

31 July 2008

Analyst: Jon Bishop

- ▶ **Price Target:** \$2.00/sh
- ▶ **Reason For Update:** June Quarterly
- ▶ **Quick Comment:**

The June Q culminated in the commissioning of AVO's Higginsville Treatment Plant. The plant was delivered on time and within the A\$49.2m budget; a significant achievement in a highly competitive market in terms of labour and materials.

First dore was poured on the 8th of July. Commissioning is on-going with 32kt crushed and 22kt milled by Q end.

Ore production through the quarter has ramped up accordingly, with ore drive development from the Western Zone and Athena Lodes. Total stockpiled ore by Q end totalled 145kt @ 4.0g/t of high grade and 115kt @1.4g/t of low grade ore. The average grade of the high grade material is expected to steadily increase to the end of the year as further development is made into the Athena Lode.

Exploration drilling continues to build on the potential of the Higginsville area; highlights of the quarter included:

- Chalice – new lode including 10m @ 3.8g/t, 100m from the existing underground resource and Deeps drilling including 18m @ 14.9 g/t from 386m and 2m @ 9.5g/t from 368m
- Two Boys – drilling results including 2m @ 11.3g/t from 79m and 2m @ 10g/t from 109m, 100m NW and 150m NE, respectively, of the mined deposit
- Trident – new lode ('Artemis') including 2m @ 50.6g/t from 806m and 2.7m @ 20.3g/t

There remains no hedging requirement associated with the debt.

AVO's price has significantly retreated in the past few months, however continues to trade at a 35% premium to our A\$1.31 valuation. The key to share price growth in the short term remains with commissioning success in terms of achieving the 160-190koz pa target. Whilst we await success of the commissioning phase and revision to the Higginsville resource, we maintain our Hold.

▶ Quick Comment:

Beyond the commissioning phase – and whilst we expect to see gradual improvements to the average head grade to the 5.3g/t reserve grade – grade overcall at Athena, and near field exploration success at Trident and Chalice to increase mine life beyond our current 6 year forecast, represent the medium term catalysts.

The potential size of the Morgan Stanley royalty at \$63m on an NPV basis represents a sizeable drain on future cashflows, and no longer classifies AVO as a low-cost producer.

Never-the-less, AVO continues to prove itself as a soundly managed, good gold story. Excellent potential for improvements to average head grade, an aggressive exploration programme and financial backing that could enable re-purchase of the Morgan Stanley royalty and/or acquisition, underline the potential for AVO.

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Avoca Resources Ltd

31 July 2008

EUROZ

SECURITIES LIMITED
AUSTRALIAN RESEARCH

AVOCA RESOURCES LIMITED (AVO)		YEAR END 30 JUNE			
MARKET STATISTICS					
Share Price	\$1.72 A\$/sh	Directors			
Issued Capital		R.Reynolds		Chair'n	
FP Ord	218.9 m	R.Williams		Mgr Dir	
unlisted Emp Opt	13.0 m	S.Unwin		Dir	
Convertible Bonds	22.9m	D.Quinlivan		Dir	
Total Dil. FPOrd	254.8 m	J. Castro		Dir	
Market Capitalisation	\$426 m	Shareholders			
Enterprise Value	\$536 m	Pala		13.75%	
Debt	\$111 m	CBA		6.2%	
Cash	\$2 m				
Hedging	nil				
ASSET VALUATION		A\$m	A\$/sh		
Higginsville		358	1.41		
Corporate		(16)	(0.06)		
Expl'n		100	0.39		
Unpaid Capital		12	0.05		
Debt		(30)	(0.12)		
Cash		2	0.01		
Higginsville Royalty		(62)	(0.24)		
Total @ 10% real		363	1.43		
Total @ 0% real		549	2.15		
Total @ 5% real		479	1.88		
Total @ 15% real		385	1.51		
Valuation @ spot (10% real)		309	1.21		
Valuation @ 10 year average (10% real)		84	0.33		
Unpaid Capital includes assumption for future development equity issue & options.					
FORECAST PRODUCTION		2008a	2009f	2010f	2011f
Attrib. Prod'n (koz)					
Higginsville		3	170	182	174
Total Attrib (koz)		3	170	182	174
Prices (A\$/oz)					
Avg Spot Gold Price		915	942	1,014	1,077
Avg Gold Price Rec'd		915	943	1,014	1,074
Cash Cost (A\$/oz)					
Higginsville		485	392	403	416
Higginsville - Morgan-Stanley Royalty		-	66	82	91
Avg Cash Cost (A\$/oz)		485	443	526	550
Avg Total Cost (A\$/oz)		661	633	727	767
RATIO ANALYSIS		2008a	2009f	2010f	2011f
CF (A\$m)		2	68	70	78
CF / Sh (Ac/sh)		1	27	28	31
CF Ratio (x)		285.0	6.4	6.2	5.6
Earnings (A\$m)		(1)	28	33	36
EPS (Ac/sh)		(0.3)	10.8	12.8	14.3
EPS Growth (%)		n/a	3718%	19%	12%
Earnings Ratio (x)		(501.5)	15.9	13.4	12.0
E'prise Val. (A\$m)		536	482	415	344
EV : EBITDA (x)		(1,036.6)	6.0	4.7	3.8
EV : EBIT (x)		(243.0)	10.3	8.1	6.5
Net Debt / ND+Eq (%)		59%	33%	-9%	-84%
Interest Cover (x)		(2)	9	16	175
EBIT Margin (%)		-55%	29%	28%	28%
ROE (%)		-1%	25%	22%	19%
ROA (%)		-1%	20%	22%	21%
Div. (Ac/sh)		-	-	-	-
Div. payout ratio		0%	0%	0%	0%
Div. Yield		0%	0%	0%	0%
Div. Franking		0%	0%	0%	0%

