



## Hillgrove Resources (HGO)

### Steady State Throughput Achieved... Sunshine after a Spell of Rain

#### BUY

Risk: HIGH

##### Key Information

Price (\$)	0.12
Target Price (\$)	0.46
Market Cap (\$M)	91.3
GICS Sector	Materials
52 week Hi-Lo (\$)	0.30 - 0.11
Daily Vol (M, mth avg)	4.3
Weight of S&P 200 Index (%)	0.0
Cash (\$M)	20.5
Debt (\$M)	50.3
Gearing [ND/(ND+E)] (%)	12.4
Forecast Total Return (%)	300.0

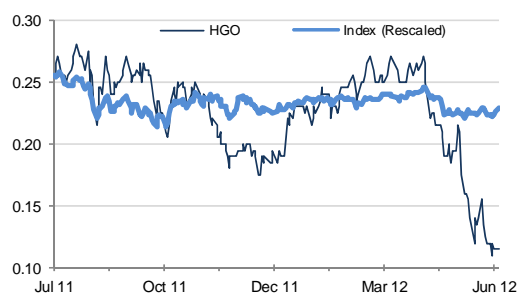
##### Investment Fundamentals

YE 31 Jan	FY12E	FY13E	FY14E	FY15E
Sales (\$M)	5.2	123.9	150.4	155.0
EBITDA (\$M)	-2.6	37.8	72.6	77.2
Margin (%)	-49.7	30.5	48.3	49.8
NPAT (\$M)	-5.7	10.2	33.0	38.4
EPS (cps)	-0.7	1.3	4.2	4.8
EPS Growth (%)	n.a	n.a	224.1	16.2
DPS (cps)	0.0	0.0	1.0	1.5
Franking (%)	n.a	n.a	100.0	100.0

##### Ratio Analysis

YE 31 Jan	FY12E	FY13E	FY14E	FY15E
PE (x)	n.a	9.0	2.8	2.4
Yield (%)	0.0	0.0	8.7	13.0

##### HGO vs S&P/ASX Market Index



##### Performance

	1 Mth	3 Mth	12 Mth
Absolute (HGO) (%)	-34.3	-54.9	-54.0
Rel to Market (%)	-36.0	-50.4	-44.0

##### Major Shareholders

	%
Freepoint Commodities LLC	7.0
AMP Ltd	5.1
Westpac Banking Corp	5.0
Wilson HTM Investment	4.7

##### Directors and Management

Hon. Dean Brown	Non-Executive Chairman
Drew Simonsen	Managing Director
Ronald Belz	Non-Executive Director
John Gooding	Non-Executive Director
John Quirke	Non-Executive Director
Edwin Zemancheff	Non-Executive Director
Douglas Snedden	Non-Executive Director
Russell Middleton	CFO & Company Secretary

#### Event

HGO reported its production update for the month of June.

#### Highlights

- Steady state achieved:** Following the failure of the crown gear in the secondary cone crusher at its Kanmantoo operation in South Australia, HGO's Kanmantoo plant throughput now seems to have settled at its design capacity of 200,000t/m.
- The month of June:** Despite exceptional weather conditions at site (rainfall recorded at the nearby Mt Barker weather station being 170% of the long term average); HGO continued to run operations at a steady and near capacity state. This was achieved by using stockpiled ore when conditions in the pit prevented hauling and hence resulted in lower than planned feed grade and copper concentrate production for June.
- Crushing & milling:** During the month of June, 191,000t of ore was crushed representing 95.5% of capacity (200,000t/m) while 194,000t of ore was milled representing 97% of nameplate capacity (200,000t/m). In terms of crushing and milling rates, the plant performed at ~100% of capacity.
- Concentrate Production and grades:** As noted earlier, concentrate production was below plan due bad weather conditions which lead to lower grade, stockpiled ore being processed. Copper concentrate produced during the month was 4,201t (4,854t in May) with a feed grade of 0.64% Cu (0.73% Cu in May).
- Revenue & shipments:** Revenue during the month of June increased 5.4% from May to US\$11.8m. The third concentrate shipment of 11,062t departed from Port Adelaide on 16<sup>th</sup> June 2012 with the next shipment of approximately 11,000t planned for the first half of August.
- Switching to quarterly reporting:** HGO has been providing monthly updates to the market during ramp-up at Kanmantoo to highlight progress and also allay fears related to ramp-up problems. HGO is now confident of having achieved steady state throughput and would hence switch to quarterly operational performance updates in the future.

