

COMPANY UPDATE | COMMENT

MARCH 16, 2009

**Avoca Resources Ltd. (ASX: AVO)**  
**A\$14m loss, Operating Cashflow Good and In Line**

**Outperform**  
**Above Average Risk**

Price:	1.66	Price Target:	2.50
Shares O/S (MM):	243.7	Implied All-In Return:	51%
Dividend:	0.00	Market Cap (MM):	405
NAVPS:	1.26	Yield:	0.0%
BVPS:	0.48	P/NAVPS:	1.3x
ROE:	(1.0%)	P/BVPS:	3.5x
Float (MM):	198.0	Enterprise Val. (\$MM):	486.0
Debt to Cap:	21%	Avg. Daily Volume (MM):	0.80

Share price at market close, 16 March 2009, Australian Eastern Standard Time

**Event**

A\$14m interim loss includes a high D&A charge, we downgrade reported earnings but not cashflow. OP and A\$2.50 target.

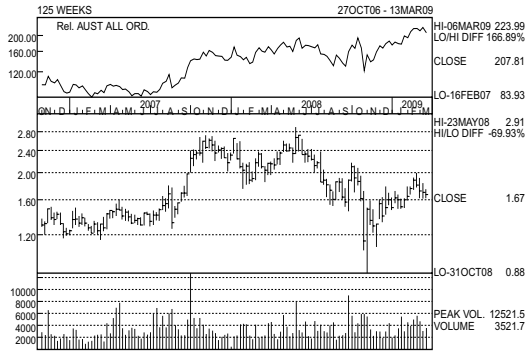
**Investment Opinion**

Avoca reported a A\$14m P&L loss for the Dec 08 half, worse than expected due to an A\$18m (A\$6m) D&A charge. D&A aside, all other figures were in line. Our cashflow forecasts are essentially unchanged, but ~\$A20m pa of additional D&A reduces reported earnings by 30-35% from FY10, but to only A\$1m (A\$23m) in the current year. Cashflow and NPV are largely unchanged and hence our A\$2.50 target remains intact.

- **Dec Interim:** Avoca reported a A\$14.7m loss, mainly due to an A\$18.m D&A charge due to its short mine life, based on tonnes mined rather than ozs produced. The operating surplus of A\$17m and other figures were in line with our forecasts.
- **Depreciation:** We previously assumed a seven year mine life based on ozs produced. The company has confirmed it uses a tonnes mined basis over a depreciable resource of 5Mt, over five years. Thus, we have essentially doubled the FY09 D&A charge to A\$40m and hence net profit drops from A\$23m to A\$1m for this reason alone.
- **Cash Costs:** We estimate cash costs ex-royalty were ~A\$800/oz in the 1H and we forecast ~A\$570/oz and ~A\$450/oz in the March and June Qs 09. 1H costs were not disclosed, but the CEO plans to disclose costs this quarter. Royalties are forecast to rise from A\$3.5m in 1H to A\$10.7m in 2H, or +A\$100/oz.
- **Operations:** Avoca produced 50koz in the Dec half, and needs ~100koz in the June half to meet its ~150koz FY09 target. We forecast a slightly lower 134koz (137koz), but retain in excess of 170koz pa ahead.
- **Cashflow:** A\$31m spent on PP&E, and A\$5m on exploration was funded \$17m from operating surplus and A\$20m from debt draw down. Cash on hand is now A\$33m, including A\$29m of new equity and debt is A\$105m including convertible bonds. Gearing of 50% at Dec 08, is projected to fall to 28% at Jun 09.
- **Valuation:** We maintain OP and target of A\$2.50 on an unchanged 10x FY10E CFM and 1.5x P/NPV. These multiples compare favourably to RBC's comparable golds.

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)	0.00	0.14	0.12
Prev.		0.09	0.20	0.19
P/AEPS	NM	NM	11.9x	13.8x
Adj CFPS - FD	(0.01)	0.18	0.33	0.31
Prev.			0.32	0.30
P/ACFPS	NM	9.2x	5.0x	5.4x
Annual Div. - FD	0.00	0.00	0.00	0.03
Prod.	0	137	173	177

Adj EPS - FD	H1	H2
2008	(0.03)A	0.02E
2009	(0.07)E	0.07E
Prev.	(0.02)E	0.11E
2010	0.08E	0.06E
Prev.	0.11E	0.09E
2011	0.06E	0.06E
Prev.	0.10E	0.09E

Adj CFPS - FD	2008	2009	2010	2011
2008	0.00A		(0.01)E	
2009	0.01E		0.17E	
2010	0.18E		0.15E	
Prev.	0.17E			
2011	0.16E		0.15E	
Prev.			0.14E	

All values in AUD unless otherwise noted.

