



**Wilson HTM**  
INVESTMENT GROUP

A Leading Wealth Manager and  
Adviser to Emerging Companies

30 April 2013

# HILLGROVE RESOURCES LIMITED (HGO)

BUY

HOLD

SELL

## ACTION & RECOMMENDATION

HGO's FY13 result was generally in-line with our estimates. Notably there was a significant improvement in profitability in the 2H-FY13 that we expect will continue in FY14. We understand the new primary crusher is operating to capacity and mining operations are now accessing high grade ore in the Kavanagh pit, which should lead to improved performance in late Q1-FY14. HGO expect copper production in FY14 to be 18-20kt (WHTMe: 18kt). HGO recently restructured and revised financing arrangements that avoids a potential operating and financial stress point mid-2013. We maintain a SPECULATIVE BUY recommendation.

## Significant Improvement in 2H of FY13

### What's Changed

- HGO's FY13 financial result showed a significant improvement to the 2H profit performance. The EBITDA margin in the 2H-FY13 was 24%, compared to 3% in the 1H-FY13. Our FY14 EBITDA forecast of \$48m implies a margin of 33%.
- At the end of FY13, HGO's net debt position was \$23m and gearing was 9% (ND/ (ND+E)). We forecast strong cash flow in the next 12 months that should result in HGO being net cash positive by the end of FY14.

Yr End Jan (A\$m)	FY12	1H-FY13	2H-FY13	FY13	% Chg	FY13	% Diff
	Act	Act	Act	Act	2H vs 1H	WHTM Est.	
Copper Prod (kt)	1.26	6.15	7.59	13.74	23%	13.74	0%
Copper Price (US\$/lb)	4.00	3.67	3.54	3.60	-3%	3.60	0%
A\$/US\$	1.03	1.03	1.04	1.04	1%	1.04	0%
Revenue	11.6	50.3	65.5	115.8	30%	114.3	-1%
Cost of Sales	20.5	48.8	50.0	98.7	2%	98.5	0%
EBITDA	-8.9	1.5	15.6	17.1	937%	15.8	-7%
EBIT	-14.0	-14.8	5.3	-9.4		-11.7	24%
NPAT	-8.7	-14.7	2.9	-11.8		-13.7	16%

- Our 12m price target has reduced by 8% to \$0.22/sh. We have reduced our valuation for HGO's exploration assets to \$45m (prev. \$67m) and reduced valuation for HGO's equity investments to \$0.2m (prev. \$1.6m).

### Risks & Catalysts

- Risk: Operating performance at Kanmantoo, copper price
- Catalyst: New Reserve/Resource statement mid-2013. Evidence of improved operating performance expected in late April 2013. Expect management commentary to be provided on this topic in their Q1-FY14 production result (late May).

Year-end January (AUD)	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (\$m)	4.2	11.6	115.4	139.6	159.5
EBITDA Margin (%)	-498	-76	15	34	40
NPAT Norm (\$m)	-13.3	-8.7	-10.6	10.6	19.2
Consensus NPAT (\$m)			-11.7	12.5	19.8
EPS Norm (cps)	-1.7	-1.1	-1.0	1.0	1.8
EPS Growth (%)	50	35	5	200	71
P/E Norm (x)	-4.5	-6.9	-7.2	7.3	4.2
EV / EBITDA (x)	-3.4	-8.0	4.2	1.5	1.1
CFM (x)	-1.0	-0.6	-8.4	2.0	1.6
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Mkt Cap: \$82m    Enterprise Value: \$71m    Shares: 1,023m    Sold Short: 0.2%

12m Target Price (AUD)	\$0.22
Share Price @ 30-Apr-13 (AUD)	\$0.08
Fcst 12m Capital Return	193.1%
Fcst 12m Dividend Yield	0.0%
<b>12m Total S'holder Return</b>	<b>193.1%</b>

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### 12m Share Price Performance



### WHTM Return Re-investment Matrix

Return	High	Low
	High	Cash Generator
Low	Challenged	Potential

Low      High  
Re-Investment

### WHTM Risk Assessment

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Key Changes	23-Apr	After	Var %
Revenue FY13 (\$m)	110	115	5.4%
FY14	140	140	0.0%
FY15	159	159	0.0%
EBITDA: FY13 (\$m)	15.8	17.1	7.7%
FY14	48.2	48.2	0.0%
FY15	63.5	63.5	0.0%
EPS: FY13 (cps)	-1.1	-1.0	N/A
Norm FY14	1.0	1.0	0.7%
FY15	1.8	1.8	-3.0%
Price Target:	0.24	0.22	-8.1%
Rec:	BUY	BUY	

