

Hillgrove Res Ltd (HGO)

Now 10 year Life of Mine; Increased Resources by June and increased Reserves by September 2013

21 February 2013

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Three Key Points

- On Wednesday, 20 February, HGO announced that, following the near mine drilling through 2012, HGO now has a Life of Mine plan for Kanmantoo of 30 – 32Mt at 0.7% - 0.8% Cu, for 190kt of recoverable copper in concentrate.
- HGO will announce a revised Resource during the second quarter and a revised Reserve in the third quarter.
- Using HGO's published Life of Mine plan has increased our risk weighted NAV, and share price target, from 21c to 23c/share; there is significant potential upside to our valuation from more optimal scheduling.

Life of Mine is 30 – 32Mt at 0.7% - 0.8% Cu; 190kt copper

Revised Life of Mine plan

The revised plan is to mine :

- Currently remaining Reserves, of 12.0Mt at 0.85% Cu; then
- Measured and Indicated Resources, 5.0Mt at 0.7% Cu, not presently included in Reserves, followed by
- 4.0Mt Inferred resources, at 0.6% Cu, and then
- 1.6Mt of low grade stockpiles, at 0.4% Cu, followed by
- 2.0 – 3.0Mt at 0.6% - 0.8% Cu from an Exploration Target identified in 2012 drilling, for which detailed Mineral Resource modelling is currently in progress; and then
- 5.0 – 7.0Mt at 0.7% - 0.8% Cu from near mine exploration targets .

Updated Resource and Reserve estimates

HGO also advised that the current round of drilling has been completed, and final assays are awaited before a Mineral Resource estimate, updating the current estimate dated May 2012, can be prepared. This is expected to be completed during the second quarter.

An updated Ore Reserve estimate, to replace the estimate prepared in April 2010, is expected during the third quarter.

Processed Grade

One of the issues from commissioning has been mining dilution so that the grade of ore fed into the mill has been well below the Reserve grade.

The LoM plan uses the same reserve grade, showing that the company is confident of achieving this feed grade.

Revised Valuation

Due to the higher grade in the near term, our valuation has increased from 21c to 23c/share.

We retain a Strong Buy recommendation, as we believe that HGO has the lowest risk of our metals stocks.

Recommendation

Strong Buy

Previous Recommendation	Buy
Risk Rating	Medium
Current Share Price	\$0.14
12 Month Price Target	\$0.23 (from \$0.21)
Price Target Methodology	DCF
Total Return (Capital + Yield)	70.9%
NAV / Share	\$0.23 (from \$0.21)
Market capitalisation	\$138m
Liquidity – Daily Value	\$0.3m

EPS Changes & PhillipCapital vs. Consensus

Y/e Jan (\$m)	2013F	2014F	2015F
Previous EPS (cps)	(0.0c)	2.1 c	2.1 c
Change in EPS (%)	(370%)	30 %	42 %
Consensus EPS (cps)	(1.0c)	1.2 c	1.6 c
PhillipCapital vs Consensus	97 %	79 %	29 %

Financial Forecasts & Valuation Metrics

Y/e Jan (\$m)	2012A	2013F	2014F	2015F
Revenue	15	124	169	180
NPAT	-18.5	-12.7	24.5	25.9
EPS (cps)	-2.3	-1.4	2.4	2.5
EPS Growth		41%	274%	6%
DPS (c)	0.0	0.0	0.0	0.0
EV / EBITDA (x)	na	6.3	1.1	0.1
PER (x)	-5.8	-9.8	5.6	5.3
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Gearing	14%	10%	-19%	-43%
Interest Cover	na	na	10.6	16.9

