

COMPANY UPDATE | COMMENT

JULY 8, 2008

Avoca Resources Ltd. (ASX: AVO)
Avoca's First Gold Pour and offering Superior Exploration Upside

**Outperform
 Above Average Risk**

Price:	2.16	Price Target:	2.50
Shares O/S (MM):	221.9	Implied All-In Return:	16%
Dividend:	0.00	Market Cap (MM):	479
NAVPS:	1.24	Yield:	0.0%
BVPS:	0.47	P/NAVPS:	1.7x
Float (MM):	180.1	P/BVPS:	4.6x
Debt to Cap:	20%	Enterprise Val. (\$MM):	553.0
		Avg. Daily Volume (MM):	0.76

Event

First gold pour at Higginsville and capex under A\$49.2m budget - Outperform, A\$2.50 target

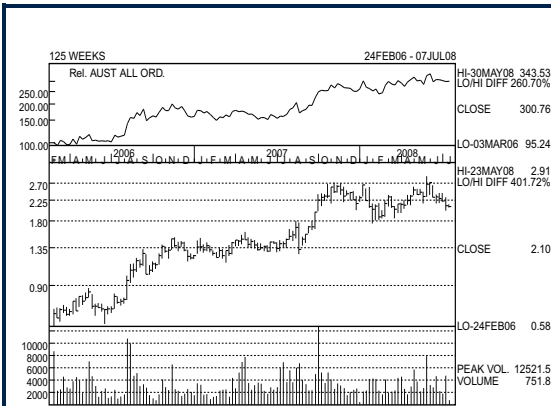
Investment Opinion

- Avoca has made its first gold pour at the Higginsville project, a 1Mtpa, 190koz pa, high-grade underground mine. The EPC contract to build the plant came in under its budget of A\$49.2m and an initial A\$0.5m was refunded. Its early days, but Avoca is on target to produce our forecast 183koz in FY10. We remain confident that management should deliver on this quality project and we have made no changes to our outlook or our target of A\$2.50.
- Higginsville is the first new gold project in WA since 2001 - sadly this is indicative of the lack of success in the industry. It has been only four years from exploration to production, a top performance by management! An annual budget of A\$11m pa should prove to be fruitful in the medium term and extend the modest current mine life. The processing plant is designed for a ten year plus life.
- There are 145kt of ore grading 4.0g/t stockpiled on surface. We forecast grade will steadily build to 5.5g/t by Jan 09 vs reserve grade of 5.3g/t. We assume that there will be an overcall of ~10% vs a typical overcall of 20-30% at mines in the region. Our 150koz FY09 forecast and 183koz in FY10 are 10-20koz below guidance. We prefer to be cautious, even though guidance from experienced management could prove conservative. Cash costs are estimated at ~A\$425/oz.
- Higginsville is fully funded and we estimate peak gearing at 41% in June 08 dropping to about zero in 24 months. Strong, unhedged cash flow is illustrated by an EBITDA of almost A\$100m from FY10 and net cash generated of ~A\$20-40mpa. We forecast a maiden profit (NPAT) of A\$33m or 14¢ per share in FY09, rising 30% to A\$43m or 18¢ in FY10.

Recommendation: Our A\$2.50 target is based on 10x FY10 CFM and 1.5x P/NPV. These multiples compare favourably to RBC's comparable golds. We maintain our Outperform rating noting that mine performance near term plus exploration in the medium term, are the key share price drivers - aside from the gold price of course.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 4.



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FY Jun	2008E	2009E	2010E	2011E
Adj EPS - FD	(0.01)	0.14	0.18	0.22
Prev.		0.16	0.20	
P/AEPS	NM	15.4x	12.0x	9.8x
Adj CFPS - FD	(0.01)	0.25	0.31	0.34
Prev.		0.27	0.33	
P/ACFPS	NM	8.6x	7.0x	6.4x
Annual Div. - FD	0.00	0.00	0.05	0.07
Prod.	0	150	183	185
Adj EPS - FD		H1		H2
2008		0.00A		(0.01)E
2009		0.05E		0.09E
Prev.		0.06E		0.10E
2010		0.08E		0.10E
Prev.		0.09E		0.11E
2011		0.10E		0.12E
Adj CFPS - FD				
2008		0.00A		(0.01)E
2009		0.10E		0.15E
Prev.		0.11E		0.16E
2010		0.15E		0.16E
Prev.		0.16E		0.17E
2011		0.16E		0.18E

All values in AUD unless otherwise noted.