Exhibit 1: Avoca Mining Operating & Financial Summary

Avoca Resources Ltd														
<b>ASX: AVO</b>		Share Price: (A\$) <b>1.66</b>		Stock Rating: <b>Outperform</b>		Price Target: <b>A\$2.50</b>								
Issued Shares (m) 243.7		Market Cap: (A\$M) <b>403.4</b>		Risk Qualifier: <b>Above Average Risk</b>		NAV: <b>A\$1.26</b>								
Conv Note May 2012 (m) 38.0														
<b>Fiscal Year Ended June</b>														
<b>ASSUMPTIONS</b>		<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	<b>FY11E</b>	<b>ATTRIBUTABLE MINE STATS</b>							
Gold Price	US\$/oz	642	822	842	863	888	Trident - Ore Milled	Mt						
Exchange Rate	A\$/US\$	0.79	0.90	0.73	0.69	0.72	- Head Grade	g/t		1.09	1.18	1.24		
Spot Gold Price	A\$/oz	817	913	1,173	1,259	1,233	- Recovery	%		3.94	4.72	4.60		
Realised Gold Price	A\$/oz			1,173	1,259	1,233	<b>Gold Production</b>							
Gold Hedged	%			0%	0%	0%	<b>k oz</b>			<b>133</b>	<b>173</b>	<b>177</b>		
<b>RATIO ANALYSIS</b>		<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	<b>FY11E</b>	<b>Total Gold Sold:</b>							
Issued Shares - period end	MM	210	219	244	244	255		k oz		129	173	177		
Net profit (pre 1-offs)	A\$MM	(4)	(1)	1	35	31	<b>Cash Costs (excluding royalties)</b>		A\$/oz		637	500	523	
EPS - fully diluted	Ac	(2.6)	(0.6)	0.2	13.8	12.2	<b>Cash Costs (including royalties)</b>		A\$/oz		795	671	685	
P/E	x	n.m.	n.m.	664.2x	12.0x	13.6x	<b>Total Costs (incl royalty + D&amp;A)</b>		A\$/oz		1109	930	950	
CFPS	Ac	(2.5)	(0.6)	18.1	33.4	31.3	<b>Cash Costs (excluding royalties)</b>		US\$/oz		463	343	376	
P/CF	x	n.m.	n.m.	9.2x	5.0x	5.3x	<b>Total Costs</b>		US\$/oz		806	637	684	
Dividend per share	Ac	0.0	0.0	0.0	0.0	3.0	<b>Reserves &amp; Resources</b>							
Dividend yield	%	0%	0%	0%	0%	2%	<b>Tonnes</b>		Mt		3.40	<b>Reserves</b>		
Payout Ratio	%	0%	0%	0%	0%	25%	<b>Grade</b>		g/t		5.3	<b>Resources</b>		
Effective Tax Rate	%	n.m.	n.m.	39%	29%	29%	<b>Gold</b>		moz		0.58	12.25		
Book value per share	Ac	41.9	47.5	60.9	75.4	90.2	<b>Enterprise Value / oz Reserve</b>		A\$/oz	837	US\$/oz	608	3.7	
P/Book value	x	4.0x	3.5x	2.7x	2.2x	1.8x	<b>Enterprise Value / oz Resource</b>		A\$/oz	336	US\$/oz	244	1.45	
R.O.E.	%	-4%	-1%	1%	19%	14%	<b>EARNINGS SENSITIVITY (NPAT)</b>							
R.O.A.	%	-3%	-1%	1%	11%	9%							A\$m	
EBITDA	A\$MM	(5.1)	(5.6)	50	97	91							% age	
EBITDA per share	Ac	(2.4)	(2.6)	20.6	39.6	35.7	<b>Gold Price US\$/oz</b>		+10%	9.8	14.3	30%	39%	
EV/EBITDA	x	n.m.	n.m.	9.7	5.0	5.3	<b>-10%</b>		(9.9)	(9.1)	(30%)	(25%)		
<b>PROFIT &amp; LOSS</b>		<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	<b>FY11E</b>	<b>Exchange Rate</b>		+10%	(9.0)	(8.0)	(28%)	(22%)	
Revenue	A\$MM	0	0	155	218	218	<b>-10%</b>		10.9	15.5	34%	43%		
Operating costs	"	0	0	(82)	(86)	(92)	<b>Underground Head Grade</b>		+10%	5.0	12.1	15%	33%	
<b>Mine Operating Surplus</b>	"	<b>0</b>	<b>0</b>	<b>73</b>	<b>131</b>	<b>126</b>	<b>-10%</b>		(7.9)	(7.1)	(24%)	(20%)		
Royalties	"	0	0	(14)	(26)	(25)	<b>NPV SENSITIVITY</b>							
Exploration Expense	"	(1)	(3)	(1)	(1)	(1)						A\$m		
Corporate and Other	"	(4)	(3)	(9)	(8)	(8)	<b>NPV Sensitivity (A\$m) + US\$ Gold</b>		+10%	338.786		cps		
<b>EBITDA</b>	"	<b>(5)</b>	<b>(6)</b>	<b>50</b>	<b>97</b>	<b>91</b>	<b>NPV Sensitivity (A\$m) + U/gd Grade</b>		+10%	336.349		cps		
D&A	"	(0)	(0)	(40)	(45)	(47)	<b>TRIDENT - PRODUCTION PROFILE per Q</b>							
