

BUY

HOLD

SELL

### ACTION & RECOMMENDATION

We retain our **SPECULATIVE BUY** rating on Hillgrove Resources. The January quarter represented a standout performance with contained copper production of 5.84 kt, a new quarterly record by 36% – this was driven by a strong performance at the Kanmantoo mine, with a mined copper grade of 0.85%. Hillgrove also provided updated guidance for FY15 of 22.3-24.6 kt (we had forecast 21.7 kt), a substantial improvement on the previous 12 months' production of 17.2 kt. We continue to view Hillgrove as undervalued by the market. Our share price target of \$0.122 represents a 12-month total shareholder return of 34%.

### FY15 production guidance a positive surprise

#### What's Changed

- Hillgrove has released a summary of its production statistics for the January quarter – 5.84 kt of contained copper (+5% versus WHTMe) and 1.28 koz of contained gold. The copper production equates to 23.4 ktpa on an annualised basis. Full-year production of 17.18 kt was above previous guidance of 16.8-17.0 kt (which was provided in early January).
- Hillgrove has also provided detailed production guidance for the year to January 2015 that was above our expectations: 22.3-24.6 kt of contained copper, processed copper grade of 0.83-0.88% copper, and copper recoveries of 92.5-93.5%. We have increased our forecast contained copper production from 21.7 kt to 23.5 kt.
- The updated guidance paints a healthy picture for cash flows over the next 12 months. We anticipate Hillgrove being in a net cash position by the end of the October 2014 quarter (we forecast free cash flow of around \$37 million over the next 12 months).

#### Risks & Catalysts

- Key risks around HGO:** 1) Consistency in delivering feed to the mill of around 0.80% copper, 2) operational risk at the Kanmantoo mine, especially while it is operating a single open pit with single lane ramp, and 3) future weakness in the copper price.
- Catalysts:** 1) Full January 2014 quarterly report (due the week of 24 February) with reported cash costs and cost guidance for FY15; 2) the April 2014 quarterly report which should demonstrate consistency in delivering grades of more than 0.80% copper to the mill; and 3) an improved copper market or weaker AUD.

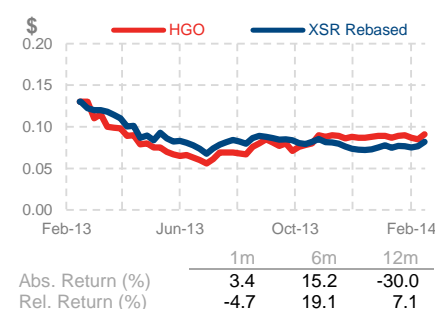
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (\$m)	11.6	115.4	140.0	191.8	171.1
EBITDA Margin (%)	-18	12	25	27	22
NPAT Norm (\$m)	-4.1	-10.2	4.2	18.3	11.1
Consensus NPAT (\$m)			6.7	12.0	11.2
EPS Norm (cps)	-0.7	-1.2	0.4	1.7	1.1
EPS Growth (%)		-84	132	339	-39
P/E Norm (x)	-13.6	-7.4	23.0	5.2	8.7
EV / EBITDA (x)	-65.5	10.0	3.9	2.7	3.6
CFM (x)	-4.6	4.4	5.6	2.9	3.4
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0
<b>Mkt Cap:</b> \$107m	<b>Enterprise Value:</b> \$138m	<b>Shares:</b> 1,180m	<b>Sold Short:</b> 0.0%		

<b>12m Target Price (AUD)</b>	<b>\$0.122</b>
Share Price @ 14-Feb-14 (AUD)	\$0.09
Fcst 12m Capital Return	34.3%
Fcst 12m Dividend Yield	0.0%
<b>12m Total S'holder Return</b>	<b>34.3%</b>

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#### 12m Share Price Performance



#### WHTM Return Re-investment Matrix

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

#### WHTM Risk Assessment

		Low	Med	High	Spec
Share Price Risk					
Business Risk					

Key Changes	21-Jan	After	Var %
<b>Revenue</b> FY14	139	140	0.9%
(\$m) <b>FY15</b>	179	192	7.1%
<b>FY16</b>	171	171	0.0%
<b>EBITDA:</b> FY14	37.0	35.7	-3.6%
(\$m) <b>FY15</b>	44.1	52.2	18.2%
<b>FY16</b>	38.4	38.4	0.0%
<b>EPS:</b> FY14	0.5	0.4	-19.3%
<b>Norm</b> FY15	1.2	1.7	43.4%
(cps) <b>FY16</b>	1.1	1.1	-1.1%
<b>Price Target:</b>	<b>0.12</b>	<b>0.12</b>	<b>-0.9%</b>
<b>Rec:</b>	<b>BUY</b>	<b>BUY</b>	
<b>ASX 300 wgt:</b> 0.0%	<b>Median T'over/Day:</b> \$0.1m		