Exhibit 1: Avoca Mining Operating & Financial Summary

Avoca Resources Ltd						
ASX: AVO		Share Price: (A\$) 2.16		Stock Rating: Outperform		
Issued Shares (m) 221.9		Market Cap: (A\$M) 479.4		Risk Qualifier: Above Average Risk		
Conv Note May 2012 (m) 40.0				Price Target: A\$2.50		
				NAV: A\$1.24		
Fiscal Year Ended June						
ASSUMPTIONS		FY07	FY08E	FY09E	FY10E	FY11E
Gold Price	US\$/oz	642	822	923	953	985
Exchange Rate	A\$/US\$	0.79	0.90	0.91	0.88	0.85
Spot Gold Price	A\$/oz	817	913	1,014	1,085	1,158
Realised Gold Price	A\$/oz			1,014	1,085	1,158
Gold Hedged	%			0%	0%	0%
RATIO ANALYSIS		FY07	FY08E	FY09E	FY10E	FY11E
Issued Shares - period end	MM	210	219	220	220	231
Net profit (pre 1-offs)	A\$MM	(4)	(4)	33	43	51
EPS - fully diluted	A¢	(2.6)	(1.8)	14.1	18.3	22.0
P/E	x	n.m.	n.m.	15.3x	11.8x	9.8x
CFPS	A¢	(2.5)	(1.8)	25.3	30.7	33.6
P/CF	x	n.m.	n.m.	8.5x	7.0x	6.4x
Dividend per share	A¢	0.0	0.0	0.0	5.0	7.0
Dividend yield	%	0%	0%	0%	2%	3%
Payout Ratio	%	0%	0%	0%	27%	32%
Effective Tax Rate	%	n.m.	n.m.	21%	30%	30%
Book value per share	A¢	46.0	46.2	61.3	75.7	97.1
P/Book value	x	4.7x	4.7x	3.5x	2.9x	2.2x
R.O.E.	%	-4%	-4%	24%	25%	24%
R.O.A.	%	-3%	-2%	13%	16%	17%
EBITDA	A\$MM	-5	-7	67	88	97
EBITDA per share	A¢	-2.4	-3.0	30.4	39.9	41.8
EV/EBITDA	x	n.m.	n.m.	8.3	6.3	5.7
PROFIT & LOSS		FY07	FY08E	FY09E	FY10E	FY11E
Revenue	A\$MM	0	0	153	199	214
Operating costs	"	0	0	(63)	(77)	(81)
Mine Operating Surplus	"	0	0	90	122	133
Royalties	"	0	0	(12)	(22)	(24)
Exploration Expense	"	(1)	(2)	(4)	(4)	(4)
Corporate and Other	"	(4)	(5)	(7)	(8)	(8)
EBITDA	"	(5)	(7)	67	88	97
D&A	"	(0)	(0)	(23)	(25)	(25)
Operating Income (EBIT)	A\$MM	(5)	(7)	44	63	72
Net Interest Expense / Gain	"	1	3	(3)	(2)	1
Pre Tax Profit	"	(5)	(4)	41	61	72
Tax Expense	"	0	0	(9)	(18)	(22)
NPAT pre sign items	A\$MM	(4)	(4)	33	43	51
Sign Items after tax	"	0	0	0	0	0
NPAT as Reported	A\$MM	(4)	(4)	33	43	51
EPS	A¢	(2.6)	(1.8)	14.1	18.3	22.0
DPS	A¢	0.0	0.0	0.0	5.0	7.0
CASH FLOWS		FY07	FY08E	FY09E	FY10E	FY11E
Operating Cash Flow	A\$MM	(2)	(4)	71	92	101
Net Interest Expense	"	0	3	(3)	(2)	1
Tax Paid	"	0	0	(5)	(18)	(22)
Other	"	0	0	0	0	0
Retained Op. Cash Flow	A\$MM	(1)	(1)	63	72	80
Acquisitions	"	(2)	0	0	0	0
Exploration	"	(8)	(11)	(12)	(12)	(12)
Capital Ex & Op Development	"	(15)	(125)	(20)	(10)	(10)
Funding Surplus/(Deficit)	A\$MM	(27)	(137)	31	50	58
Dividends Paid	"	0	0	0	(11)	(16)
Borrowings/Bonds	"	53	40	0	0	0
Loan Repayments	"	0	0	(8)	(17)	(17)
Equity Issues	"	79	2	1	0	12
Other	"	(3)	(0)	0	0	0
Total Funds Provided	A\$MM	129	42	(8)	(27)	(20)