Source: PhillipCapital estimates

Hillgrove Resources (HGO) v. All Ords Accumulation Index



Source: PhillipCapital estimates

PhillipCapital Australia							
Hillgrove Resources Limited (HGO)							
Year ended January	2012	2013	2014	2015	2016	2017	2018
Section 1 - P&L							
Sales revenue	\$A 11.6m	\$A 120.4m	\$A 153.9m	\$A 157.2m	\$A 149.7m	\$A 147.6m	\$A 165.8m
Interest revenue	\$A 3.1m	\$A 0.0m	\$A 0.5m	\$A 2.4m	\$A 3.9m	\$A 4.0m	\$A 4.0m
Other revenue	\$A 0.0m	\$A 3.1m	\$A 6.3m	\$A 11.8m	\$A 12.7m	\$A 0.0m	\$A 0.0m
Total Revenue	\$A 14.7m	\$A 123.5m	\$A 160.6m	\$A 171.4m	\$A 166.3m	\$A 151.6m	\$A 169.8m
Cost of Goods Sold	(\$A 8.0m)	(\$A 79.0m)	(\$A 77.4m)	(\$A 85.1m)	(\$A 87.1m)	(\$A 89.0m)	(\$A 92.6m)
Corporate Costs	(\$A 10.1m)	(\$A 7.3m)	(\$A 4.0m)	(\$A 4.0m)	(\$A 4.0m)	(\$A 4.0m)	(\$A 4.0m)
Royalties	(\$A 0.1m)	(\$A 1.6m)	(\$A 2.3m)	(\$A 2.3m)	(\$A 2.2m)	(\$A 3.5m)	(\$A 8.2m)
Exploration Expense	(\$A 2.4m)	(\$A 4.6m)	(\$A 1.0m)	(\$A 1.0m)	(\$A 1.0m)	(\$A 1.0m)	\$A 0.0m
Other Operating Expenses	(\$A 0.2m)	(\$A 2.2m)	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
Total Operating Expenses	(\$A 21m)	(\$A 95m)	(\$A 85m)	(\$A 92m)	(\$A 94m)	(\$A 97m)	(\$A 105m)
EBITDA	(\$A 6.1m)	\$A 28.7m	\$A 75.9m	\$A 78.9m	\$A 72.1m	\$A 54.2m	\$A 65.0m
Dep'n & Amort'n	(\$A 5.2m)	(\$A 34.2m)	(\$A 39.6m)	(\$A 42.2m)	(\$A 42.2m)	(\$A 42.2m)	(\$A 19.7m)
EBIT	(\$A 11.3m)	(\$A 5.5m)	\$A 36.4m	\$A 36.8m	\$A 29.9m	\$A 12.0m	\$A 45.3m
Interest Expense	(\$A 1.2m)	(\$A 5.7m)	(\$A 3.8m)	(\$A 2.4m)	(\$A 1.2m)	(\$A 0.2m)	\$A 0.0m
Other							
Pre-Tax Profit	(\$A 12.5m)	(\$A 12.2m)	\$A 32.6m	\$A 34.3m	\$A 28.7m	\$A 11.8m	\$A 45.3m
Tax Expense	\$A 3.9m	\$A 3.5m	(\$A 9.8m)	(\$A 10.3m)	(\$A 8.6m)	(\$A 3.5m)	(\$A 13.6m)
NPAT	(\$A 8.6m)	(\$A 8.7m)	\$A 22.8m	\$A 24.0m	\$A 20.1m	\$A 8.3m	\$A 31.7m
Reported NPAT	(\$A 8.5m)	(\$A 8.7m)	\$A 22.8m	\$A 24.0m	\$A 20.1m	\$A 8.3m	\$A 31.7m
Section 2 - Key Data							
Ordinary shares - year end	793.55m	1,022.76m	1,022.76m	1,022.76m	1,022.76m	1,022.76m	1,022.76m