	2008a	2009f	2010f	2011f		
PROFIT & LOSS						
Gold Sales	2.7	160.3	184.7	187.3		
Hedging Revenue	-	-	-	-		
Deferred Revenue	-	-	-	-		
Interest Revenue	3.2	0.4	2.1	3.6		
Other Revenue	1.3	-	-	-		
TOTAL REVENUE	7.3	160.7	186.8	190.9		
Operating Costs	1.3	72.5	88.4	88.2		
Dep/Amort	0.5	32.3	36.7	37.9		
W/O & Provisions	1.2	1.2	1.2	1.2		
Corp O/H	3.2	7.4	7.4	7.4		
EBITDA	(0.5)	80.3	88.9	91.6		
EBIT	(2.2)	46.8	51.0	52.5		
Interest Expense	2.3	7.9	6.4	4.1		
NPBT	(1.2)	39.4	46.7	52.1		
Tax	(0.4)	11.8	14.0	15.6		
Minorities	-	-	-	-		
NET PROFIT	(0.9)	27.5	32.7	36.4		
Net Abnormal Gain/(Loss)	-	-	-	-		
NET PROFIT After Abn'l	(0.9)	27.5	32.7	36.4		
CASHFLOW						
Net Profit	(0.9)	27.5	32.7	36.4		
+ Working Capital Adj.	-	-	-	-		
+ Dep/Amort	0.5	32.3	36.7	37.9		
+ Provisions	1.2	1.2	1.2	1.2		
+ Tax Expense	(0.4)	11.8	14.0	15.6		
- Tax Paid	(1.1)	4.7	14.1	13.2		
- Deferred Revenue	-	-	-	-		
Operating Cashflow	1.5	68.1	70.4	77.9		
-Capex + Development	133.3	13.0	6.0	6.0		
-Exploration	11.1	12.0	9.0	4.0		
-Assets Purchased	0.6	-	-	-		
+Asset Sales	0.0	-	-	-		
+ Other	-	-	-	-		
Investing Cashflow	(144.9)	(25.0)	(15.0)	(10.0)		
+Equity Issues	6.2	0.1	0.9	6.9		
+Loan D'down/Receivable	30.0	11.0	11.0	-		
-Loan Repayment	-	15.0	28.0	28.0		
-Dividends	-	-	-	-		
Financing Cashflow	36.2	(3.9)	(16.1)	(21.1)		
Period Sur (Def)	(107.8)	39.2	39.3	46.9		
Cash Balance	1.5	40.7	80.0	126.9		
BALANCE SHEET						
Assets						
Cash	1.5	40.7	80.0	126.9		
Current Receivables	5.1	5.1	5.1	5.1		
Other Current Assets	1.3	1.3	1.3	1.3		
Non-Current Assets	200.7	181.4	150.7	118.8		
Total Assets	208.6	228.5	237.1	252.0		
Liabilities						
Borrowings	111.0	96.0	68.0	40.0		
Current Accounts Payable	19.0	19.0	19.0	19.0		
Other Liabilities	2.6	2.6	2.6	2.6		
Total Liabilities	132.6	117.6	89.6	61.6		
Net Assets	76.0	110.9	147.5	190.5		
RESERVES AND RESOURCES						
	Reserves		Resources			
	mt	g/t	koz	mt	g/t	koz
Trident/Athena	3.40	5.30	579	5.0	5.8	927
Fairplay				3.6	1.8	209
Palaoechannels				1.4	2.0	88
Other				1.31	1.20	51
Equity Share Gold			579	8.7	4	1,106
Enterprise Value / oz (A\$)			925			485

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