

# Avoca Resources Limited

## FY07 Result

Materials | Metals & Mining | Australia

### Result:

- Reported Loss: \$4.5m (GSJBW: Loss \$3.7m); Adjusted: \$4.5m(GSJBW: \$3.7m).
- The key differences between our forecast and the result were: depreciation and higher corporate costs.
- As AVO is not in production yet, the earnings result is not particularly relevant.

### Key Take-outs:

- AVO's stand-alone plant at Higginsville remains on time and within budget for commissioning in June 2008.
- With \$109m of cash on the balance sheet, AVO is fully funded to develop the Trident gold mine.
- AVO is yet to enter into a toll treatment/ore purchase agreement to treat ore while the Trident gold plant is under construction.
- AVO continues to report excellent exploration results from the Higginsville area (most recently 21 September 2007) and we expect AVO to be in a position to announce an upgraded resource position later this calendar year.

### Earnings and Valuation Impact:

- We have made modest changes to our modelling following this result.
- However, we have increased our earnings over the forecast period following the rebasing of our forecast gold price given the recent developments in global markets (see separate gold article in today's *Daily Cable*).

### Investment View:

- Our 12-month price target of \$2.36 is combination of a forward PER (25x), our base and upside valuations and other catalysts.
- No change to our positive view on AVO. This is primarily based on:
  - Production growth from Trident
  - The excellent exploration potential in the Higginsville area (we expect an updated resource statement to be released in November 2007)
  - Our favourable gold price view

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**BUY**

### Key Information

Stock Code	AVO
Share Price	\$2.12
12 Month Price Target	\$2.36
Expected 12M Total Return	11.4%

### Investment Data

Issued Capital	215.7m
Market Capitalisation	\$457m
% of S&P 200 Index	na
Free Float	100%
Turnover	\$11.7m/month
12 Month Price Range	240¢-105¢
Debt/Equity	30.5%

### Investment Arithmetic

Jun year end	07A	08E	09E	10E
Net Profit Rep. (\$m)	-4.4	3.8	41.7	46.3
NPAT Adj. (\$m)	-4.4	3.8	41.7	46.3
EPS Adj. (¢)	-2.7	1.8	19.4	21.5
EPS Growth (%)	nm	nm	977.8	10.8
<b>PER (x)</b>	<b>nm</b>	<b>117.8</b>	<b>10.9</b>	<b>9.9</b>
Relative PER (%)	nm	648.6	-20.5	-24.6
Dividend (¢)	0.0	0.0	9.9	10.9
<b>Yield (%)</b>	<b>0.0</b>	<b>0.0</b>	<b>4.7</b>	<b>5.1</b>
Franking (%)	0	0	0	0
FCFPS (¢)	-5.8	-1.1	31.8	32.5
P:FCFPS (x)	nm	nm	6.7	6.5
EV/EBITDA (x)	nm	62.5	5.1	4.3
BV (¢)	53	44	54	65
P/BV (x)	4.0	4.8	3.9	3.3
Av. Full Dil. Shares (m)	164.6	215.0	215.0	215.0

### Share Price Chart



### Relative Price Performance

	1m	3m	12m
vs. S&P 200:	35.4%	45.5%	70.9%
vs. MSCI - World:	43.1%	50.0%	99.3%

Source: Company data, IRESS, and GSJBW Research estimates.

## RECOMMENDATION – OUR THINKING

Our 12-month price target of \$2.36 is combination of a forward PER (25x), our base and upside valuations and other catalysts.

No change to our positive view on AVO. This is primarily based on:

1. Production growth from Trident
2. The excellent exploration potential in the Higginsville area
3. Our favourable gold price view

## KEY TAKE-OUTS FROM THE RESULT

Reported Loss: \$4.5m (GSJBW: Loss \$4.5m); Adjusted: \$4.5m (GSJBW: \$3.7m).