Fully diluted shares on issue	793.55m	1,022.76m	1,022.76m	1,022.76m	1,022.76m	1,022.76m	1,022.76m
Weighted # shares	793.55m	924.88m	1,022.76m	1,022.76m	1,022.76m	1,022.76m	1,022.76m
Earnings per Share	(1.0c)	(0.0c)	2.2 c	2.3 c	2.0 c	0.8 c	3.1 c
Dividends Per Share	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c
Section 3 - Balance Sheet							
Cash	\$A 20.7m	\$A 16.3m	\$A 67.9m	\$A 124.9m	\$A 178.0m	\$A 225.4m	\$A 285.4m
Receivables	\$A 6.4m	\$A 16.8m	\$A 18.9m	\$A 18.2m	\$A 17.7m	\$A 17.7m	\$A 19.7m
Other	\$A 14.6m	\$A 5.3m	\$A 5.3m	\$A 5.3m	\$A 5.3m	\$A 5.3m	\$A 5.3m
CURRENT ASSETS	\$A 41.6m	\$A 38.4m	\$A 92.2m	\$A 148.4m	\$A 201.0m	\$A 248.4m	\$A 310.4m
Payables	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
P, P & E	\$A 229.4m	\$A 209.9m	\$A 173.6m	\$A 134.6m	\$A 95.6m	\$A 56.6m	\$A 40.1m
Mining Properties / Exploration	\$A 19.7m	\$A 20.7m	\$A 21.7m	\$A 22.7m	\$A 23.7m	\$A 24.7m	\$A 24.7m
Other	\$A 8.8m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
NON-CURRENT ASSETS	\$A 258.0m	\$A 230.6m	\$A 195.3m	\$A 157.3m	\$A 119.3m	\$A 81.3m	\$A 64.8m
TOTAL ASSETS	\$A 299.6m	\$A 269.0m	\$A 287.4m	\$A 305.7m	\$A 320.3m	\$A 329.7m	\$A 375.1m
Debt	\$A 16.0m	\$A 14.2m	\$A 12.7m	\$A 13.9m	\$A 14.1m	\$A 14.6m	\$A 15.7m
Other	\$A 1.6m	\$A 1.6m	\$A 1.6m	\$A 1.6m	\$A 1.6m	\$A 1.6m	\$A 1.6m
CURRENT LIABILITIES	\$A 31.9m	\$A 27.6m	\$A 27.1m	\$A 25.4m	\$A 19.1m	\$A 16.2m	\$A 17.3m
Long Term Debt	\$A 35.9m	\$A 26.0m	\$A 13.2m	\$A 3.4m	\$A 0.0m	\$A 0.0m	\$A 0.0m
Deferred Tax Liability	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
Other	\$A 12.4m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
Provisions	\$A 9.3m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
NON-CURRENT LIABILITIES	\$A 57.7m	\$A 26.0m	\$A 13.2m	\$A 3.4m	\$A 0.0m	\$A 0.0m	\$A 0.0m
TOTAL LIABILITIES	\$A 89.6m	\$A 53.7m	\$A 40.4m	\$A 28.7m	\$A 19.1m	\$A 16.2m	\$A 17.3m
NET ASSETS	\$A 210.0m	\$A 215.3m	\$A 247.1m	\$A 277.0m	\$A 301.2m	\$A 313.5m	\$A 357.8m
Accumulated Profit (Loss)	\$A 34.7m	\$A 26.0m	\$A 48.8m	\$A 72.8m	\$A 92.9m	\$A 101.2m	\$A 132.9m