<b>Operating Income (EBIT)</b>	A\$MM	<b>(5)</b>	<b>(6)</b>	<b>10</b>	<b>52</b>	<b>44</b>						koz per Q		
Net Interest Expense / Gain	"	1	2	(9)	(3)	(0)						A\$/oz		
Pre Tax Profit	"	(5)	(4)	1	49	44						700		
Tax Expense	"	0	3	(0)	(14)	(13)						200		
<b>NPAT pre sign items</b>	A\$MM	<b>(4)</b>	<b>(1)</b>	<b>1</b>	<b>35</b>	<b>31</b>						Q1 08E		
Sign Items after tax	"	0	0	1	0	0						Q1 09E		
<b>NPAT as Reported</b>	A\$MM	<b>(4)</b>	<b>(1)</b>	<b>2</b>	<b>35</b>	<b>31</b>						Q1 10E		
EPS	Ac	(2.6)	(0.6)	0.2	13.8	12.2						Q1 11E		
DPS	Ac	0.0	0.0	0.0	0.0	3.0						Trident		
<b>CASH FLOWS</b>		<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	<b>FY11E</b>						Cash Costs		
<b>Operating Cash Flow</b>	A\$MM	<b>(2)</b>	<b>(3)</b>	<b>70</b>	<b>98</b>	<b>92</b>								
Net Interest Expense	"	0	4	(7)	(3)	(0)								
Tax Paid	"	0	0	0	(6)	(13)								
Other	"	0	0	0	0	0								
<b>Retained Op. Cash Flow</b>	A\$MM	<b>(1)</b>	<b>1</b>	<b>63</b>	<b>89</b>	<b>79</b>								
Acquisitions	"	(2)	0	0	0	0								
Exploration	"	(8)	(11)	(10)	(11)	(11)								
<b>Capital Ex &amp; Op Development</b>	"	<b>(15)</b>	<b>(134)</b>	<b>(50)</b>	<b>(30)</b>	<b>(18)</b>								
<b>Funding Surplus/(Deficit)</b>	A\$MM	<b>(27)</b>	<b>(144)</b>	<b>3</b>	<b>48</b>	<b>50</b>								
Dividends Paid	"	0	0	0	0	(8)								
Borrowings/Bonds	"	53	53	20	0	0								
Loan Repayments	"	0	(23)	(5)	(17)	(17)								
Equity Issues	"	79	6	29	0	12								
Other	"	(3)	(0)	0	0	0								
<b>Total Funds Provided</b>	A\$MM	<b>129</b>	<b>36</b>	<b>44</b>	<b>(16)</b>	<b>(12)</b>								
<b>Net change in cash</b>	"	<b>102</b>	<b>(108)</b>	<b>48</b>	<b>32</b>	<b>38</b>								
Cash at start of year	"	7	109	2	49	81								
Exchange Rate Adjustments	"	0	0	0	0	0								
<b>Cash at end of year</b>	A\$MM	<b>109</b>	<b>2</b>	<b>49</b>	<b>81</b>	<b>119</b>								
Net Op. CFPS	Ac	(0.6)	0.4	25.9	36.5	32.5								
<b>BALANCE SHEET</b>		<b>FY07</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	<b>FY11E</b>	<b>AVOCA RESOURCES - CASH FLOW</b>							
Cash & equivalents	A\$MM	109	2	49	81	119						(A\$m)		
Other current assets	"	1	16	14	14	14						FY06		
PP&E & Other Mining Assets	"	2	173	169	154	125						FY07		
Capitalised Exploration	"	17	31	40	50	60						FY08		
Other Non Current Assets	"	30	12	12	12	12						FY09E		
<b>Total assets</b>	A\$MM	<b>161</b>	<b>236</b>	<b>293</b>	<b>320</b>	<b>339</b>						FY10		
Total liabilities	"	59	120	146	138	121						FY11E		
<b>Total Net Assets</b>	A\$MM	<b>102</b>	<b>116</b>	<b>147</b>	<b>182</b>	<b>218</b>						FY12E		
Total Debt (incl Conv Note)	"	48	84	107	98	82						FY13E		
Net Debt (Cash)	A\$MM	(61)	83	57	17	(38)								
<b>Gearing (net debt:nd+ equity)</b>	%	<b>(151%)</b>	<b>42%</b>	<b>28%</b>	<b>9%</b>	<b>(21%)</b>								
<b>Gearing (net debt:equity)</b>	%	<b>(60%)</b>	<b>72%</b>	<b>38%</b>	<b>9%</b>	<b>(17%)</b>								
<b>SHARE VALUATION</b>														
<b>Projects</b>	<b>Ownership</b>	<b>A\$MM</b>	<b>A\$/Shr</b>	<b>%</b>										
Gold Mining Operations	100%	301	1.24	100%										
<b>Total Operating Assets</b>		<b>301</b>	<b>1.24</b>											
Exploration		100	0.41											
Debt incl convertible note		(105)	(0.43)											
Cash		49	0.20											
Corporate		(39)	(0.16)	P/NPV										
<b>Net Asset Value</b>		<b>307</b>	<b>1.26</b>	<b>1.31</b>										

