

Avoca Resources Limited

Transforming From Developer To Producer = Rerating To Continue

Materials | Metals & Mining | Australia

Event:

- AVO has today finalised its A\$71m debt facility with Societe Generale and the Commonwealth Bank of Australia.
- The company also released details of its put option hedging programme.

Key Take-Outs:

- AVO has today announced it has finalised its A\$71m debt facility and is now able to execute its first draw-down of the facility. The two banks providing the financing are Societe Generale and Commonwealth Bank of Australia.
- In addition, AVO has completed the purchase of put options for 438koz at a strike price of A\$830/oz. The put options are being financed on a deferred premium basis over the 34-month period and have an average cost of \$30/oz.

Earnings and Valuation Impact:

- Even though the put options are out of the money, the premium cost incurred negatively impacts earnings throughout the forecast period.

	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	-3.5	-3.5	n.a.	-1.6	-1.6	n.a.	0.0	0.0	n.a.
F.'09e	48.8	43.1	-11.7%	22.3	19.7	-11.7%	0.0	0.0	n.a.
F.'10e	52.2	47.3	-9.3%	23.8	21.6	-9.3%	6.0	5.4	-9.2%
F.'11e	50.7	45.8	-9.7%	23.2	20.9	-9.7%	11.6	10.5	-9.6%
DCF Valuation (\$/share):				Old	New	% Chg.			
Base Valuation				1.23	1.19	-3.1%			
Upside Valuation				2.46	2.42	-1.3%			

Source: Company data, GSJBW Research estimates

Investment View:

- With the Trident processing plant currently being commissioned, the next key catalyst for the stock will be the commencement of production, which we envisage will occur in July.
- We have increased our 12-Month Price Target to \$3.20 (was \$2.90), as we believe the market will continue to re-rate the stock as it transforms into a producer from a developer over the next few months.
- AVO remains our preferred small cap gold play. No change to our BUY recommendation

Stephen Gorenstein | +61 3 9679 1779 | stephen.gorenstein@gsjwb.com
Ian Preston | +61 3 9679 1453 | ian.preston@gsjwb.com
Andrew Quail | +61 3 9679 1565 | andrew.quail@gsjwb.com

BUY

Key Information

Stock Code	AVO
Share Price	\$2.86
12 Month Price Target	\$3.20
Expected 12M Total Return	11.9%

Investment Data

Issued Capital	220.1m
Market Capitalisation	\$629m
% of S&P 200 Index	na
Free Float	100%
Turnover	na
12 Month Price Range	272¢-126¢
Debt/Equity	82.9%

Investment Arithmetic

Jun year end	07A	08E	09E	10E
Net Profit Rep. (\$m)	-4.4	-3.1	43.1	47.3
NPAT Adj. (\$m)	-4.4	-3.5	43.1	47.3
EPS Adj. (¢)	-2.7	-1.6	19.7	21.6
EPS Growth (%)	nm	nm	nm	9.6
PER (x)	nm	nm	14.5	13.2
Relative PER (%)	nm	nm	13.0	15.7
Dividend (¢)	0.0	0.0	0.0	5.4
Yield (%)	0.0	0.0	0.0	1.9
Franking (%)	0	0	0	0
FCFPS (¢)	-5.8	-5.2	27.8	32.0
P:FCFPS (x)	nm	nm	10.3	8.9
EV/EBITDA (x)	nm	nm	7.3	6.0
BV (¢)	62	46	68	85
P/BV (x)	4.6	6.2	4.2	3.3
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:	1.0%	30.1%	101.9%
vs. MSCI - World:	12.4%	36.8%	115.6%

