



Avoca BUY

Current Price: **\$2.60**
Target Price: **\$3.88**

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

Shares on Issue (m): **290.1**
Market Cap (\$m): **754.2**
Net Cash (\$m): **-41.6**
Enterprise Value (\$m): **795.8**

52 wk High/Low: **\$2.79** **\$1.48**
12m Av Daily Vol (m): **1.32**

Key Metrics

	09A	10F	11F
P/E (x)	-46.3	10.7	7.0
EV/EBITDA (x)	21.0	5.8	5.0

Financials:

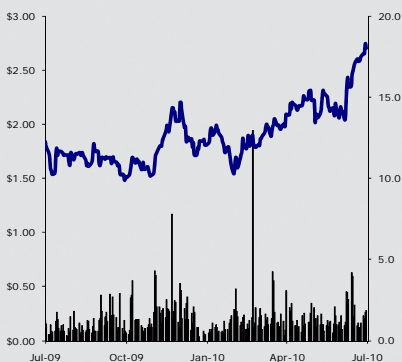
	09A	10F	11F
Revenue (\$m)	146.5	276.7	350.0
EBIT (\$m)	-4.5	92.6	110.4
NPAT (\$m)	-16.3	70.2	108.3

Net Assets (\$m)	157.3	202.7	373.4
Op CF (\$m)	51.9	128.1	168.7

Per Share Data:

	09A	10F	11F
EPS (cps)	-6.2	21.9	33.8
DPS (cps)	0.0	0.0	0.0
Div Yield	0.0%	0.0%	0.0%
CFPS (cps)	19.9	40.0	52.6

Share Price Graph



Analysts:
Troy Irvin
Tim Serjeant

5 July 2010

Avoca first, daylight second

Recent visits to the Higginsville, Frog's Leg, and South Kalgoorlie mines did nothing to dent Argonaut's long standing view that AVO is the stand-out in the uncompetitive gold space.

The well run Trident mine boasts high grades (~5g/t), good geotechnical conditions, bulk stoping opportunities, minimal water and a near new mill running at 1.3Mtpa following a \$2.8m crusher upgrade. Production has stabilised with the mine on track to exceed FY10 production guidance of 190koz at cash costs of \$452/oz (net of royalties). FY11 is backed by ~800kt developed ore stocks and ~12 months of grade control drilling.

At January 2010, the Higginsville Reserve stood at 6.0Mt @ 4.2 g/t for 803koz (38% increase on previously published 763koz after 254koz of production). The Higginsville Resource is 14.3Mt @ 3.4 g/t for 1.6Moz (up 5%). There is significant upside to mine life with the Trident ore body remaining open at depth with a drill intersection of 6m @ 3.8g/t at a depth of 850m and 200m north of the Resource boundary.

Following the DIO takeover, AVO owns 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 set to deliver >120kozpa. There appears to be upside to the 5.5g/t budget grade via more selective mining methods. The main risk is increasing rock stress, however this is mitigated by the early installation of a seismic monitoring system, the use of pastefill, appropriate mine design e.g. "end on" extraction and ultimately local management experience in the Kundana gold camp.

South Kalgoorlie was the surprise packet of the field trip with minimal drilling conducted over the last 10 years. The general stratigraphy and host rocks are shared by the +15Moz St Ives gold camp. AVO could potentially spend >\$10m p.a. on drilling and expand output to 200kozpa (including AVO's ~60kozpa share of Frog's Leg). Current mining is focused on a cut-back in the HBJ open pit. Following the return of numerous high grade results testing within and below the current cut-back design, AVO is confident the original pit can be deepened and a larger ore position mined.

AVO is targeting 400kozpa in 2 years time from 2 underground and 2 open pit mines. This aggressive plan is underpinned by a proven operational track record, and focused exploration on the largest tenement holding between Kalgoorlie and Norseman.

AVO is the natural consolidator of the Eastern Goldfields armed with momentum, and a willing and able management team. It is the best positioned stock to fill the much vaunted gold mid tier vacuum and approach a \$1b market cap.

The stock is trading at a 33% discount to Argonaut's price target (1.3x NAV) of \$3.88.