Source: Company data, RBC Capital Markets estimates

## Valuation

We maintain OP and target of A\$2.50 on an unchanged 10x FY10E CFM and 1.5x P/NPV. These multiples compare favourably to RBC's comparable golds.

## 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 realized gold prices and single-mine exposure. Construction risk is gone and ground conditions are good at Trident, but commissioning risk is being addressed now. Head grade is the key risk, 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, to develop 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 began in mid 2008, targeting 190koz pa in FY10. 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. New high-grade orebodies near Trident, including Athena & Apollo, have been discovered and regional resource stand at 1.45moz. Avoca raised A\$28.9m equity at A\$1.47/share in January 2009.

**Required Disclosures**

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**Average Risk (Avg):** Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

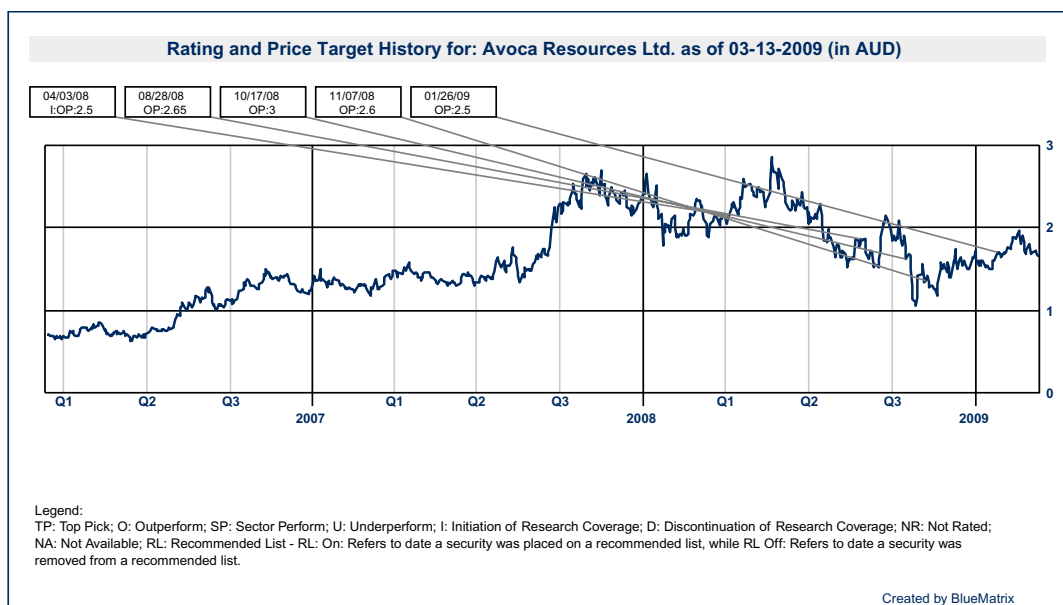
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Distribution of Ratings RBC Capital Markets, Equity Research				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY[TP/O]	480	44.10	106	22.08
HOLD[SP]	503	46.10	79	15.71
SELL[U]	107	9.80	12	11.21



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