Net change in cash	"	102	(95)	24	22	38
Cash at start of year	"	7	109	14	38	60
Exchange Rate Adjustments	"	0	0	0	0	0
Cash at end of year	A\$MM	109	14	38	60	98
Net Op. CFPS	A¢	(0.7)	(0.5)	28.5	32.2	35.9
BALANCE SHEET		FY07	FY08E	FY09E	FY10E	FY11E
Cash & equivalents	A\$MM	109	14	38	60	98
Other current assets	"	1	6	6	6	6
PP&E & Other Mining Assets	"	2	162	160	145	130
Capitalised Exploration	"	17	33	41	49	57
Other Non Current Assets	"	30	3	3	3	3
Total assets	A\$MM	161	219	248	263	294
Total liabilities	"	59	116	112	95	79
Total Net Assets	A\$MM	102	103	136	168	215
Total Debt (incl Conv Note)	"	48	88	80	63	47
Net Debt (Cash)	A\$MM	(61)	74	42	3	(51)
Gearing (net debt:nd+ equity)	%	(151%)	42%	24%	2%	(31%)
Gearing (net debt:equity)	%	(60%)	72%	31%	2%	(24%)
ATTRIBUTABLE MINE STATS						
Trident - Ore Milled	Mt			0.98	1.10	1.10
- Head Grade	g/t			5.19	5.50	5.50
- Recovery	%			92%	94%	95%
Gold Production	k oz			150	183	185
Total Gold Sold:	k oz			150	183	185
Cash Costs (excl royalties)	A\$/oz			425	421	438
Total Costs (incl royalty + D&A)	A\$/oz			576	558	573
Cash Costs	US\$/oz			387	370	373
Total Costs	US\$/oz			524	490	488
Reserves & Resources						
Tonnes	Mt			3.40		11.75
Grade	g/t			5.3		3.6
Gold	moz			0.58		1.35
Enterprise Value / oz Reserve	A\$/oz	719		US\$/oz	645	
Enterprise Value / oz Resource	A\$/oz	309		US\$/oz	277	
EARNINGS SENSITIVITY (NPAT)						
		FY09E	FY10E	FY09E	FY10E	
		A\$m		% age		
Gold Price US\$/oz	+10%	9.8	14.3	30%	39%	
	-10%	(9.9)	(9.1)	(30%)	(25%)	
Exchange Rate	+10%	(9.0)	(8.0)	(28%)	(22%)	
	-10%	10.9	15.5	34%	43%	
Underground Head Grade	+10%	5.0	12.1	15%	33%	
	-10%	(7.9)	(7.1)	(24%)	(20%)	
NPV SENSITIVITY						
		A\$m		¢ps		
NPV Sensitivity (A\$m) + US\$ Gold	+10%	308	¢ps	1.39		
NPV Sensitivity (A\$m) + U/gd Grade	+10%	306	¢ps	1.38		
TRIDENT - PRODUCTION PROFILE per Q						
AVOCA RESOURCES - CASH FLOW						
SHARE VALUATION						
Projects	Ownership	A\$MM	A\$/Shr	%		
Gold Mining Operations	100%	284	1.28	100%		
Total Operating Assets		284	1.28			
Exploration		100	0.45			
Debt		(88)	(0.40)			
Cash		14	0.07			
Corporate		(35)	(0.16)	P/NPV		
Net Asset Value - Forward Strip		275	1.24	1.74		

Source: Company data, RBC Capital Markets estimates

Valuation

Our A\$2.50 target is based on 10x FY10 CFM and 1.5x P/NPV. These multiples compare favourably to RBC's comparable golds. We maintain our Outperform rating noting that mine performance near term plus exploration in the medium term, are the key share price drivers - aside from the gold price of course.

