

Avoca Resources Limited

1H FY08 Result: Trident 83% Complete = On-Time And On-Budget

Materials | Metals & Mining | Australia

Result:

- Adjusted NPAT: Loss of \$124k (GSJBW: Profit of \$220k) Adjusted NPAT is irrelevant for AVO as the company is currently in the development stage.
- 1Mtpa Trident CIL treatment plant is 83% complete and remains on-time and on-budget for commissioning in June 2008. All key components sourced from China are on site or in sea-transit to Fremantle.**

Key Take-outs:

- New financing facility enables AVO to accelerate its exploration program at Higginsville, Chalice and Two Boys.
- There is no requirement under this new financing agreement to enter into any forward selling hedging contracts for ounces produced.
- Budgeted exploration expenditure for FY08 and FY09 is \$11m per annum.

Earnings and Valuation Impact:

- In line with company guidance, we have increased exploration expenditure for FY09 and FY10 to \$11m per annum.
- This has resulted in a slight earnings downgrade across the forecast period due to a higher interest expense being incurred resulting from the lower cash balance.

Investment View:

- The delivery of the Trident 1Mtpa treatment plant remains the key to the short-term share price performance.
- In our view, the continued exploration success in the highly prospective Higginsville district underpins the long-term value.
- No change to our BUY recommendation

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BUY

Key Information

Stock Code	AVO
Share Price	\$2.04
12 Month Price Target	\$2.90
Expected 12M Total Return	42.2%

Investment Data

Issued Capital	219.1m
Market Capitalisation	\$447m
% of S&P 200 Index	na
Free Float	100%
Turnover	\$24.2m/month
12 Month Price Range	272¢-124¢
Debt/Equity	82.8%

Investment Arithmetic

Jun year end	07A	08E	09E	10E
Net Profit Rep. (\$m)	-4.4	-3.1	48.8	52.2
NPAT Adj. (\$m)	-4.4	-3.5	48.8	52.2
EPS Adj. (¢)	-2.7	-1.6	22.3	23.8
EPS Growth (%)	nm	nm	nm	6.7
PER (x)	nm	nm	9.1	8.6
Relative PER (%)	nm	nm	-19.7	-16.9
Dividend (¢)	0.0	0.0	0.0	6.0
Yield (%)	0.0	0.0	0.0	2.9
Franking (%)	0	0	0	0
FCFPS (¢)	-5.8	-5.2	30.7	34.2
P:FCFPS (x)	nm	nm	6.6	6.0
EV/EBITDA (x)	na	na	4.9	3.9
BV (¢)	62	46	68	86
P/BV (x)	3.3	4.4	3.0	2.4
Av. Full Dil. Shares (m)	164.6	218.3	218.9	218.9

Share Price Chart



Relative Price Performance

	1m	3m	12m
vs. S&P 200:	2.8%	1.2%	60.1%
vs. MSCI - World:	-1.3%	-5.1%	66.8%

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

EARNINGS AND VALUATION IMPACT

In line with company guidance, we have increased exploration expenditure for FY09 and FY10 to \$11m per annum.

This has resulted in a slight earnings downgrades across the forecast period due to a higher interest expense being incurred resulting from the lower cash balance.

	NPAT (\$m)			EPS (¢)			DPS (¢)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
F.'07a	-4.4	-4.4	n.a.	-2.7	-2.7	n.a.	0.0	0.0	n.a.
F.'08e	-0.7	-3.5	n.a.	-0.3	-1.6	n.a.	0.0	0.0	n.a.
F.'09e	50.2	48.8	-2.7%	22.9	22.3	-2.7%	0.0	0.0	n.a.
F.'10e	55.3	52.2	-5.6%	25.3	23.8	-5.6%	6.3	6.0	-5.6%
F.'11e	51.8	50.7	-2.0%	23.6	23.2	-2.0%	11.8	11.6	-2.0%
DCF Valuation (\$/share):				Old	New	% Chg.			
Base Valuation				1.23	1.21	-1.5%			
Upside Valuation				2.45	2.43	-0.7%			
Source: Company data, GSJBW Research estimates									

RESULT ANALYSIS

Financials

Adjusted NPAT is largely irrelevant for AVO as the company is still in the development phase and hence has no earnings from ordinary activities.

A\$71m Debt Facility

- AVO has received approval for a \$71m multi-option secured facility.
- There is no requirement under this new financing agreement to enter into any forward selling hedging contracts for ounces produced.
- The funds received will be used to:
 1. Refinance the existing \$21m unsecured facility (\$18m cash advance and drawn to \$13m);
 2. Provide replacement funds which were to be received from the anticipated toll treatment of the ore currently being mined from the Trident underground mine. This will facilitate the completion of the construction and development of the Higginsville Gold Project;
 3. General working capital for ongoing use - This includes accelerating the exploration program at Higginsville, Chalice and Two Boys.

