



Hillgrove Resources (HGO)

On The Mend. Upgrading Price Target to 10.8c/share.

BUY

Risk: HIGH

Key Information

Price (\$)	0.090
Target Price (\$)	0.108
Net Present Value (\$)	0.123
Market Cap (\$M)	106.06
GICS Sector	Materials
52 week Hi-Lo (\$)	0.15 - 0.05
Daily Vol (M, mth avg)	2.32
Weight of S&P 200 Index (%)	0.00
Cash (\$M)	16.50
Debt (\$M)	44.50
Gearing [ND/(ND+E)] (%)	10.79
Forecast Total Return (%)	20.00

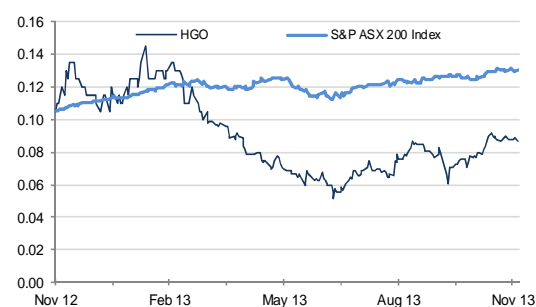
Investment Fundamentals

YE 31 Jan	FY12A	FY13A	FY14E	FY15E
Sales (\$M)	15.5	109.5	143.5	176.9
EBITDA (\$M)	-2.1	12.8	44.3	56.2
Margin (%)	n.a.	11.7	30.9	31.8
NPAT (\$M)	-1.4	-13.3	6.7	12.0
EPS (cps)	-0.1	-1.1	0.6	1.0
EPS Growth (%)	n.a.	n.a.	n.a.	78.8
DPS (cps)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

Ratio Analysis

YE 31 Jan	FY12A	FY13A	FY14E	FY15E
PE (x)	-74.2	-7.9	15.9	8.9
Yield (%)	0.0	0.0	0.0	0.0

HGO vs S&P/ASX Market Index



Performance	1 Mth	3 Mth	12 Mth
Absolute (HGO) (%)	8.8	14.5	-11.2
Rel to Market (%)	7.6	9.2	-35.4

Major Shareholders

Shareholder	%
Perennial	10.4
Adriadne	9.4
Renaissance	8.4
Colonial First State	6.1

Directors and Management

Hon. Dean Brown	Non-Executive Chairman
Greg Hall	CEO & Managing Director
Douglas Snedden	Non-Executive Director
Edwin Zemancheff	Non-Executive Director
John Gooding	Non-Executive Director
John Quirke	Non-Executive Director
Russell Middleton	CFO
Shanthi Smith	Company Secretary
Steven McClare	General Manager, Kanmantoo

Event

Production report for the quarter ended October 2013.

Highlights

▪ **Production:** HGO produced 4,306t of copper for the Oct'13 quarter which was ~6% below our estimates of 4,579t driven by a lower grade for the quarter (0.63% Cu vs. our estimate of 0.70% Cu). It is important to note however, that HGO had a quarter of transition, where mining was taken in-house and that the month of October produced 46.8% (2,014t) of the quarter's total copper production at a milled grade of 0.79% Cu, which is a significant improvement to past quarters.

▪ **Operational Performance:** HGO achieved a mill throughput record, with 756kt of ore milled for the Oct'13 quarter (2.9% above our expectations of 735kt). New mining operations ramped up during the quarter, with productivity improvements increasing through the September and October months. Shift crews were fully established by early November and larger excavators have been ordered for further increase of mining tonnes.

▪ **Cash Costs:** C1 costs for the quarter of US\$2.80/lb were impacted by the mining changeover in the first half of the Oct'13 quarter, but decreased to below target range for the month of October to US\$2.07/lb.

▪ **NPV Update:** Our NPV has reduced due to:

○ **Commodity Price Forecasts:** The spot price of copper has fallen ~3% to 7,000/t and we have downgraded our base case copper price forecasts (CY'14: -0.5% to US\$6,987/oz; CY'15: -0.5% to US\$6,939/oz; CY'16 +0.3% to US\$7,115/oz, Long Term (CY'19): -2.2% to US\$7,078). These changes have had a negative valuation impact on HGO's NPV of 0.5c/share (from 13.4c/share to 12.9c/share).