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

Financial Summary | AVO

Avoca Resources Ltd		Mkt Cap. :		\$626m		Free Float 100%		Recommendation:		BUY					
Current Price A\$: \$2.86		ASX Code:		AVO				Price Target:		\$3.20					
GSJBW DCF: \$1.19		T'over (mth):		\$36m				Analyst:		Stephen Gorenstein					
Industry: GOLD								Data as at:		21-May-08					
Investments Statistics							Profit & Loss (A\$m)								
Year end		June	2007a	2008e	2009e	2010e	2011e	Year end	June	2007a	2008e	2009e	2010e	2011e	
Net Profit (reported)		(A\$m)	-4.4	-3.1	43.1	47.3	45.8	Sales Revenue (excl JV & Assoc.)		0	0	176	216	206	
- EPS (Reported) 1		(¢)	-2.7	-1.4	19.7	21.6	20.9	Operating costs		5	5	82	112	110	
- PER (Reported) 1		(X)	n.a.	n.a.	14.5	13.2	13.7	Operating EBITDA		-5	-5	94	104	96	
NET PROFIT (Adj.) 2		(A\$m)	-4.4	-3.5	43.1	47.3	45.8	D&A		0	0	26	29	26	
- EPS (Adj.) 2		(¢)	-2.7	-1.6	19.7	21.6	20.9	Operating EBIT		-5	-5	68	74	70	
- EPS Growth		(%)	n.a.	n.a.	-1317%	n.a.	-3%	JV & Assoc.		0	0	0	0	0	
- PER (Adj.) 2		(X)	n.a.	n.a.	15	13	14	EBIT		-5	-5	68	74	70	
Dividend		(¢)	0.0	0.0	0.0	5.4	10.5	Net Interest Exp./ (Rev)		-1	-1	4	0	-2	
- Yield		(%)	0.0%	0.0%	0.0%	1.9%	3.7%	PreTax Profit (pre ab's)		-5	-4	64	74	72	
- Franking		(%)	0	0	0	0	0	Tax Expense (pre abs)		0	0	17	22	22	
Free Cash Flow		(A\$m)	-9	-11	61	70	64	Minorities (after Tax)		0	0	0	0	0	
- P/FCF 4		(X)	n.a.	n.a.	10.3	8.9	9.8	Prof. Dividends		0	0	0	0	0	
EV(Adj.)/EBITDA 3		(X)	n.a.	n.a.	7.0	5.8	5.8	NET PROFIT (Pre NRI's) 1		-4	-4	47	52	50	
Avg. Shares (diluted)		(mill)	165	218	219	219	219	Abnormal Items (after Tax)		0	0	-4	-5	-5	
								Reported NPAT (post ab's)		-4	-3	43	47	46	
								Sales Growth	(%)	n.a.	n.a.		23%	-4%	
								Op. EBITDA Growth	(%)	n.a.	n.a.	N/A	10%	-7%	
								NPAT (Adj.) Growth	(%)	n.a.	n.a.	n.a.	11%	-3%	
								EPS (Adj.) Growth	(%)	n.a.	n.a.	-1317%	n.a.	-3%	
								Op. EBITDA Margin	(%)	n.a.	n.a.	53.4%	48.0%	46.6%	
								Interest Cover - EBITDA	(X)	n.a.	n.a.	26.7	n.a.	n.a.	
								Return on Equity 5	(%)	-4%	-3%	33%	29%	25%	
EV Analysis / DCF Valuation							Cash Flow Analysis (A\$m)								
A\$ DCF Valuation:		1.19	Upside DCF:		2.42		Year end		June	2007a	2008e	2009e	2010e	2011e	
Price / DCF:		2.40	WACC:		10.9%		Year end		June	2007a	2008e	2009e	2010e	2011e	
Ke:		13.7%	RF:		6.5%		Operating EBITDA			-5	-5	94	104	96	
Kd:		5.3%	MRP:		6.0%		change in working cap.			3	1	-3	-3	-4	
BETA:		1.20					Gross Cashflow			-2	-3	91	101	93	
							Net Interest Paid			0	2	-4	0	2	
							Tax Paid (inc. abs)			0	0	-12	-23	-22	
							Exploration			-8	-10	-11	-4	-4	
							Operating Cash Flow			-9	-11	64	74	68	
							Sustaining Capex			0	0	-3	-4	-4	
							FREE CASH FLOW			-9	-11	61	70	64	
							Dividends Paid			0	0	0	-12	-23	
							Expansion Capex			-15	-130	-10	-1	0	
							Acquisitions			3	0	0	0	0	
							Asset Sales			0	0	0	0	0	
							Dividends Received			0	0	0	0	0	
							Share Issues/Repurchases			79	2	0	0	0	
							Change in Cash			57	-139	51	57	41	
							Gross CF / Op. EBITDA		(X)	0.36	0.72	0.97	0.97	0.96	
							Maint. Capex / Sales		(%)			1.9%	2.0%	2.1%	
							Total Capex / Sales		(%)	n.a.		7.7%	2.5%	2.1%	
							Maint. Capex / D&A		(X)	0.00	0.00	0.13	0.15	0.17	
							Total Capex / D&A		(X)	43.32	2406.12	0.53	0.18	0.17	
							Maint. Capex / GCF		(%)	0.0%	0.0%	3.8%	4.3%	4.8%	
Balance Sheet (A\$m)							ROE Analysis								
Year end		June	2007a	2008e	2009e	2010e	2011e	Year end		June	2007a	2008e	2009e	2010e	2011e
Cash			109	109	160	217	258	EBIT/Sales		(X)	n.a	#DIV/0!	0.39	0.34	0.34
Property, Plant, Equip			2	132	120	96	75	Pretax Profit/EBIT		(X)	n.a	0.77	0.95	1.00	1.03
Other Assets			49	59	69	71	74	NPAT / Pretax Profit		(X)	n.a	3.26	13.36	###	-27.68
Debt			48	188	188	188	188	Sales/Assets		(X)	n.a	0.00	0.50	0.56	0.51
Shareholders Equity			102	101	144	179	202	Assets/Equity		(X)	n.a	2.98	2.43	2.14	2.01
Net Debt / Equity		(%)	n.a.	78%	19%	n.a.	n.a.	Return on Equity (ROE)		(%)	-4%	-3%	33%	29%	25%
Net Debt / (D+E)		(%)	n.a.	44%	16%	n.a.	n.a.								
Annual Production							ROCE WACC Analysis								
Year end		June	2007a	2008e	2009e	2010e	2011e	Year end		June	2007a	2008e	2009e	2010e	2011e
Gold		000 oz	0	0	167	189	167	Adjusted NOPAT		(A\$m)	-4	-4	43	47	46
								Adj Cap employed		(A\$m)	29	110	175	161	141
								ROCE		(%)	-15.6%	-3.2%	24.6%	29.5%	32.5%
								WACC		(%)	10.9%	10.9%	10.9%	10.9%	10.9%
								ROCE Spread		(abs)	-26%	-14%	14%	19%	22%
								Change in ROCE		(abs)	-6%	12%	28%	5%	3%
Cash Costs															
Year end		June	2007a	2008e	2009e	2010e	2011e								
Trident (excl.. royalty)		A\$/oz	0	0	407	454	527								
Commodity Prices															
Year Average to		June	2007a	2008e	2009e	2010e	2011e								
Currency		A\$/US\$	0.79	0.89	0.89	0.85	0.81								
Gold Price Spot		A\$/oz	816	932	1069	1164	1265								
Gold Price Received		A\$/oz	n.a	###	1046	1139	1236								
Earnings Sensitivity															
Year end		June	2007a	2008e	2009e	2010e	2011e								
Gold Price (+/-US\$10/oz)		A\$m	n.a.	0	7	7	6								
AUD:USD (+/- 1¢)		A\$m	n.a.	1	1	1	1								