- ⇒ The key differences between our forecast and the result were: depreciation and higher corporate and other costs
- ⇒ As AVO is not in production yet, the earnings result is not particularly relevant.
- ⇒ EBITDA -\$5m (GSJBW -\$5m)
- ⇒ Capex spend during FY07 \$15.2m (GSJBW: \$11m)
- ⇒ Exploration spend \$8m (GSJBW \$7m)

With \$109m of cash on the balance sheet, AVO is fully funded to develop the Trident gold mine.

AVO's stand-alone plant at Higginsville remains on time and within budget for commissioning in June 2008.

AVO is yet to enter into a toll treatment/ore purchase agreement to treat ore while the Trident gold plant is under construction.

AVO continues to report excellent exploration results from the Higginsville area (most recently 21 September 2007) and we expect AVO to be in a position to announce an upgraded resource position later this calendar year.

## EARNINGS AND VALUATION IMPACT

We have made modest changes to our modelling following this result.

However, we have increased our earnings over the forecast period following the rebasing of our forecast gold price given the recent developments in global markets (see separate gold article in today's *Daily Cable*).

	NPAT (\$m)			EPS (¢)			DPS (¢)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
<b>F.'07a</b>	-3.7	<b>-4.4</b>	n.a	-2.3	<b>-2.7</b>	n.a	0.0	<b>0.0</b>	0.0%
<b>F.'08e</b>	3.7	<b>3.8</b>	3.1%	1.7	<b>1.8</b>	2.5%	0.0	<b>0.0</b>	0.0%
<b>F.'09e</b>	36.5	<b>41.7</b>	14.3%	17.1	<b>19.4</b>	13.7%	8.7	<b>9.9</b>	0.0%
<b>F.'10e</b>	40.7	<b>46.3</b>	13.7%	19.0	<b>21.5</b>	13.0%	9.6	<b>10.9</b>	0.0%
<b>DCF Valuation (\$/share):</b>				Old	<b>New</b>	% Chg.			
Base Valuation				0.93	<b>0.98</b>	5.9%			
Upside Valuation				1.48	<b>1.53</b>	3.5%			
Source: Company data, GSJBW Research estimates									

## Recap of Recent Exploration Success

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On 21 September 2007, AVO released its latest drilling results from both the Trident gold mine and from its regional Higginsville area.

### Trident Gold Mine exploration

#### Poseidon South

- Drilling results indicate the east-dipping reefs share a similar appearance and geometry to the previously mined Poseidon South "E Veins".
- Better results include: 1.9m @57.9g/t from 26.7m, 3.2m @ 25.9g/t from 71.5m
- Importantly these intersections lie a mere 8m away from the existing underground development
- Minor additional testing is required before stoping of these areas can commence

#### Athena Lodes

- Further positive results from the Athena 40 surface.
- Better results include: 4.8m @7.9g/t from 50.2m, 6.0m @ 4.9g/t from 53.0m
- This has confirmed an additional 100m strike to the Athena Lodes (taking it to 600m)

#### Eastern Zone

- Seven hole surface diamond drilling program to test extensions had positive results.
- Better results include: 3.5m @ 11.6g/t from 114m, 9.0m @ 4.6g/t from 29m
- These results confirm an additional 100m strike and 50m vertical extent to the eastern zone.
- In-fill resource delineation drilling will commence shortly

### Regional Higginsville Exploration

#### Challenger

- AVO has targeted the historical paleochannel gold deposits and tried to find the bedrock source of this gold
- One area that has shown promise in this regard is Challenger (15km SE of Trident). This was mined as an open pit but only limited deep drilling had been done.
- Some of the better intersections include 7m @ 6.2g/t from 62m and 21m @ 2.0g/t from 102m
- More work must be done on this area before the company could turn this into a resource, however initial results are encouraging

#### Vine JV Prospect (AVO 64% earning 74% AQP 36% diluting to 26%)

- The Vine prospect lies on the Erin line near the Sons of Erin Shaft
- An inferred resource of 38koz was compiled by previous owners
- A recent drill program has resulted in some good results; 6.0m @ 18.0g/t from 46.0m, 4.0m @ 7.9 g/t from 84m.