○ **Reserve Grade Update:** Earlier in the quarter, HGO updated its reserves. Importantly, in-situ grades declined from 0.85% Cu to 0.73% Cu. Our previous long term estimates were for a milled grade of 0.75% Cu, having adjusted this in-line with the new reserve, our NPV decreases by another 0.6c/share. (From 12.9c/share to 12.3c/share).

▪ **Target Price:** We have now halved our previous discount to NPV of 25% to 12.5% (Target Price from 10.0c/share to 10.8c/share) in light of HGO having released its updated reserves and having achieved a significant improvement in grades in the month of October. We will consider removing the discount following a positive Jan'14 quarter.

Recommendation

We continue to believe that the changes in management are starting to feed through into operations positively. In light of the green shoots exhibited in the month of October, and a run up of 24.7% in the stock price following our last note (Published at 7.3c/share), **we upgrade our 12 Month Price Target to \$10.8c/share and maintain our BUY recommendation.**

Refer to disclaimer on last page



Financial Summary

Market Valuation Metrics

Recommendation	BUY
Risk	HIGH
Price (A\$)	0.090
Target Price (A\$)	0.108
Net Present Value (A\$)	0.123
Issued Capital (M)	1,178.5
Market Cap (\$m)	106.1
Year End	31 Jan

Investment Statistics

YE 31 Jan	FY12A	FY13A	FY14E	FY15E	FY16E
NPAT (Reported)	(8.5)	(11.8)	6.3	12.0	8.2
NPAT (Adjusted)	(1.4)	(13.3)	6.7	12.0	8.2
EPS (Adj \$)	(0.00)	(0.01)	0.01	0.01	0.01
P/E (x)	n.a.	n.a.	15.9	8.9	13.0
P/NPV (x)	0.6	0.7	0.7	0.6	0.7
Div (\$)	0.00	0.00	0.00	0.00	0.00
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
(ND/(ND+E)) (%)	12.4%	9.4%	7.1%	0.0%	0.0%
Net Debt/Equity (%)	14.1%	10.4%	7.6%	0.0%	0.0%
ROE (%)	-0.7%	-6.1%	2.8%	4.8%	3.2%
ROA (%)	-0.5%	-4.0%	2.1%	3.9%	2.8%

Profit & Loss Statement (A\$m)

YE 31 Jan	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue	15.5	109.5	143.5	176.9	168.8
Revenue growth (%)	na	606.7%	31.0%	23.2%	(4.6%)
EBITDA	(2.1)	12.8	44.3	56.2	47.1
EBITDA margin (%)	(13.4%)	11.7%	30.9%	31.8%	27.9%
Depreciation & Amortization	(5.2)	(26.5)	(26.8)	(34.8)	(35.8)
EBIT	(7.2)	(14.4)	13.6	18.4	8.3
EBIT margin (%)	(46.7%)	(13.2%)	9.4%	10.4%	4.9%
Net interest	(1.9)	(6.5)	(5.8)	(2.3)	2.4
Pretax profit	(2.0)	(19.1)	8.7	17.1	11.7
Tax	3.9	8.8	(2.1)	(5.1)	(3.5)
Reported NPAT	(8.5)	(11.8)	6.3	12.0	8.2
Significant items	7.0	(1.6)	0.4	0.0	0.0
Normalised NPAT	(1.4)	(13.3)	6.7	12.0	8.2
NPAT margin (%)	(9.2%)	(12.2%)	4.7%	6.8%	4.8%

Cashflow Statement (A\$m)