(1) Net Profit - Adjusted is after share based compensation and pref dividends, and before goodwill amortisation, NRI's and other non-operating AIFRS adjustments.
(2) Net Profit (Adj.) is before goodwill amortisation, NRI's and after Pref. Divs.
(3) EV Includes 100% of Mkt. Value of minorities
(4) ROE excludes Preference Capital
Source: Company data, IRESS, and GSJBW Research estimates.

Goldman Sachs JBWere Base/Precious Metals Team:

Analyst: Ian Preston	Base/Precious Metals	ian.preston@gsjbw.com	+61 3 9679 1453
Analyst: Stephen Gorenstein	Base/Precious Metals	stephen.gorenstein@gsjbw.com	+61 3 9679 1779
Assistant Analyst: Andrew Quail	Base/Precious Metals	andrew.quail@gsjbw.com	+61 3 9679 1565

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 specific recommendations or views expressed in this report.

Disclosures of Interest

Avoca Resources Ord fp:

AVO: Goldman Sachs JBWere and/or its affiliates expect to receive or intend to seek compensation for financial and advisory services in the next 3 months from the company, its parent, or its wholly owned or majority owned subsidiary.

Important Notice - Aus:

Australia - Research Important Notice

Company Specific Regulatory Disclosures

See company-specific regulatory disclosures for any of the following disclosures required as to companies referred to in the report: manager or co manager in a pending transaction; financial advisor in a strategic corporate transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

The following are additional required disclosures: Ownership and Material Conflicts of Interest: Goldman Sachs JBWere policy prohibits its analysts, assistant analysts and their respective associates owning securities of any company in the analyst's area of coverage. Analyst compensation: Analysts are paid in part based on the profitability of Goldman Sachs JBWere, which includes investment banking revenues. Distribution of recommendations: See the distribution of recommendations disclosure on the following page.