Reserves	(\$A 3.2m)	(\$A 6.8m)	\$A 2.2m	\$A 8.0m	\$A 12.2m	\$A 16.2m	\$A 28.8m
Contributed Equity	\$A 178.3m	\$A 196.1m	\$A 196.1m	\$A 196.1m	\$A 196.1m	\$A 196.1m	\$A 196.1m
Minority Interest	\$A 209.8m	\$A 215.3m	\$A 247.1m	\$A 277.0m	\$A 301.2m	\$A 313.5m	\$A 357.8m
Other	\$A 0.2m	\$A 0.2m	\$A 0.2m	\$A 0.2m	\$A 0.2m	\$A 0.2m	\$A 0.2m
Total Equity	\$A 210.0m	\$A 215.5m	\$A 247.3m	\$A 277.2m	\$A 301.3m	\$A 313.7m	\$A 358.0m
Section 4 - Cashflow							
Net Cashflow from operations	(\$A 68.7m)	\$A 6.1m	\$A 58.0m	\$A 56.6m	\$A 47.4m	\$A 47.8m	\$A 56.0m
Hedging	\$A 0.0m	\$A 3.4m	\$A 6.3m	\$A 11.8m	\$A 12.7m	\$A 0.0m	\$A 0.0m
Interest Paid	(\$A 1.9m)	\$A 6.7m	\$A 3.3m	\$A 0.1m	(\$A 2.7m)	(\$A 3.8m)	(\$A 4.0m)
Taxes Paid	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
Change in Working Capital	(\$A 2.8m)	\$A 8.6m	\$A 0.6m	\$A 0.5m	(\$A 0.3m)	\$A 0.5m	\$A 3.1m
Other							
OPERATING CASHFLOW	(\$A 73.4m)	\$A 24.8m	\$A 68.2m	\$A 68.9m	\$A 57.1m	\$A 44.5m	\$A 55.1m
Exploration Expenditures	(\$A 1.0m)	(\$A 1.0m)	(\$A 1.0m)	(\$A 1.0m)	(\$A 1.0m)	(\$A 1.0m)	\$A 0.0m
Maintenance Capex	\$A 0.0m	(\$A 2.4m)	(\$A 3.2m)	(\$A 3.2m)	(\$A 3.2m)	(\$A 3.2m)	(\$A 3.2m)
Expansion Capex	(\$A 63.3m)	(\$A 12.3m)	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
PPE Acquisitions (Total Capex)	(\$A 64.3m)	(\$A 15.7m)	(\$A 4.2m)	(\$A 4.2m)	(\$A 4.2m)	(\$A 4.2m)	(\$A 3.2m)
PPE Divestments	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
INVESTING CASHFLOW	(\$A 64.3m)	(\$A 15.7m)	(\$A 4.2m)	(\$A 4.2m)	(\$A 4.2m)	(\$A 4.2m)	(\$A 3.2m)
Change in Equity	\$A 0.0m	\$A 17.7m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
Dividends Paid	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m	\$A 0.0m
Change in Debt	\$A 50.3m	(\$A 12.4m)	(\$A 11.8m)	(\$A 12.8m)	(\$A 9.9m)	(\$A 3.4m)	\$A 0.0m
Other							
FINANCING CASHFLOW	\$A 50.3m	\$A 5.3m	(\$A 11.8m)	(\$A 12.8m)	(\$A 9.9m)	(\$A 3.4m)	\$A 0.0m
Free Cashflow	(\$A 138m)	\$A 9m	\$A 64m	\$A 65m	\$A 53m	\$A 40m	\$A 52m
Net Cashflow	(\$A 87m)	\$A 14m	\$A 52m	\$A 52m	\$A 43m	\$A 37m	\$A 52m