BUY



Avoca Resources

Equities Research
Analyst: Troy Irvin

Recommendation **BUY**
Current Price **\$2.60**
Target Price (1.3x NAV) **\$3.88**

Sector **Materials**
Issued Capital (m) **290.1**
Market Cap (m) **\$754.2**
Updated **05-July-2010**

Profit & Loss (\$m) 30 June	2009A	2010E	2011E	2012E
Sales Revenue	146.5	276.7	350.0	382.0
Other Income	0.0	6.9	1.5	1.5
Operating Costs	105.8	138.2	180.7	199.9
Exploration Written Off	0.5	3.5	5.1	5.2
Corporate / Admin	2.3	5.0	5.1	5.2
EBITDA	37.9	136.9	160.6	173.3
Depn & Amort	42.4	44.3	50.2	31.5
EBIT	-4.5	92.6	110.4	141.8
Finance Costs	9.3	4.8	1.1	0.0
Fair Value Loss on Derivatives	9.5	1.9	0.0	0.0
Operating Profit	-23.3	85.9	109.3	141.8
Tax expense	-7.0	15.7	1.0	13.1
Minorities	0.0	0.0	0.0	0.0
NPAT	-16.3	70.2	108.3	128.6
Normalised NPAT	-16.3	70.2	108.3	128.6

Cash Flow (\$m)	2009A	2010E	2011E	2012E
Operating Cashflow	51.9	128.1	168.7	170.5
- Capex	55.4	70.5	60.3	22.5
- Exploration & Evaluation	8.0	14.0	20.3	20.7
- Asset purchases (+ asset sales)	-0.2	29.6	0.0	0.0
Free Cashflow	-11.3	14.0	88.1	127.4
- Dividends	0.0	0.0	0.0	0.0
+ Equity raised	29.5	0.0	0.0	0.0
+ Debt drawdown (- repaid)	19.2	(26.5)	(60.0)	0.0
Net Change in Cash	37.3	-12.6	28.1	127.4
Cash at End Period	38.9	26.4	54.4	181.8

Balance Sheet (\$m)	2009A	2010E	2011E	2012E
Total Assets	287.4	333.0	401.2	541.1
Total Debt	86.5	60.0	0.0	0.0
Total Liabilities	130.1	130.3	27.8	34.1
Shareholders Funds	157.3	202.7	373.4	507.0

Production Summary	2009A	2010E	2011E	2012E
Trident (koz)	131	198	195	175
Frog's Leg (koz)	0	24	61	61
South Kalgoorlie (koz)	0	16	36	36
Chalice (koz)	0	0	0	57
Total	131	238	293	329
Gold Cash Cost (A\$/oz)	745	580	617	608
Gold Price Realised (A\$/oz)	1209	1238	1364	1307
Exchange Rate (USD:AUD)	0.75	0.89	0.88	0.88

Attributable Reserves & Resources	Mt	g/t	Moz
Reserves			
Trident	3.9	4.8	0.60
Chalice	0.7	5.1	0.12
Frog's Leg	2.5	5.0	0.40
South Kalgoorlie	2.0	1.6	0.11
Other	1.4	1.9	0.08
Total	10.5	3.9	1.31

Resources	Mt	g/t	Moz
Trident	5.7	5.1	0.94
Chalice	1.3	4.5	0.19
Frog's Leg	2.7	6.6	0.57
South Kalgoorlie	29.2	1.8	1.65
Other	7.2	1.9	0.44
Total	46.2	2.5	3.78

EV / Reserve (\$/oz) \$609
EV / Resource (\$/oz) \$210

Financial Summary	2009A	2010E	2011E	2012E
Reported Earnings				
Net Profit (\$m)	(16.3)	70.2	108.3	128.6
EPS (cents)	(6.2)	21.9	33.8	40.1
PER (x)	(46.3)	10.7	7.0	5.9
Normalised Earnings				
Net Profit (\$m)	(16.3)	70.2	108.3	128.6
EPS (cents)	(6.2)	21.9	33.8	40.1
EPS Growth (%)		(450.5)	54.4	18.8
PER (x)	(46.3)	10.7	7.0	5.9
Cashflow				
Operating Cashflow (\$m)	51.9	128.1	168.7	170.5
GCFPS (cents)	19.9	40.0	52.6	53.2
PCF (x)	13.1	6.5	4.9	4.9
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	30	0	0
Interest Cover (x)	-0.5	19.2	104.9	0
Acid test ratio (x)	0.7	0.8	1.1	2.1
Profitability Ratios				
Net Profit Margin (%)	-11.1	25.4	31.0	33.7
Return on Assets (%)	-1.8	30.2	31.8	39.5
Return on Equity (%)	-10.4	34.6	29.0	25.4

Valuation Summary	A\$m	A\$/sh
Trident	422	1.45
Chalice	76	0.26
Frog's Leg	179	0.62
South Kalgoorlie	49	0.17
Forwards	0	0.00
Corporate	-17	-0.06
Other Resources	79	0.27
Exploration	75	0.26
Listed Investments	4	0.01
Unpaid Capital	12	0.04
Tax Losses	30	0.10
Cash at 31 March	18	0.06
Debt	-60	-0.21
Total @ 7.7% discount rate	866	2.98

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	22.5%
Colonial First State	7.0%