Compendium Report

Please see disclosures at <http://www.gsibw.com/Disclosures>. Disclosures applicable to companies included in this compendium report can be found in the latest relevant published research.

Global Product; Distributing Entities

This report has been prepared by the Goldman Sachs JBWere Investment Research Division for distribution to clients of affiliates of Goldman Sachs JBWere and pursuant to certain contractual arrangements to clients of affiliates of The Goldman Sachs Group, Inc. (Group) (Collectively, Group and its affiliates, "GS"). Group owns indirectly 45% of the ordinary shares of Goldman Sachs JBWere Pty Ltd and Goldman Sachs JBWere Group Holdings Pty Ltd. Each share in Goldman Sachs JBWere Pty Ltd is stapled to a share in Goldman Sachs JBWere Group Holdings Pty Ltd, such that a share in one cannot be dealt with separately from a share in the other. Research views, investment opinions and recommendations published by Goldman Sachs JBWere Pty Ltd are developed independently from those published by the Goldman Sachs Global Investment Research Division.

This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897); in Canada by Goldman Sachs Canada Inc. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Germany by Goldman Sachs & Co. oHG; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union. Persons who would be categorized as private customers in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this material in conjunction with the last published reports on the companies mentioned herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risk warnings is available from the offices of Goldman Sachs International on request. Unless governing law permits otherwise, you must contact a Goldman Sachs entity in your home jurisdiction if you want to use Goldman Sachs JBWere's or GS's services in effecting a transaction in the securities mentioned in this material. European Union: Goldman Sachs International, authorised and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman, Sachs & Co. oHG, regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht, may also be distributing research in Germany.

General Disclosures

This research is for clients only, as stated above. Other than disclosures relating to Goldman Sachs JBWere, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than some industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment. Goldman Sachs JBWere and/or its affiliates conduct a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Investment Research Division. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors.

In producing research reports, members of Goldman Sachs JBWere Investment Research may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs JBWere considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting. Our research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients. Disclosure information is also available at <http://www.gsibw.com/Disclosures> or from Research Compliance, Level 42, 1 Farrer Place Sydney NSW 2000.

Copyright 2008 Goldman Sachs JBWere Pty Ltd ABN 21 006 797 897 AFSL 243346

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of Goldman Sachs JBWere.

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

Other Definitions

NR	Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or Goldman Sachs JBWere policies in circumstances when Goldman Sachs JBWere is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations
CS	Coverage Suspended. GSJBW has suspended coverage of this company.
NC	Not Covered. GSJBW does not cover this company.

Price Target

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.

Research Criteria Definitions

The above recommendations are primarily determined with reference to the recommendation criteria outlined below. Analysts can introduce other factors when determining their recommendation, with any material factors stated in the written research where appropriate. Each criterion is clearly defined for the research team to ensure consistent consideration of the relevant criteria in an appropriate manner.

Prior to 20 July 2007, GSJBW had a dual-horizon recommendation system: Short Term & Long Term. The Short Term factors were Relative Earnings Outlook, Earnings Momentum, News Flow, Relative Performance, and Valuation Support. The Long Term factors were Industry Structure, EVA™ Trend, Growth Option and Price/DCF.

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: ¹	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.

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

For Insurers

EVA™ Trend: ¹	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.
Yield:	Yield relative to the REIT sector average. Used instead of Earnings revision.

For NZ Companies

Relevant Index:	If a research report is published by the New Zealand affiliate of Goldman Sachs JBWere, the recommendation of a company or trust is based on their performance relative to the NZSX 50 Index (Gross) and not the S&P/ASX 200 index.
-----------------	---

Distribution of Recommendations – as at 31 March 2008

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	8%	7%
Hold	58%	61%
Buy	34%	32%

* No direct linkage with overall distribution as the latter relates to the full Goldman Sachs JBWere stock coverage (>250 companies). The above table combines the corporate relationships and recommendations of both Goldman Sachs JBWere Pty Ltd and its affiliate in New Zealand, Goldman Sachs JBWere (NZ) Limited.