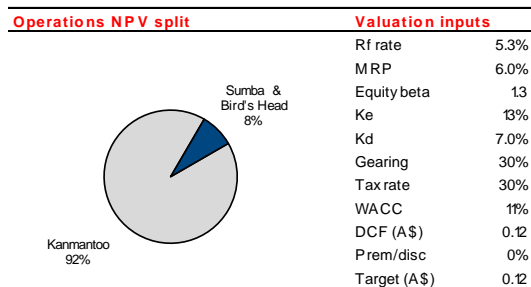
#### Wilson HTM Equities Research – Hillgrove Resources Limited

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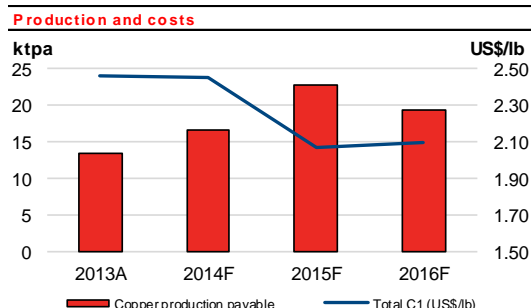


**TABLE 1: HGO – FINANCIAL SUMMARY**

<b>Capital profile</b>				<b>Jan year end</b>					
				2013A	2014F	2015F	2016F	2017F	
Number of shares (m)	1,179			NPAT Reported (A\$m)	-11.8	6.5	18.3	11.1	8.3
Market capitalisation (A\$m)	107			NPAT Normalised (A\$m)	-10.2	4.2	18.3	11.1	8.3
Enterprise value (A\$m)	129			EPS (A¢)	-1.1	0.4	1.7	1.1	0.8
Enterprise value (US\$m)	119			CFPS (A¢)	-0.6	0.2	3.7	4.2	3.8
				DPS (A¢)	0.0	0.0	0.0	0.0	0.0
				P/E (x)	nm	23.0	5.2	8.7	11.5
				P/CF (x)	-14.4	39.3	2.5	2.1	2.4
				EV/EBITDA (x)	9.4	3.6	1.8	1.4	0.5
				EPS Growth	118%	-136%	339%	-39%	-25%
				Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
				<b>Assumptions FY</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				AUD/USD	1.04	0.97	0.91	0.90	0.87
				Copper price (US\$/lb)	3.70	3.62	3.31	3.25	3.28
				Gold price (US\$/oz)	1669	1412	1269	1281	1250
				Silver price (US\$/oz)	31.13	23.87	20.38	21.00	20.50
				<b>Total Coal Sales (100%)</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				Copper production payable	13.3	16.6	22.7	19.3	18.1
				Gold production payable	4.7	3.5	5.0	9.6	9.8
				Cu. Equiv production payable (kt)	14.2	17.2	23.5	21.0	19.8
				<b>Cash costs @ Kanmantoo</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				<b>Total C1 (US\$/lb)</b>	<b>2.46</b>	<b>2.45</b>	<b>2.07</b>	<b>2.10</b>	<b>2.15</b>
				Royalties (US\$/lb)	0.05	0.05	0.06	0.07	0.07
				Admin (US\$/lb)	0.28	0.19	0.10	0.11	0.12
				<b>EBITDA costs (US\$/lb)</b>	<b>2.79</b>	<b>2.69</b>	<b>2.23</b>	<b>2.28</b>	<b>2.34</b>
				Sustaining capex (US\$/lb)	0.14	0.08	0.04	0.04	0.04
				<b>All in cash costs (US\$/lb)</b>	<b>2.93</b>	<b>2.77</b>	<b>2.27</b>	<b>2.32</b>	<b>2.38</b>
				D&A (US\$/lb)	0.90	0.65	0.53	0.63	0.69
				<b>EBIT costs (US\$/lb)</b>	<b>3.69</b>	<b>3.34</b>	<b>2.76</b>	<b>2.91</b>	<b>3.03</b>
				<b>Margin analysis</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				EBITDA (US\$/lb)	0.90	0.93	1.08	0.98	0.95
				All-in cash cost margin (US\$/lb)	0.76	0.85	1.05	0.93	0.90
				<b>EBIT (US\$/lb)</b>	<b>0.00</b>	<b>0.28</b>	<b>0.56</b>	<b>0.35</b>	<b>0.26</b>
				<b>Profit and Loss (\$m)</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				Revenue	116	140	192	171	167
				Costs	103	105	140	133	134
				EBITDA	14	36	52	38	33
				Depreciation & amortisation	26	24	24	24	24
				EBIT	-13	12	28	14	9
				Interest income	1	0	1	2	3
				Interest expense	7	6	3	0	0
				MRRT	0	0	0	0	0
				Pre tax profit	-18	6	26	16	12
				Tax expense (benefit)	-8	2	8	5	4
				NPAT - underlying	-10	4	18	11	8
				Significant items	2	-2	0	0	0
				NPAT - reported	-12	6	18	11	8
				<b>Profitability analysis</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				EBIT margin	-	9%	15%	8%	5%
				EBITDA margin	12%	25%	27%	22%	20%
				Effective tax rate	44%	36%	30%	30%	30%
				ROA - EBIT / (total assets - cash)	-4%	4%	10%	6%	5%
				ROE - NPAT / equity	-5%	2%	7%	4%	3%
				<b>Cashflow</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				EBITDA	14	36	52	38	33
				Operating cashflow	28	22	39	34	32
				Sustaining Capex	-4	-3	-2	-2	-2
				Free cashflow	24	19	37	32	30
				Growth Capex	-34	-20	-1	9	7
				Investing cashflow	-46	-32	-3	7	5
				Financing cashflow	24	1	-31	-10	0
				Net Change in cash	7	-8	5	31	37
				<b>Balance Sheet Analysis</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				Debt	50	41	10	0	0
				Equity	221	228	244	254	262
				Assets	336	332	303	288	291
				Cash	27	19	24	55	91
				Net debt	23	22	-14	-55	-91
				Gearing - net debt/equity	10%	10%	-6%	-22%	-35%
				Gearing - net debt/ (net debt + equity)	9%	9%	-6%	-28%	-54%
				Net debt / EBITDA	16	0.6	-0.3	-1.4	-2.8
				EBIT / net interest	-2.2	2.2	13.4	-10.3	-3.1
				EBITDA / net interest	2.4	6.4	24.8	-27.6	-11.4