Exploration

- The new financing facility enables AVO to accelerate its current exploration programs at Higginsville, Chalice and Two Boys.
- AVO expected to spend \$11m per annum on its exploration programs for FY08 and FY09.

We view this as an excellent strategic move due to the Higginsville district being highly prospective. The significant exploration potential which exists within AVO's tenements is one of the key drivers behind our BUY recommendation and why AVO is our preferred small gold play.

RESULT DETAILS

AVOCA RESOURCES LIMITED						
PROFIT & LOSS						
		1H07	2H07	FY07	1H08	% chg on pcp
Revenue:	Sales	A\$m	0.0	0.0	0.0	0.0
	Other	A\$m	0.0	0.0	0.0	0.0
EBITDA (pre Equity Accounting)		A\$m	-0.2	-4.9	-5.1	-3.0
Depreciation and non-intangible amortisation		A\$m	0.1	0.2	0.4	0.1
EBIT		A\$m	-2.2	-3.3	-5.5	-3.0
Net interest expense / (income)		A\$m	0.1	-0.8	-0.7	-2.9
Consolidated Pre-tax Profit (pre NRIs)		A\$m	-2.3	-2.4	-4.7	-0.2
Less: Tax		A\$m	-0.6	0.3	-0.3	0.0
Consolidated NPAT (pre NRIs)		A\$m	-1.7	-2.7	-4.5	-0.1
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 Dividends		A\$m	0.0	0.0	0.0	0.0
NET PROFIT (pre NRIs)		A\$m	-1.7	-2.7	-4.5	-0.1
Non Recurring Items (after tax)		A\$m	0.0	0.0	0.0	0.4
Reported Net Profit (after NRIs)		A\$m	-1.7	-2.7	-4.5	0.3
EPS (pre NRI's)		A\$m	-1.2	-1.7	-2.7	-0.1
Reported EPS (post NRI's)		A\$m	-1.2	-1.7	-2.7	0.12
P&L RATIOS:						
EBITDA / Sales	%	n.a.	n.a.	n.a.	n.a.	
EBIT / Sales	%	n.a.	n.a.	n.a.	n.a.	
Net interest cover	x	-19.5	3.9	7.5	1.1	
Tax rate	%	25.5	-12.5	6.0	14.6	
DIVIDENDS:						
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	
CASH FLOW						
		1H07	2H07	FY07	1H08	% chg pcp
Receipts from customers		A\$m	0.0	0.0	0.0	0.0
Payments to suppliers and employees		A\$m	-1.0	-0.8	-1.8	-1.3
GROSS OPERATING CASH FLOW		A\$m	-1.0	-0.8	-1.8	-1.3
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	-0.5	0.9	0.4	3.0
Income Taxes Paid		A\$m	0.0	0.0	0.0	0.0
Other		A\$m	0.0	0.0	0.0	0.0
NET OPERATING CASH FLOW		A\$m	-1.5	0.0	-1.5	1.6
Capital Expenditure		A\$m	-4.4	-10.9	-15.2	-56.6
Proceeds from Sale of PP&E		A\$m	0.0	0.0	0.0	0.0
Net Proceeds from Sale of Investments / Assets		A\$m	0.0	0.0	0.0	0.0
Exploration		A\$m	-4.8	-3.2	-8.0	-4.5
Other		A\$m	0.0	-2.0	-2.0	0.0
NET INVESTING CASH FLOW		A\$m	-9.2	-16.0	-25.2	-61.1
Dividends Paid		A\$m	0.0	0.0	0.0	0.0
Proceeds from Equity Issues		A\$m	0.0	76.0	76.0	2.3
Proceeds from Convertible Debt		A\$m	0.0	39.5	39.5	0.0
Payments for Share Buy-back		A\$m	0.0	0.0	0.0	0.0
Proceeds from borrowings		A\$m	8.0	5.0	13.0	0.0
CASH FLOW RECONCILIATION:						
EBITDA		A\$m	-0.2	-4.9	-5.1	-3.0
Net Decrease / (Increase) in Working Capital		A\$m	2.1	-10.1	-8.0	3.1
Other		A\$m	-2.8	14.1	11.3	-1.5
GROSS OPERATING CASH FLOW		A\$m	-1.0	-0.8	-1.8	-1.3
CASH FLOW RATIOS:						
Gross Operating Cash Flow / EBITDA	%	405%	17%	36%	45%	
Capital Expenditure / Depreciation	x	33.2	49.3	43.3	1,046.7	
Capital Expenditure / Sales	x	n.a.	n.a.	n.a.	n.a.	
Free Cash Flow (pre Dividends)	A\$m	-10.7	-14.1	-24.7	-59.4	458%
Free Cash Flow (post Dividends)	A\$m	-10.7	-14.1	-24.7	-59.4	
Source: Company data						

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Sell (S)	Stock is expected to underperform the S&P/ASX 200 for 12 months
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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.
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Sell	9%	13%
Hold	61%	54%
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