#### Recommendation

The May 2012 production update had provided us with a sigh of relief as HGO showed traction in overcoming its ramp-up teething problems which in our view management handled very well by quickly arranging for a mobile crusher. The continued performance of the plant in June at close to capacity levels gives us confidence that the ramp-up problems for Hillgrove are now in the rear-view mirror and we hence **rate HGO as a BUY with a price target of \$0.46.**

## Financial Summary

## Assumptions

Y/E 31st January	2012F	2013F	2014F	2015F	2016F
Copper Price (US\$/tonne)	8,137	8,734	8,294	7,855	7,497
A\$:US\$	1.01	0.96	0.94	0.92	0.92
End Issued Capital (m)	793.70	793.70	793.70	793.70	793.70
Share Price	\$0.16				

## Production

Y/E 31st January	2012F	2013F	2014F	2015F	2016F
<b>Kanmantoo</b>					
Tonnes Mined (kt)	0.100	2.000	2.400	2.400	2.400
Grade					
Copper (%)	0.760	0.860	0.820	0.890	0.950
Gold (g/t)	0.120	0.130	0.210	0.250	0.260
Silver (g/t)	3.220	3.010	3.440	3.480	3.220
Production					
Copper (t)	590	13,348	16,351	17,747	18,943
Gold (oz)	159	3,435	8,138	9,688	10,075
Silver (oz)	4,726	88,364	145,422	147,113	136,122
<b>Concentrate Production (t)</b>	<b>2,184</b>	<b>49,437</b>	<b>60,558</b>	<b>65,728</b>	<b>70,159</b>

## Profit and Loss (A\$m)

Y/E 31st January	2012F	2013F	2014F	2015F	2016F
Revenue (Net of Royalties)	5.16	123.93	150.36	154.96	156.35
<b>Costs</b>					
Mining	6.51	57.35	48.98	48.36	25.11
Processing	0.76	18.26	18.19	18.19	18.19
SG&A	0.14	3.40	3.36	3.36	3.36
Concentrate Offtake	0.31	7.10	7.25	7.86	5.60
EBITDA	-2.56	37.82	72.59	77.18	104.09
Depn. & Amort.	0.95	19.06	22.88	22.88	22.88
Interest Costs	1.13	0.70	-0.30	-2.50	-7.20
H/O Corporate Costs	3.50	3.50	3.50	3.50	3.50
Pre-Tax	-8.14	14.56	46.52	53.31	84.91
Tax	-2.44	4.37	13.49	14.93	23.78
NPAT	-5.70	10.19	33.03	38.39	61.14

## Cash Flow (A\$m)

Year ending 30 June	2012F	2013F	2014F	2015F	2016F
Gross Cash Flow	-2.56	37.82	72.59	77.18	104.09
Net Interest	-1.13	-0.70	0.30	2.50	7.20
Income Taxes Paid	2.44	-4.37	-13.49	-14.93	-23.78
Net Operating Cashflow s	-5.25	28.75	55.40	60.76	83.51
Maintenance Capex	-4.00	-4.00	-4.00	-4.00	-4.00
Build Capex	-129.40	0.00	0.00	0.00	0.00
Loan Repayments	0.00	0.00	0.00	0.00	-30.00
Exploration & Evaluation	-2.50	-2.50	-2.50	-2.50	-2.50
Free Cash Flow	-141.15	22.25	48.90	54.26	47.01