Price Target Impediment

Impediments to Avoca reaching our forecast earnings and price targets include commissioning risk, lower than estimated head grade and gold production, lower realised gold prices and single-mine exposure. Construction risk is essentially gone and ground conditions are good at Trident but commissioning risk lies ahead. Head grade is the key risk, though skewed on the upside in our view.

Company Description

Avoca Resources is a gold mining and exploration company based in Perth, Australia. It was listed on the ASX in April 2002 after being spun out of nickel company, Heron Resources. In late 2004, Avoca paid A\$6.25m to Goldfields Ltd for the Higginsville Project, 120km south of Kalgoorlie, where it is developing a 1Mtpa gold project. The high-grade Trident orebody, discovered in Dec 2004, forms the basis of the Project with an initial 581koz reserve and management is confident of 10+ years mine life. Avoca raised A\$125m in April 2007 and production is on schedule to begin June 2008, reaching 190koz pa in F2010. The Higginsville field produced ~1.2moz between 1989-1999 and all but 50koz was mined from open pits. The geology is the same as the 15+moz St Ives field immediately north and the 6+moz Norseman field immediately south, both having ~75% of their endowment from underground mines. Exploration has led to the discovery of new high-grade orebodies near Trident, including **Athena & Apollo**, and total resource presently stands at 1.35moz.

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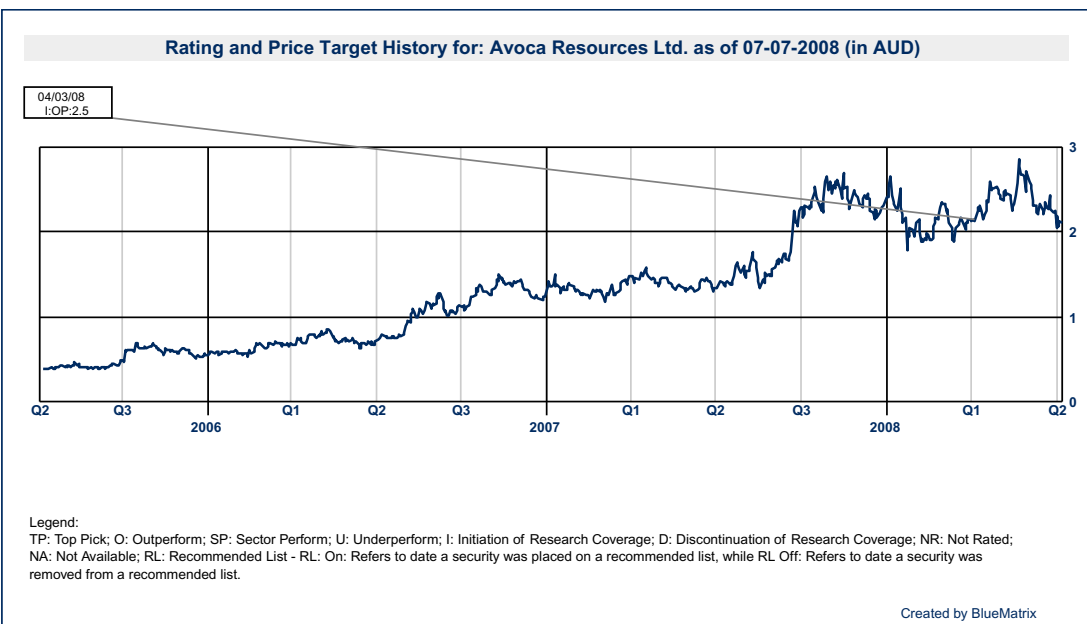
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

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			Count	Percent
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HOLD[SP]	506	44.98	117	23.12
SELL[U]	82	7.29	21	25.61



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