ASX 300 wgt: 0.0%    Median T'over/Day: \$0.1m

### Wilson HTM Equities Research – Hillgrove Resources Limited

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**PRICE TARGET**

	Valuation	Price Target
Kanmantoo	265.13	0.24
Exploration	44.89	0.04
Hedge Book	0.57	0.00
Other Equity	0.17	0.00
Corporate	-25.55	-0.02
Net (Debt)/Cash	-22.86	-0.02
<b>TOTAL</b>	<b>262.35</b>	<b>0.24</b>

**12 Month Price Target** **0.22**

**INTERIMS (\$m)**

Half Yr (AUD)	Jul 11	Jan 12	Jul 12	Jan 13
	1H A	2H A	1H E	2H E
Sales	1.3	10.3	49.7	65.7
EBITDA	-2.5	-6.3	1.5	15.6
EBIT	-2.8	-11.2	-14.8	5.3
<b>Net Profit</b>	<b>-0.3</b>	<b>-8.4</b>	<b>-12.5</b>	<b>1.8</b>
<b>Norm. EPS</b>	<b>0.0</b>	<b>-1.1</b>	<b>-1.4</b>	<b>0.2</b>
EBIT/Sales	-213.6	-108.9	-29.7	8.1
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

**FINANCIAL STABILITY**

Year-end January	FY12A	FY13E	FY14E
Net Debt	30.5	22.9	-10.9
Net Debt / Equity (%)	14.5	10.4	<0
<b>Net Debt / EV (%)</b>	<b>43.0</b>	<b>32.2</b>	<b>&lt;0</b>
Current Ratio (x)	9.4	4.4	5.3
Interest Cover (x)	8.6	<0	6.5
<b>Adj. Cash Int. Cover (x)</b>	<b>91.0</b>	<b>&lt;0</b>	<b>17.1</b>
Debt / CashFlow (x)	0.0	1.8	1.1
Net Debt (cash) / share	0.0	0.0	<0
NTA / share (\$)	0.3	0.2	0.2
Book Value / share (\$)	0.3	0.2	0.2
Payout Ratio (%)	0	0	0
Adj. Payout Ratio (%)	0	0	0

**EPS RECONCILIATION (\$m)**

	FY12A		FY13E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	12	12	115	115
EBIT	-14.0	-14.0	-11.0	-9.4
<b>Net Profit</b>	<b>-8.7</b>	<b>-8.7</b>	<b>-11.8</b>	<b>-10.6</b>
Notional Earn.	0.0	0.0	0.0	0.0
Prof./Conv. Div.	0.0	0.0	0.0	0.0
<b>Profit for EPS</b>	<b>-8.7</b>	<b>-8.7</b>	<b>-11.8</b>	<b>-10.6</b>
Diluted Shrs(m)	794	794	1,023	1,023
<b>Diluted EPS (c)</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-1.2</b>	<b>-1.0</b>

**RETURNS**

	FY12A	FY13E	FY14E	FY15E
ROE (%)	-4.4	-4.9	4.7	7.9
ROIC (%)	-6.4	-2.7	5.4	9.8
Incremental ROE	19.8	-11.1	200.9	47.1
Incremental ROIC	5.0	3.7	-188.0	-36.8

**KEY ASSUMPTIONS**

Year-end January (AUD)	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY17E
Copper Price (US\$/lb)	4.00	3.60	3.67	3.65	3.54	3.47	3.36	3.47
A\$/US\$	1.03	1.04	1.03	1.00	0.93	0.90	0.84	0.90
Copper Production (kt)	1.3	13.7	18.0	20.2	20.2	20.2	20.2	20.2
Gold Produced (koz)	0.4	6.5	8.5	8.9	8.9	8.9	8.9	8.9
EBITDA Margin (%)	-76.2	14.8	34.5	39.8	38.0	39.3	36.2	39.3
EBIT Margin (%)	-143.4	-8.9	12.8	18.5	17.5	26.5	23.7	26.5
ROA (%)	-2.9	-3.5	3.2	5.6	6.3	8.8	7.7	8.8
Earnings Sensitivity (% Chg)								
+/- 10% A\$/US\$	0.0	9.7	5.5	18.2	39.2	49.3	62.5	49.3
+/- 10% Copper Price	0.0	11.5	26.6	30.7	51.9	53.3	67.8	53.3