#### Fairplay

- A 12-hole drilling program has been completed over the deposit in order to complete open pit optimisation studies.
- Excellent result of 18.0m @ 9.8 g/t was returned from one hole.
- Follow-up drilling is required to determine the potential of the deposit.

**RESULT DETAILS**

<b>AVOCA RESOURCES LIMITED</b>							
<b>PROFIT &amp; LOSS</b>							
			<b>FY06</b>	<b>1H07</b>	<b>2H07</b>	<b>FY07</b>	<b>% chg on pcp</b>
Revenue:	Sales	A\$m	0.0	0.0	0.0	0.0	
	Other	A\$m	0.0	0.0	0.0	0.0	
<b>EBITDA (pre Equity Accounting)</b>		A\$m	<b>-2.0</b>	<b>-0.2</b>	<b>-4.9</b>	<b>-5.1</b>	<b>158%</b>
Depreciation and non-intangible amortisation		A\$m	0.4	0.1	0.2	0.4	-20%
<b>EBIT</b>		A\$m	<b>-2.4</b>	<b>-2.2</b>	<b>-3.3</b>	<b>-5.5</b>	<b>125%</b>
Net interest expense / (income)		A\$m	-0.4	0.1	-0.8	-0.7	95%
<b>Consolidated Pre-tax Profit (pre NRIs)</b>		A\$m	<b>-2.1</b>	<b>-2.3</b>	<b>-2.4</b>	<b>-4.7</b>	131%
Less: Tax		A\$m	-0.4	-0.6	0.3	-0.3	
Consolidated NPAT (pre NRIs)		A\$m	-1.6	-1.7	-2.7	-4.5	176%
Equity Share of Associate Profits (after tax)		A\$m	0.0	0.0	0.0	0.0	
Less: Minorities		A\$m	0.0	0.0	0.0	0.0	
Preference Dividend:		A\$m	0.0	0.0	0.0	0.0	
<b>NET PROFIT (pre NRIs)</b>		A\$m	<b>-1.6</b>	<b>-1.7</b>	<b>-2.7</b>	<b>-4.45</b>	<b>176%</b>
Non Recurring Items (after tax)		A\$m	0.0	0.0	0.0	0.0	100%
<b>Reported Net Profit (after NRIs)</b>		A\$m	<b>-1.6</b>	<b>-1.7</b>	<b>-2.7</b>	<b>-4.45</b>	<b>176%</b>
EPS (pre NRI's)		A\$m	-1.2	-1.2	-1.7	-2.7	132%
Reported EPS (post NRI's)		A\$m	-1.2	-1.2	-1.7	-2.7	132%
<b>P&amp;L RATIOS:</b>							
EBITDA / Sales	%		n.a.	n.a.	n.a.	n.a.	
EBIT / Sales	%		n.a.	n.a.	n.a.	n.a.	
Net interest cover	x		6.5	-19.5	3.9	7.5	
Tax rate	%		21.2	25.5	-12.5	6.0	
<b>DIVIDENDS:</b>							
Interim / Final	¢ps		0.0	0.0	0.0	0.0	
Franking	%		0.0	0.0	0.0	0.0	
@ corporate tax rate	%		30.0	30.0	30.0	30.0	
<b>CASH FLOW</b>			<b>FY06</b>	<b>1H07</b>	<b>2H07</b>	<b>FY07</b>	<b>% chg pcp</b>
Receipts from customers	A\$m		0.0	0.0	0.0	0.0	
Payments to suppliers and employees	A\$m		-1.1	-1.0	-0.8	-1.8	73%
<b>GROSS OPERATING CASH FLOW</b>	A\$m		<b>-1.1</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-1.8</b>	<b>73%</b>
Dividends Received: Associates	A\$m		0.0	0.0	0.0	0.0	
Other	A\$m		0.0	0.0	0.0	0.0	
Net Interest Paid	A\$m		0.3	-0.5	0.9	0.4	3%
Income Taxes Paid	A\$m		0.0	0.0	0.0	0.0	
Other	A\$m		0.0	0.0	0.0	0.0	
<b>NET OPERATING CASH FLOW</b>	A\$m		<b>-0.7</b>	<b>-1.5</b>	<b>0.0</b>	<b>-1.5</b>	<b>107%</b>
Capital Expenditure	A\$m		0.0	-4.4	-10.9	-15.2	
Proceeds from Sale of PP&E	A\$m		-0.3	0.0	0.0	0.0	
Net Proceeds from Sale of Investments / Assets	A\$m		0.0	0.0	14.1	14.1	-100%
Exploration	A\$m		-5.3	-4.8	-3.2	-8.0	52%
Other	A\$m		0.0	0.0	-2.0	-2.0	
<b>NET INVESTING CASH FLOW</b>	A\$m		<b>-5.5</b>	<b>-9.2</b>	<b>-1.9</b>	<b>-11.1</b>	<b>100%</b>
Dividends Paid	A\$m		0.0	0.0	0.0	0.0	
Proceeds from Equity Issues	A\$m		11.2	0.0	115.5	115.5	
Payments for Share Buy-back	A\$m		0.0	0.0	0.0	0.0	
Proceeds from borrowings	A\$m		0.0	8.0	5.0	13.0	100%
<b>CASH FLOW RECONCILIATION:</b>							
EBITDA	A\$m		-2.0	-0.2	-4.9	-5.1	
Net Decrease / (Increase) in Working Capital	A\$m		0.9	2.1	-10.1	-8.0	
<b>Other</b>	A\$m		<b>0.0</b>	<b>-2.8</b>	<b>14.1</b>	<b>11.3</b>	
<b>GROSS OPERATING CASH FLOW</b>	A\$m		<b>-1.1</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-1.8</b>	
<b>CASH FLOW RATIOS:</b>							
Gross Operating Cash Flow / EBITDA	%		53%	405%	17%	36%	
Capital Expenditure / Depreciation	x		0.0	33.2	49.3	43.3	
Capital Expenditure / Sales	x		n.a.	n.a.	n.a.	n.a.	
<b>Free Cash Flow (pre Dividends)</b>	A\$m		<b>-6.0</b>	<b>-10.7</b>	<b>-14.1</b>	<b>-24.7</b>	<b>314%</b>
<b>Free Cash Flow (post Dividends)</b>	A\$m		<b>-6.0</b>	<b>-10.7</b>	<b>-14.1</b>	<b>-24.7</b>	
Source: Company data							