## Balance Sheet (A\$m)

Y/E 31st January	2012F	2013F	2014F	2015F	2016F
Cash & Equivalents	34.50	56.75	105.66	159.92	206.93
Total Current Assets	39.40	61.85	111.66	167.43	214.93
Property / Plant / Equip.	125.00	105.94	83.06	60.18	37.31
Other non-current assets	105.00	105.00	105.00	105.00	105.00
Total Assets	269.40	272.79	299.72	332.61	357.24
Total Current Liabilities	20.00	21.08	22.22	23.42	24.68
Borrowings	53.00	39.50	26.00	12.50	0.00
Other non-current liabilities	1.00	1.00	1.00	1.00	1.00
Total Non Current Liabilities	54.00	40.50	27.00	13.50	1.00
Total Shareholders Equity	215.40	232.29	272.72	319.11	356.24
NTA/Share	\$0.27	\$0.29	\$0.34	\$0.40	\$0.45

## Per Share Ratios

Y/E 31st January	2012F	2013F	2014F	2015F	2016F
EPS (¢)	-0.7	1.28	4.16	4.84	7.70
PE Ratio	-22.3x	12.5x	3.8x	3.3x	2.1x
DPS (¢)	0.0c	0.0c	1.0c	1.5c	2.0c
Dividend Yield (%)	n.a.	n.a.	6.3%	9.4%	12.5%
Payout Ratio (%)	n.a.	n.a.	24.0%	31.0%	26.0%
Franking (%)	n.a.	n.a.	100%	100%	100%
CFPS (¢)	-0.2c	2.36c	4.54c	4.82c	6.51c
CF P/E	-99.9x	6.8x	3.5x	3.3x	2.5x

## Divisional EBITDA (A\$m)

Y/E 31st January	2012F	2013F	2014F	2015F	2016F
Kanmantoo	-2.56	37.82	72.59	77.18	104.09

## Operating Ratios (%)

Y/E 31st January	2012F	2013F	2014F	2015F	2016F
Op EBIT Margin	-49.7%	30.5%	48.3%	49.8%	66.6%
Interest Cover - EBIT					
Tax Rate	30.0%	30.0%	29.0%	28.0%	28.0%
ROA	-2.1%	3.7%	11.0%	11.5%	17.1%
ROE	-2.6%	4.4%	12.1%	12.0%	17.2%

## Balance Sheet Analysis

Y/E 31st January	2012F	2013F	2014F	2015F	2016F
Net Debt / (Cash) \$M	18.50	-17.25	-79.66	-147.42	-206.93
Net Debt / Equity	9%	-7%	-29%	-46%	-58%
Debt / Equity	25%	17%	10%	4%	0%
Net Debt / Net Debt + Equity	-9%	7%	23%	32%	37%
D & A / PPE	1%	18%	28%	38%	61%
Current Ratio	197%	293%	503%	715%	871%

## Growth

Y/E 31st January	2012F	2013F	2014F	2015F	2016F
Sales Growth	n.a.	2302%	21%	3%	1%
EBITDA	n.a.	n.a.	92%	6%	35%
NPAT	n.a.	n.a.	224%	16%	59%
EPS	n.a.	n.a.	224%	16%	59%

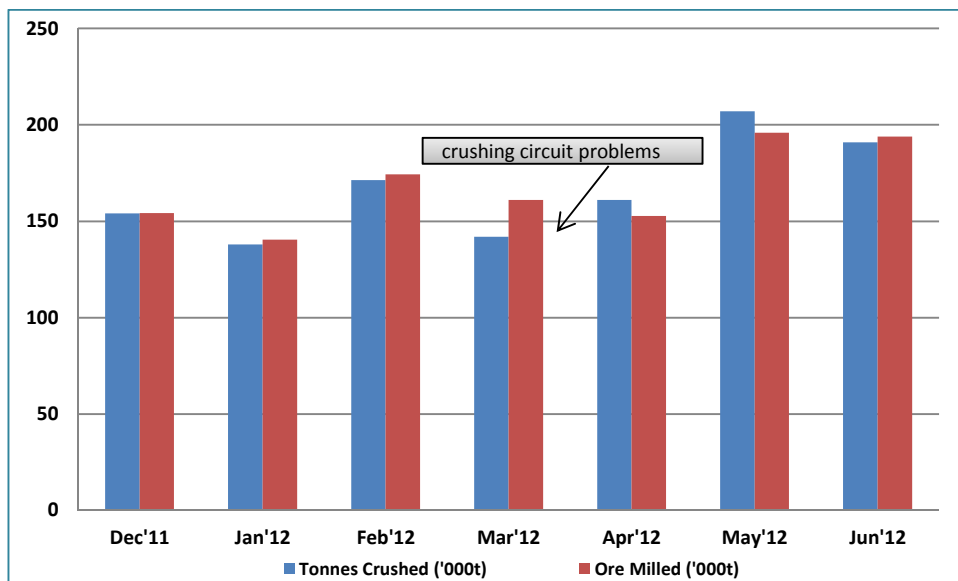
## Valn. (10% real post tax)