**PROFIT & LOSS (\$m)**

Year-end January (AUD)	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY17E
Sales Revenue	11.6	115.4	139.6	159.5	166.4	166.0	170.6	166.0
EBITDA	-8.9	17.1	48.2	63.5	63.2	65.3	61.7	65.3
Depn & Amort	5.2	26.5	30.3	34.0	34.0	21.3	21.3	21.3
<b>EBIT</b>	<b>-14.0</b>	<b>-9.4</b>	<b>17.9</b>	<b>29.5</b>	<b>29.1</b>	<b>44.0</b>	<b>40.4</b>	<b>44.0</b>
Net Interest Expense	-1.6	5.7	2.8	2.1	-2.1	-3.8	-5.3	-3.8
Tax	-3.9	-4.5	4.5	8.2	9.4	14.4	13.7	14.4
Minorities / pref divs	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit pre Sig. Items</b>	<b>-8.7</b>	<b>-10.6</b>	<b>10.6</b>	<b>19.2</b>	<b>21.9</b>	<b>33.5</b>	<b>32.0</b>	<b>33.5</b>
Abn's / Ext's / Signif.	0.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported Net Profit</b>	<b>-8.7</b>	<b>-11.8</b>	<b>10.6</b>	<b>19.2</b>	<b>21.9</b>	<b>33.5</b>	<b>32.0</b>	<b>33.5</b>

**CASHFLOW (\$m)**

Year-end January (AUD)	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY17E
EBITDA	-8.9	17.1	48.2	63.5	63.2	65.3	61.7	65.3
Interest & Tax	2.4	-4.0	-8.2	-12.0	-10.0	-14.4	-13.7	-14.4
Working Cap / Other	-15.8	15.3	6.0	1.1	3.1	4.8	6.0	4.8
<b>Operating Cash Flow</b>	<b>-22.2</b>	<b>28.4</b>	<b>45.9</b>	<b>52.6</b>	<b>56.2</b>	<b>55.7</b>	<b>53.9</b>	<b>55.7</b>
Maintenance Capex	-121.4	-38.1	-6.0	-2.0	-2.0	-2.0	-2.0	-2.0
<b>Free Cash Flow</b>	<b>-143.6</b>	<b>-9.7</b>	<b>39.9</b>	<b>50.6</b>	<b>54.2</b>	<b>53.7</b>	<b>51.9</b>	<b>53.7</b>
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Capex	-10.7	-8.6	-6.2	-10.4	-10.4	-10.4	-10.4	-10.4
Invest. / Disposals	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	5.9	1.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow Pre Financing</b>	<b>-148.2</b>	<b>-17.3</b>	<b>33.7</b>	<b>40.2</b>	<b>43.8</b>	<b>43.4</b>	<b>41.6</b>	<b>43.4</b>
Funded by Equity	0.0	17.8	0.0	6.8	0.0	0.0	0.0	0.0
Funded by Debt	51.1	6.2	-17.2	-12.3	-20.0	0.0	0.0	0.0
Funded by Cash	97.1	-6.7	-16.5	-34.7	-23.8	-43.4	-41.6	-43.4