## Financial Summary | AVO

Avoca Resources Ltd							Current Price A\$: <b>\$1.75</b>		Mkt Cap.: <b>\$378m</b>		Free Float <b>100%</b>		Recommendation: Price Target: Analyst: Data as at:		BUY \$2.36 Stephen Gorenstein 26-Sep-07		
GSJBW DCF: <b>\$0.98</b>							ASX Code: <b>AVO</b>		Turnover (mth) <b>\$26m</b>								
Investments Statistics							Profit & Loss (A\$m)										
Year end June 2006a 2007a 2008e 2009e 2010e							Year end June 2006a 2007a 2008e 2009e 2010e										
<b>Net Profit (reported)</b> (A\$m) <b>-1.6 -4.4 3.8 41.7 46.3</b>							<b>Sales Revenue (excl JV &amp; Assoc.)</b> <b>0 0 22 170 189</b>										
- EPS (Reported) 1 (¢) <b>-1.2 -2.7 1.8 19.4 21.5</b>							<b>Operating costs</b> <b>2 5 15 82 95</b>										
- PER (Reported) 1 (X) <b>n.a. n.a. n.a. 9.0 8.1</b>							<b>Operating EBITDA</b> <b>-2 -5 7 89 94</b>										
<b>NET PROFIT (Adj.) 2</b> (A\$m) <b>-1.6 -4.4 3.8 41.7 46.3</b>							<b>D&amp;A</b> <b>0 0 4 28 29</b>										
- EPS (Adj.) 2 (¢) <b>-1.2 -2.7 1.8 19.4 21.5</b>							<b>Operating EBIT</b> <b>-2 -5 3 60 65</b>										
- EPS Growth (%) <b>n.a. n.a. n.a. 995% n.a.</b>							<b>JV &amp; Assoc.</b> <b>0 0 0 0 0</b>										
- PER (Adj.) 2 (X) <b>n.a. n.a. n.a. 9 8</b>							<b>EBIT</b> <b>-2 -5 3 60 65</b>										
Dividend (¢) <b>0.0 0.0 0.0 9.9 10.9</b>							<b>Net Interest Exp./(Rev)</b> <b>0 -1 0 1 -1</b>										
- Yield (%) <b>0.0% 0.0% 0.0% 5.7% 6.2%</b>							<b>PreTax Profit (pre ab's)</b> <b>-2 -5 4 60 66</b>										
- Franking (%) <b>0 0 0 0 0</b>							<b>Tax Expense (pre abs)</b> <b>0 0 0 18 20</b>										
<b>Free Cash Flow</b> (A\$m) <b>-6 -9 -2 68 70</b>							<b>Minorities (after Tax)</b> <b>0 0 0 0 0</b>										
- P/FCF 4 (X) <b>n.a. n.a. n.a. 5.5 5.4</b>							<b>Prof. Dividends</b> <b>0 0 0 0 0</b>										
<b>EV(Adj.)/EBITDA 3</b> (X) <b>n.a. n.a. n.a. 4.2 3.5</b>							<b>NET PROFIT (Pre NRI's) 1</b> <b>-2 -4 4 42 46</b>										
Avg. Shares (diluted) (mill) <b>133 165 215 215 215</b>							<b>Abnormal Items (after Tax)</b> <b>0 0 0 0 0</b>										
							<b>Reported NPAT (post ab's)</b> <b>-2 -4 4 42 46</b>										
<b>EV Analysis / DCF Valuation</b>							<b>Sales Growth</b> (%) <b>n.a. n.a. n.a. 660% 11%</b>										
<b>A\$ DCF Valuation:</b> <b>0.98</b> <b>Upside DCF:</b> <b>1.53</b>							<b>Op. EBITDA Growth</b> (%) <b>n.a. n.a. n.a. 1102% 6%</b>										
<b>Price / DCF:</b> <b>1.78</b>							<b>NPAT (Adj.) Growth</b> (%) <b>n.a. n.a. n.a. 995% 11%</b>										