Consensus Gold Price	Reserves		Resources	
	Base	Base	Upside	Upside
Y/E 31st January	A\$m	c/share	A\$m	c/share
Kanmantoo	249.60	\$0.31	370.80	\$0.47
Regional Sth Aust	25.00	\$0.03	25.00	\$0.03
Indonesia	30.00	\$0.04	30.00	\$0.04
Net Debt/Cash	-18.50	-\$0.02	-18.50	-\$0.02
Corporate	-24.00	-\$0.03	-44.00	-\$0.06
Total Valn.	262.10	\$0.33	363.30	\$0.46

\* Net Debt as of 31st July 2011

Chart 1: HGO Crushing & Milling Profile for HGO ('000t)

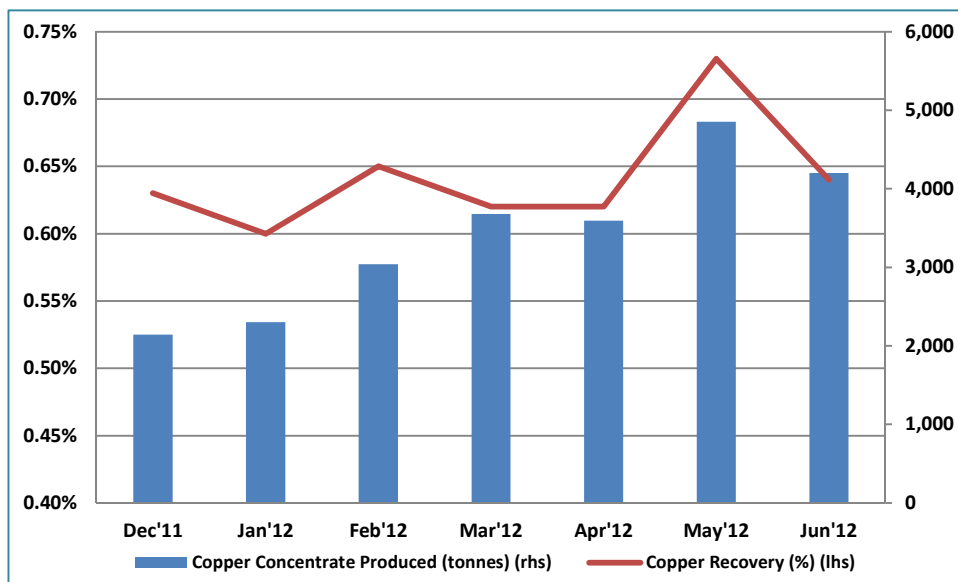
HGO's milling and crushing continued in steady state at close to nameplate capacity. The excessive rain affected June production.



Source: Shaw Stockbroking

Chart 2: Concentrate Production & Copper Recovery Profile for HGO

Lower grades in June were caused by the use of stockpiles as haulage of ore was prevented during the month due to heavy rainfall.



Source: Shaw Stockbroking

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**Rating Classification**


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Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

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**Risk Rating**


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High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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SYDNEY OFFICE: Level 15, 60 Castlereagh Street, Sydney NSW 2000 Tel (02) 9238 1238

MELBOURNE OFFICE: Level 20, 90 Collins Street, Melbourne VIC 3000 Tel (03) 9268 1000

PARRAMATTA OFFICE: 55 Phillip Street, Parramatta NSW 2150 Tel (02) 9891 5644

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