COMPANY  Hillgrove Res Ltd | HGO | $0.35/share
RECOMMENDATION  Buy | High Risk | $0.45/share target
EVENT  Initiation Report | A bird in the hand…

KEY POINT

- Restart of the historic Kanmantoo project in Adelaide Hills is fully funded and on track for first copper concentrate production in Nov 2011, but could come in earlier.
- We see 1st phase of its diamond drill campaign for Indonesian gold & copper exploration provides leveraged upside exposure, with potential to be company maker.
- Our conservative $0.45/share price target is based on 75% of Kanmantoo’s base operation, and Indonesian exploration conservatively valued at forecast expenditure.
- Near term derisking milestones for Kanmantoo are port facility access, by end April; and bank approval of re-optimised mine plan based on Ore Reserve, by May.

FY12F (January year end) METRICS  P/NAV 0.77x
LINK TO AUSTOCK INITIATION REPORT  HGO A bird in the hand, but could be more in the Indo bush 11042011
SENT TO CLIENTS  Yes

Sth Aust copper cashflow + free option to Indonesian exploration

...with Kanmantoo copper cashflow coming soon
We have confidence Kanmantoo project will meet critical specifications. Development has been drawn out; although sufficient quality controls have been integrated to mitigate remaining construction risk. Situation has changed since last open pit production: credible new management team, better commodity prices, cost base & new processing plant setup.

We expect concentrate production from the existing open pit over a 10yr life, with extension potential for near mine targets. Year 1 is expected to be cashflow positive, with value uplift potential for expansion in year 3 (excl. from our estimates).

We expect 21ktpa copper, and 8% precious metal revenue, with the cost base advantaged by proximity to Adelaide.

...but could be more in the Indonesian bush
We see Indonesian exploration could follow a similar path to existing high quality copper gold projects nearby. Scout drilling by previous explorers (BHP & Normandy) and HGO, adds confidence there is considerable untested potential. A reinvestigation of work to date and refined targetting for epithermal mineralisation (primarily focussed on high sulphidation), which could lead to identification and discovery of a large scale porphyry copper gold deposit.

HGO is diamond drilling up to 650m depth. We expect projects to be fast-tracked & additional fund allocation for any good intersections; first results expected:
- Late Apr qtr: 1200m first pass program at Sumba.
- Late Jul qtr: 5000m drill program at Bird’s Head.

INVESTMENT OVERVIEW

- We initiate on a Buy recommendation and $0.45/share price target; we expect to increase this in the next two months for upcoming derisking milestones.
- For project development risk we only value 75% of Kanmantoo project cashflows. We value Kanmantoo project at $263m, and HGO at $0.45/share. Factoring in 100% Kanmantoo, we value HGO at $0.55/share; we see derisking milestones achievable in 12 months. Indonesian exploration effectively comes at nil optionality cost to a prospective investor, but we see significant uplift potential for a discovery.
Should you have any queries, please do not hesitate to contact me on +612 9233 9603.

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**Recommendation Criteria**

**Investment View**

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

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<th>Buy</th>
<th>Hold</th>
<th>Sell</th>
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<tr>
<td>Return</td>
<td>&gt; 20%</td>
<td>20% - 5%</td>
<td>&lt; 5%</td>
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A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

**Risk Rating**

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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