<b>Ke:</b> <b>13.7%</b> <b>WACC:</b> <b>10.9%</b>							<b>EPS (Adj.) Growth</b> (%) <b>n.a. n.a. n.a. 995% n.a.</b>										
<b>Kd:</b> <b>5.3%</b> <b>RF:</b> <b>6.5%</b>							<b>Op. EBITDA Margin</b> (%) <b>n.a. n.a. n.a. 52.0% 49.8%</b>										
<b>BETA:</b> <b>1.20</b> <b>MRP:</b> <b>6.0%</b>							<b>Interest Cover - EBITDA</b> (X) <b>n.a. n.a. n.a. 159.7 n.a.</b>										
							<b>Return on Equity 5</b> (%) <b>-6% -4% 3% 32% 30%</b>										
Year end June 2006a 2007a 2008e 2009e 2010e							Year end June 2006a 2007a 2008e 2009e 2010e										
<b>EV (Adj.) 3</b> (A\$m) <b>225 227 408 371 326</b>							<b>Cash Flow Analysis (A\$m)</b>										
<b>EV (Adj.) / EBITDA</b> (X) <b>n.a. n.a. n.a. 4.2 3.5</b>							Year end June 2006a 2007a 2008e 2009e 2010e										
<b>EV (Adj.) / Sales</b> (X) <b>n.a. n.a. n.a. 18.2 2.2 1.7</b>							<b>Operating EBITDA</b> <b>-2 -5 7 89 94</b>										
<b>EV (Adj.) / Gross CF</b> (X) <b>n.a. n.a. n.a. 51.2 4.2 3.4</b>							<b>change in working cap.</b> <b>1 3 1 1 2</b>										
							<b>Gross Cashflow</b> <b>-2 -2 8 89 96</b>										
<b>Balance Sheet (A\$m)</b>							<b>Net Interest Paid</b> <b>0 0 0 -1 1</b>										
Year end June 2006a 2007a 2008e 2009e 2010e							<b>Tax Paid (inc. abs)</b> <b>0 0 -1 -13 -20</b>										
Cash <b>7 109 16 53 98</b>							<b>Exploration</b> <b>-5 -8 -10 -4 -4</b>										
Property, Plant, Equip <b>1 2 94 79 55</b>							<b>Operating Cash Flow</b> <b>-6 -9 -2 72 74</b>										
Other Assets <b>18 49 59 62 64</b>							<b>Sustaining Capex</b> <b>0 0 0 -3 -4</b>										
Debt <b>0 48 48 48 48</b>							<b>FREE CASH FLOW</b> <b>-6 -9 -2 68 70</b>										
Shareholders Equity <b>24 102 111 131 154</b>							<b>Dividends Paid</b> <b>0 0 0 -21 -23</b>										
<b>Net Debt / Equity</b> (%) <b>n.a. n.a. 29% n.a. n.a.</b>							<b>Expansion Capex</b> <b>0 -15 -96 -10 -1</b>										
<b>Net Debt / (D+E)</b> (%) <b>n.a. n.a. 22% n.a. n.a.</b>							<b>Acquisitions</b> <b>0 3 0 0 0</b>										
							<b>Asset Sales</b> <b>0 0 0 0 0</b>										
<b>Annual Production</b>							<b>Dividends Received</b> <b>0 0 0 0 0</b>										
Year end June 2006a 2007a 2008e 2009e 2010e							<b>Share Issues/Repurchases</b> <b>12 79 5 0 0</b>										
Gold <b>000 oz 0 0 26 184 189</b>							<b>Change in Cash</b> <b>5 57 -93 37 45</b>										
							<b>Gross CF / Op. EBITDA</b> (X) <b>n.a. 0.36 1.08 1.01 1.02</b>										
