assets	287.4	321.3	405.6	515.7
Total Debt	86.5	55.0	35.0	0.0
Total Liabilities	130.1	124.1	64.3	43.4
Shareholders Funds	157.3	197.3	341.3	472.4

Production Summary	2009A	2010E	2011E	2012E
Trident (koz)	131	198	195	195
Frog's Leg (koz)	0	23	60	60
South Kalgoorlie (koz)	0	16	35	35
Chalice (koz)	0	0	0	57
Total	131	238	290	346
Gold Cash Cost (A\$/oz)	745	578	614	609
Gold Price Realised (A\$/oz)	1209	1212	1250	1250
Exchange Rate (USD:AUD)	0.75	0.89	0.88	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
Frog's Leg	2.1	5.1	0.35
South Kalgoorlie	2.9	1.5	0.14
Total	10.2	3.8	1.25

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
Frog's Leg	2.6	6.4	0.54
South Kalgoorlie	29.4	1.8	1.66
Total	44.8	2.6	3.71

EV / Reserve (\$/oz) \$451
EV / Resource (\$/oz) \$152

Financial Summary	2009A	2010E	2011E	2012E
Reported Earnings				
Net Profit (\$m)	(16.3)	65.7	89.5	125.8
EPS (cents)	(6.2)	20.5	27.9	39.2
PER (x)	(37.2)	9.2	6.8	4.8
Normalised Earnings				
Net Profit (\$m)	(16.3)	65.7	89.5	125.8
EPS (cents)	(6.2)	20.5	27.9	39.2
EPS Growth (%)		(427.7)	36.2	40.6
PER (x)	(37.2)	9.2	6.8	4.8
Cashflow				
Operating Cashflow (\$m)	51.9	123.0	139.5	162.7
GCFPS (cents)	19.9	38.3	43.5	50.7
PCF (x)	10.5	5.5	4.8	4.1
Dividend				
Dividend (cents)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking %	100	100	100	100

Financial Ratios	2009A	2010E	2011E	2012E
Balance Sheet Ratios				
Total Debt / Equity (%)	55	28	10	0
Interest Cover (x)	-0.5	18.5	31.5	182.7
Acid test ratio (x)	0.7	1.0	1.5	2.2
Profitability Ratios				
Net Profit Margin (%)	-11.1	24.3	28.0	32.3
Return on Assets (%)	-1.8	32.2	30.2	44.4
Return on Equity (%)	-10.4	33.3	26.2	26.6

Valuation Summary	A\$m	A\$/sh
Trident	365.0	1.26
Chalice	60.2	0.21
Frog's Leg	86.8	0.30
Forwards	0.0	0.00
Corporate	-16.8	-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 at 31 March	18.4	0.06
Debt	-60.0	-0.21

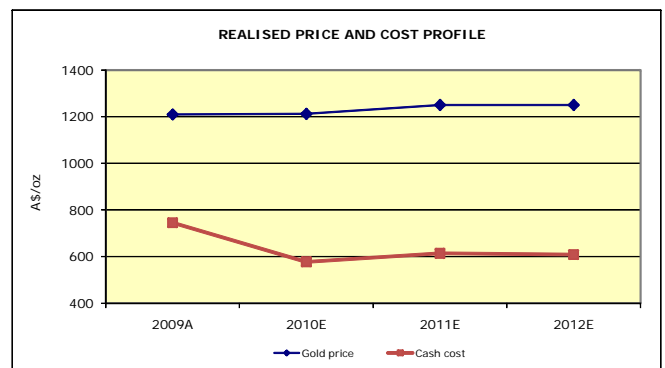
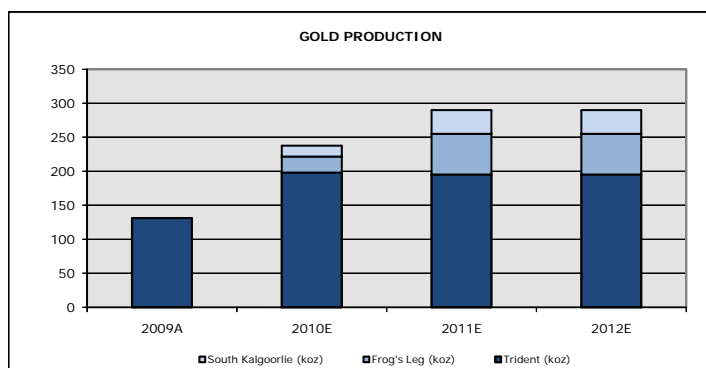
Total @ 8% discount rate 602 2.08

Directors

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

Substantial Shareholders

Pala Investment Holdings	21.2%
Colonial First State	5.2%



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