YE 31 Jan	FY12A	FY13A	FY14E	FY15E	FY16E
EBITDA	(2.1)	12.8	44.3	56.2	47.1
Working Capital Investment (Inc)/Dec	(21.7)	5.7	(22.9)	(0.3)	0.1
Gross Cash Flow	(23.8)	18.5	21.4	55.9	47.2
Net interest (paid)/received	(1.9)	(6.5)	(5.8)	(2.3)	2.4
Tax Paid	0.0	0.0	0.0	0.0	(3.3)
Other	3.5	19.5	0.2	1.0	1.0
Operating cashflow	(22.2)	31.5	15.8	54.6	47.2
Investing Activities	(127.4)	(45.7)	(21.5)	(8.0)	(8.0)
Free Cash Flow	(149.7)	(14.2)	(5.7)	46.6	39.2
Equity raised/options exercised	0.0	17.8	10.8	0.0	0.0
Debt Raised/(paid)	38.6	15.0	(10.9)	(28.5)	(11.1)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other	14	-12	0	0	0
Financing cashflow	52.5	20.9	(0.1)	(28.5)	(11.1)
Net change in cash	(97.2)	6.7	(5.8)	18.1	28.1

Balance Sheet (A\$m)

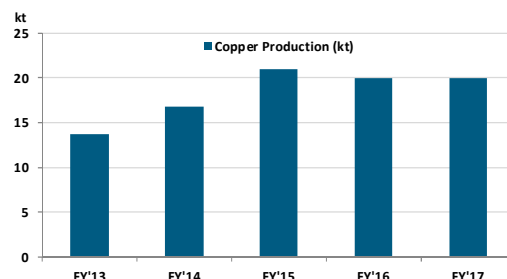
YE 31 Jan	FY12A	FY13A	FY14E	FY15E	FY16E
Cash	20.7	27.4	21.6	39.7	67.9
Property, Plant & Equipment	248.3	260.6	246.6	216.8	185.9
Deferred Tax Asset	5.4	12.9	10.4	5.3	1.8
Other	25.3	35.1	40.4	41.5	41.2
Total assets	299.6	336.0	319.1	303.3	296.8
Debt	50.3	50.3	39.6	11.1	0.0
Other	39.3	65.1	42.5	43.2	43.0
Total liabilities	89.6	115.4	82.1	54.3	43.0
Total shareholders equity	210.0	220.6	237.0	249.0	253.8

Rahul Anand
+61 2 9238 1275
ranand@shawstock.com.au

Vincent Pisani
+61 2 9238 1296
vpisani@shawstock.com.au

Production (kt)

YE 31 Jan	FY13A	FY14E	FY15E	FY16E	FY17E
Kanmantoo	13.7	16.8	21.0	20.0	20.0
Other	0.0	0.0	0.0	0.0	0.0
Total	13.7	16.8	21.0	20.0	20.0



Cash Costs Summary (US\$/lb)

YE 31 Jan	FY13A	FY14E	FY15E	FY16E	FY17E
C1 Cash Costs	2.19	2.35	1.95	2.05	2.03
Total Cash Costs	2.24	2.39	1.99	2.09	2.08

Total Costs Summary (US\$/lb)

YE 31 Jan	FY13A	FY14E	FY15E	FY16E	FY17E
Total Costs	3.20	3.08	2.65	2.81	2.83

Total Resources & Reserves

Resources	Mt	Cu (%)	Au (g/t)	Ag (g/t)	Cu (kt)
Total - In Situ	31.2	0.8	0.2	2.2	256.6
Total - Stockpiles	1.6	0.4	n.a.	n.a.	5.9
Total Kanmantoo	32.8	0.8	0.2	2.2	262.6
Reserves	Mt	Cu (%)	Au (g/t)	Ag (g/t)	Cu (kt)
Total - In Situ	20.7	0.7	0.2	1.9	150.3
Total - Stockpiles	1.4	0.5	0.0	0.0	6.4
Total Kanmantoo	22.1	0.7	0.2	1.9	156.9

Base Case Assumptions*

YE 31 Jan	FY'12A	FY'13A	FY'14E	FY'15E	FY'16E
Copper Price (US\$/t)	8,349	8,068	7,341	6,987	6,939
A\$:US\$	1.0231	1.0339	0.9405	0.8825	0.8800

* Bloomberg & Consensus Economics

Sum of the Parts Valuation (SOP - NPV_{12.5})

Component	\$m	/Share
Kanmantoo	192.0	0.163
Hedging	2.4	0.002
Corp Costs	-41.1	-0.035
Net Debt/Cash	-18.0	-0.015
Other/Exploration	5.0	0.004
Total	140.3	0.119