Commodity price assumptions						
Year ended January	2012	2013	2014	2015	2016	2017
AUD-USD	1.040	1.000	1.000	1.000	1.000	1.000
Copper	US\$ 8,646/t	US\$ 7,990/t	US\$ 7,750/t	US\$ 7,250/t	US\$ 6,750/t	US\$ 6,500/t
Gold	\$ 1,570/oz	\$ 1,648/oz	\$ 1,600/oz	\$ 1,613/oz	\$ 1,488/oz	\$ 1,400/oz
Silver	\$ 35.2/oz	\$ 31.3/oz	\$ 32.0/oz	\$ 32.0/oz	\$ 32.0/oz	\$ 32.0/oz

Mine Production						
Year ended January	2012	2013	2014	2015	2016	2017
Ore processed	331 kt	2,250 kt	2,625 kt	2,800 kt	2,800 kt	2,800 kt
Copper grade	0.60 %	0.71 %	0.80 %	0.80 %	0.80 %	0.80 %
Copper recovery	70 %	91 %	94 %	94 %	94 %	94 %
Gold grade	0.12g/t	0.16g/t	0.19g/t	0.19g/t	0.19g/t	0.19g/t
gold recovery	66 %	57 %	60 %	60 %	60 %	60 %
Silver grade	2.2g/t	3.2g/t	3.4g/t	3.4g/t	3.4g/t	3.4g/t
silver recovery	50 %	55 %	64 %	67 %	67 %	67 %

Attributed production						
Year ended January	2012	2013	2014	2015	2016	2017
Copper	1,381 t	14,622 t	19,740 t	21,056 t	21,056 t	21,056 t
Gold	816 oz	6,453 oz	9,469 oz	10,100 oz	10,100 oz	10,100 oz
Silver	12.0 koz	127.1 koz	182.4 koz	203.3 koz	203.3 koz	203.3 koz

Resources and Resources						
Resources, May 2012	Copper		Gold		Silver	
In Situ						
Measured	4.2 Mt	0.85 %	36 kt	0.13g/t	17.6 koz	2.36g/t
Indicated	20.5 Mt	0.87 %	178 kt	0.16g/t	105.5 koz	2.34g/t
Inferred	6.5 Mt	0.66 %	43 kt	0.15g/t	31.4 koz	1.73g/t
Long Term stockpiles						
Measured	1.1 Mt	0.46 %	5 kt		0.0 koz	
Indicated	0.5 Mt	0.18 %	1 kt		0.0 koz	
TOTAL	32.8 Mt	0.80 %	263 kt	0.15g/t	154.4 koz	2.22g/t

Reserves, April 2010						
Reserves, April 2010	Copper		Gold		Silver	
Proved	2.3 Mt	0.87 %	20 kt	0.13g/t	9.6 koz	3.2g/t
Probable	12.5 Mt	0.84 %	105 kt	0.18g/t	72.3 koz	3.1g/t
TOTAL	14.8 Mt	0.84 %	125 kt	0.17g/t	82.0 koz	3.1g/t

Asset based Valuation						
discount rate = 12.0 %	risking	100%	31-Jan-12	Product	per share	20-Feb-13
Kanmantoo Reserves	100 %	\$A 174m	\$A 174m		16.7 c	17.8 c
fanking credits	60 %	\$A 0m	\$A 0m		0.0 c	0.0 c
Kanmantoo M & I Resources	85 %	\$A 45m	\$A 38m		3.6 c	4.1 c
fanking credits	51 %	\$A 5m	\$A 3m		0.3 c	0.3 c
Kanmantoo Stockpiles + Inferred	70 %	\$A 30m	\$A 21m		2.0 c	2.3 c
fanking credits	42 %	\$A 14m	\$A 6m		0.6 c	0.6 c
Kanmantoo Exploration Targets	50 %	\$A 33m	\$A 17m		1.6 c	1.8 c
fanking credits	30 %	\$A 11m	\$A 3m		0.3 c	0.4 c
Corporate	100 %	(\$A 27m)	(\$A 27m)		(2.5c)	(2.5c)
Exploration - Sumba	100 %	(\$A 3m)	\$A 0m		0.0 c	0.0 c
Exploration - Bird's Head	100 %	(\$A 3m)	\$A 0m		0.0 c	0.0 c
Exploration - other	100 %	\$A 0m	\$A 0m		0.0 c	0.0 c
Hedging	100 %	\$A 24m	\$A 24m		2.3 c	2.3 c
Cash / debt	100 %	(\$A 30m)	(\$A 30m)		(2.8c)	(1.0c)
Equity raising	100 %	\$A 15m	\$A 15m		1.4 c	(0.1c)
Options	100 %	\$A 0m	\$A 0m		0.0 c	0.0 c
TOTAL		\$A 289m	\$A 24			

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OFFICE LOCATIONS AND DISCLOSURE

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Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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