<b>Cash Costs</b>							<b>Maint. Capex / Sales</b> (%) <b>n.a. n.a. 0.0% 1.9% 1.9%</b>										
Year end June 2006a 2007a 2008e 2009e 2010e							<b>Total Capex / Sales</b> (%) <b>n.a. n.a. 426.2% 8.0% 2.7%</b>										
Trident (incl. royalty) <b>A\$/oz 0 0 522 383 406</b>							<b>Maint. Capex / D&amp;A</b> (X) <b>n.a. 0.00 0.00 0.12 0.12</b>										
							<b>Total Capex / D&amp;A</b> (X) <b>n.a. 43.32 23.94 0.48 0.17</b>										
							<b>Maint. Capex / GCF</b> (%) <b>n.a. 0.0% 0.0% 3.7% 3.7%</b>										
<b>Commodity Prices</b>							<b>ROE Analysis</b>										
Year Average to June 2006a 2007a 2008e 2009e 2010e							Year end June 2006a 2007a 2008e 2009e 2010e										
Currency <b>A\$/US\$ 0.75 0.79 0.84 0.80 0.78</b>							<b>EBIT/Sales</b> (X) <b>n.a. n.a. 0.15 0.35 0.34</b>										
Gold Price Spot <b>A\$/oz 527 816 846 927 1000</b>							<b>Pretax Profit/EBIT</b> (X) <b>n.a. n.a. 1.13 0.99 1.02</b>										
Gold Price Received <b>A\$/oz n.a. n.a. 859 927 1000</b>							<b>NPAT/ Pretax Profit</b> (X) <b>n.a. n.a. -8.95 75.22 -41.91</b>										
							<b>Sales/Assets</b> (X) <b>n.a. n.a. 0.13 0.88 0.87</b>										
							<b>Assets/Equity</b> (X) <b>n.a. n.a. 1.53 1.48 1.41</b>										
<b>Earnings Sensitivity</b>							<b>Return on Equity (ROE)</b> (%) <b>-6% -4% 3% 32% 30%</b>										
Year end June 2006a 2007a 2008e 2009e 2010e							Year end June 2006a 2007a 2008e 2009e 2010e										
Gold Price (+/-US\$10/oz) <b>A\$m n.a. 0.1 0.8 1.5 1.4</b>							<b>ROCE WACC Analysis</b>										
AUD:USD (+/- 1¢) <b>A\$m n.a. 0.1 0.7 1.4 1.4</b>							Year end June 2006a 2007a 2008e 2009e 2010e										
(1) Net Profit - Adjusted is after share based compensation and pref dividends, before goodwill amortisation, NRI's and other non-operating AIFRS adjustments.							<b>Adjusted NOPAT</b> (A\$m) <b>-2 -4 4 42 46</b>										
(2) Net Profit (Adj.) is before goodwill amortisation, NRIs and after Pref. Divs.							<b>Adj Cap employed</b> (A\$m) <b>16 29 92 134 115</b>										
(3) EV Includes 100% of Mkt. Value of minorities							<b>ROCE</b> (%) <b>-9.7% -15.6% 4.2% 31.1% 40.2%</b>										
(4) ROE excludes Preference Capital.							<b>WACC</b> (%) <b>10.9% 10.9% 10.9% 10.9% 10.9%</b>										
Source: Company data, IRESS, and GSJBW Research estimates.							<b>ROCE Spread</b> (abs) <b>-21% -26% -7% 20% 29%</b>										
							<b>Change in ROCE</b> (abs) <b>n.a. -6% 20% 27% 9%</b>										