Sensitivity Analysis - Changes in Copper Price

Copper Price (US\$) - In Perpetuity	DCF	/share
Base Case Assumptions	155	0.132
\$5,500	57	0.048
\$6,000	83	0.071
\$6,500	109	0.093
\$7,000 (Spot)	134	0.114
\$7,500	159	0.135
\$8,000	183	0.155

Sensitivity Analysis - Changes in Weighted Average Cost of Capital

WACC	DCF	/share
9.5%	172	0.146
10.5%	166	0.141
11.5%	118	0.100
12.5% (Base Case)	155	0.132
13.5%	150	0.128
14.5%	146	0.124
15.5%	141	0.120

Head of Equities

Garry Lowrey +612 9238 1574

Research

Head of Research, Strategy, Diversified Financials

Martin Crabb mcrabb@shawstock.com.au +612 9238 1352

Executive Assistant - Research

Melody Matthews mmatthews@shawstock.com.au +612 9238 1299

Industrials

Biotech, Commercial Services, Travel

Darren Vincent dvincent@shawstock.com.au +612 9238 1269

Financial Services, Media, Telcos

David Spotswood dspotswood@shawstock.com.au +613 9268 1115

Mining Services / Contractors, Small Retailers

Danny Younis dyounis@shawstock.com.au +612 9238 1292

Retail, Real Estate

Scott Marshall smarshall@shawstock.com.au +612 9238 1219

Resources

Resources & Mining

Vincent Pisani vprisani@shawstock.com.au +612 9238 1296

Associate Analysts

Aaron Yeoh ayeoh@shawstock.com.au +613 9268 1147

Henry Hill hhill@shawstock.com.au +612 9238 1279

Rahul Anand ranand@shawstock.com.au +612 9238 1275

Institutional Sales

Head of Institutional Equities

Rick Cole rcole@shawstock.com.au +612 9238 1515

Institutional Equities Admin Manager

Julia Brozina jbrozina@shawstock.com.au +612 9238 1503

Institutional Sales

Scott Coventry scoventry@shawstock.com.au +612 9238 1363

Steven Jolly sjolly@shawstock.com.au +612 9238 1527

David Erskine derskine@shawstock.com.au +613 9268 1061

Grant Maze gmaze@shawstock.com.au +613 9268 1120

Corporate Finance

Ronald Rajendra rrajendra@shawstock.com.au +612 9238 1268

Grace Belsito gbelsito@shawstock.com.au +612 9238 1226

John Bowie Wilson jbowiewilson@shawstock.com.au +612 9238 1253

Verity Barritt vbarritt@shawstock.com.au +612 9238 1344

Rating Classification

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

Risk Rating

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.

Disclaimer

Shaw Stockbroking Limited ABN 24 003 221 583 ("Shaw") is a participant of ASX Limited and holder of Australian Financial Services Licence number 236048.

ANALYST CERTIFICATION: The Research Analyst who prepared this report hereby certifies that the views expressed in this document accurately reflect the analyst's personal views about the Company and its financial products. The Research Analyst has not been, is not, and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report. As at the date of this report the Research Analyst does not have an interest in the financial products of the Company.

DISCLAIMER: This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs ("personal circumstances"). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your personal circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client adviser. This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so. This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it. If you rely on this report, you do so at your own risk. Any projections are estimates only and may not be realised in the future. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence. This publication has been prepared in accordance with Shaw's Research Policy. A copy of the Policy can be found at www.shawstock.com.au.

DISCLOSURE: Shaw will charge commission in relation to client transactions in financial products and Shaw client advisers will receive a share of that commission. Shaw, its authorised representatives, its associates and their respective officers and employees may have earned previously, or may in the future earn fees and commission from dealing in the Company's financial products.

RISK STATEMENT: Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

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

BRISBANE: Level 21, 345 Queen Street, Brisbane QLD 4000 Tel (07) 3012 6170

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

PERTH: Level 14, 197 St Georges Terrace, Perth WA 6000 Tel (08) 6188 7643

www.shawstock.com.au