**BALANCE SHEET SUMMARY (\$m)**

Year-end January (AUD)	FY12A	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY17E
Cash	20.7	27.4	43.9	78.6	102.5	145.8	187.4	145.8
Current Receivables	6.4	6.4	7.6	7.7	8.3	8.2	8.4	8.2
Current Inventories	9.3	19.7	14.8	14.6	14.9	15.3	15.7	15.3
Net PPE	229.4	233.2	208.9	176.8	144.8	125.5	106.2	125.5
Investments	4.2	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Intangibles / Capitalised	19.8	28.1	34.3	44.6				
Other	10.0	15.9	15.9	15.9	70.9	81.3	91.7	81.3
<b>Total Assets</b>	<b>299.8</b>	<b>336.0</b>	<b>330.7</b>	<b>343.6</b>	<b>346.7</b>	<b>381.4</b>	<b>414.7</b>	<b>381.4</b>
Current Payables	17.2	40.0	41.0	40.5	41.4	42.4	43.4	42.4
Total Debt	51.2	50.3	33.0	20.7	0.7	0.7	0.7	0.7
Other Liabilities	21.3	25.1	25.4	25.2	25.5	25.7	26.0	25.7
<b>Total Liabilities</b>	<b>89.7</b>	<b>115.4</b>	<b>99.4</b>	<b>86.4</b>	<b>67.6</b>	<b>68.9</b>	<b>70.2</b>	<b>68.9</b>
Minorities / Convertibles	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholder Equity</b>	<b>210.1</b>	<b>220.6</b>	<b>231.2</b>	<b>257.1</b>	<b>279.0</b>	<b>312.5</b>	<b>344.5</b>	<b>312.5</b>
<b>Total Funds Employed</b>	<b>261.3</b>	<b>270.9</b>	<b>264.2</b>	<b>277.9</b>	<b>279.7</b>	<b>313.2</b>	<b>345.2</b>	<b>313.2</b>



## RETURN RE-INVESTMENT MATRIX

Return	High	Cash Generator	Champion
	Low	Challenged	Potential
		Low	High
		Re-investment	

Currently progressing 20ktpa copper mine in South Australia. Project largely de-risked and should provide consistent returns. We also consider ability to grow organically as likely.

## RISK MEASURES

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Share price risk - Earnings subject to copper price exposure and strength of AUD.

Business Risk - Main risk is that project does not deliver forecast copper production profile. Further risk is that exploration potential in South Australia and South-East Asia is not realised.

## BUSINESS DESCRIPTION

HGO is an Australian mining company focused on the operation of the Kanmantoo Copper mine in South Australia, and exploration on its Indonesian tenements. In Indonesia, HGO is targeting the discovery of epithermal gold and porphyry copper/gold deposits. The Kanmantoo Copper mine is located less than 55km from Adelaide. Ramp-up of the open pit mine and processing circuit is progressing to an initial throughput of 2.4Mtpa producing ~80kt of concentrate per annum (~20ktpa of copper metal).

## INVESTMENT THESIS

HGO recently completed a \$19m raising to provide sufficient working capital to allow the company to address elevated grade dilution and low mining rates at its Kanmantoo mine. In our base case, we operational improvements are achieved and we value the company at \$0.24/sh. The current share price approximately reflects the replacement value of the Kanmantoo mine. Whilst we highlight the near term operating risks, we do see value should these issues be resolved. We rate a Speculative Buy.

## REVENUE DRIVERS

- Copper and gold prices
- Improved mining rates and copper feed grades to the mill
- Successful exploration at Kanmantoo and Indonesia

## BALANCE SHEET

- Equity: 793.7m FPO
- Options: 38.9m
- Cash: \$27m (31 Jan 2013)
- Debt: \$50m (31 Jan 2013)

## KEY ASSETS

- Kanmantoo Copper Mine (South Australia): is an open-cut mine with throughput of 2.8Mt pa, producing approximately 80,000t of concentrate, containing about 20,000t of copper metal and 10,000oz of gold with exploration potential for further copper

## RESERVES & RESOURCES

- Kanmantoo  
 In-situ Resource: 31.2Mt @ 0.82% Copper  
 Long term stockpile Resource: 1.6Mt @ 0.37% Copper

## BOARD

- Dean Brown (Chairman)
- John Gooding (Non-Executive Director)
- John Quirke (Non-Executive Director)
- Douglas Snedden (Non-Executive Director)
- Edwin Zemancheff (Non-Executive Director)

## KEY ISSUES / CATALYSTS

- Mill feed grades achieving 0.8% by end of April 2013.
- Increased Resource at Kanmantoo to increase mine life towards 10 years.
- Exploration success in Indonesia provides optionality for HGO

## MANAGEMENT

- Mr Greg Hall (Managing Director)
- Russell Middleton (Chief Financial Officer)
- Shanthi Smith (Company Secretary)
- Steven McClare (General Manager (Kanmantoo Copper Mine))

## RISK TO VIEW

- Inability to achieve and maintain full production capacity at Kanmantoo.

## MISCELLANEOUS AND OTHER

## CONTACT DETAILS

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#### Return Reinvestment Matrix and Risk Measures

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

#### Recommendation Structure and Other Definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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