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I, Stephen Gorenstein, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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# Australia - Research Recommendation Definitions

Sell (S)	Stock is expected to underperform the S&P/ASX 200 for 12 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for 12 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for 12 months

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Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon.

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Industry Structure:	Based on Goldman Sachs JBWere industry structure ranking. All industries relevant to the Australian equity market are ranked, based on a combination of Porter's Five Forces of industry structure as well as an industry's growth potential, relevant regulatory risk and probable technological risk. A company's specific ranking is based on the proportion of funds employed in particular industry segments, aggregated to determine an overall company rating, adjusted to reflect a view of the quality of a company's management team.
EVA™ Trend: <sup>1</sup>	EVA™ trend forecast for coming 2 years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe.
Earnings Momentum:	The percentage change in the current consensus EPS estimate for the stock (year 1) over the consensus EPS estimate for the stock 3 months ago. Stocks are rated according to their relative rank, effectively making it a market relative measure
Catalysts:	A qualitative and quantitative assessment of a company's long term catalysts that the analyst believes should be considered and possibly recognised by the market.
Price:Base Case DCF:	The premium or discount to base case DCF valuation at which the stock is trading relative to the average premium or discount across the market.

<sup>1</sup> EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart

## For Insurers

EVA™ Trend: <sup>1</sup>	ROE is used as a proxy for EVA. Rating takes into account the expected level and trend of ROE over the next 2-3 years.
Balance Sheet:	Analyst's assessment of the quality and strength of the insurer's balance sheet, including conservatism of provisioning, sufficiency of capital, and quality of capital.

## For REITs

Strategy:	Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
EPU Growth:	Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.
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Recommendation	Overall	Corporate relationship* in last 12 months
Sell	14%	13%
Hold	51%	54%
Buy	35%	33%

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