Sensitivity (A\$ps/A\$m)	NPV (\$ps)	2015F	2016F
<b>Base Case NPV / NPAT</b>	<b>0.122</b>	<b>18.3</b>	<b>11.1</b>
Copper price +10% increase	+0.04	+4.4	+10.0
<b>Copper price +10% increase</b>	<b>+34%</b>	<b>+40%</b>	<b>+120%</b>
AUD +10% increase	-0.04	-4.5	58.1
<b>AUD +10% increase</b>	<b>-32%</b>	<b>-41%</b>	<b>87%</b>
AUD +1¢ increase	0.00	-0.5	6.7
<b>AUD +1¢ increase</b>	<b>-4%</b>	<b>-5%</b>	<b>10%</b>



Source: Wilson HTM, company data



## JAN FY14 QTR – PRODUCTION REPORT HIGHLIGHTS

- The Kanmantoo mine performed exceptionally well, with a big jump in total material movements quarter on quarter (from 2.4 Mt to around 4.4 Mt).
- Processing plant throughput was 760 kt of ore – a new quarterly record. Processed copper grade of 0.83% was also very strong.
- Mining rates on site have dramatically increased – January mining was at 500k bcm for the month, well above previous levels. Clearly, the change in bringing the mining work in-house, as well as some new excavators, is having a positive impact on the operations.
- The full quarterly report will be released during the week of 24 February; this will provide details on costs for the quarter and an updated cash position.
- Record quarterly production beat our expectations, and should please investors. The mine appears to be performing well, with grades of 0.85% copper helping to drive the strong production result.
- Strong production guidance for the next 12 months indicates operations are performing well, as well as a high level of confidence from the company. The 22.3-24.6 kt of copper production represents a significant step-up from the past 12 months (17.2kt).

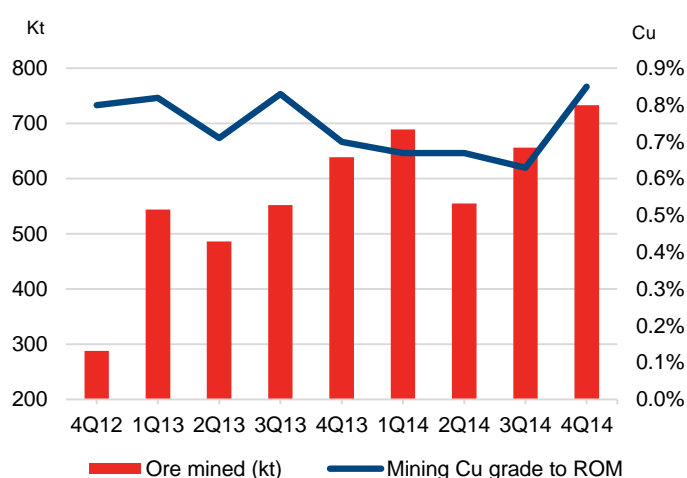
The table below contains a summary of the key financial metrics.

**TABLE 2: FINANCIAL RESULTS – WHTMe VS ACTUAL**

HGO - Quarterly production summary	Apr-13	Jul-13	Oct-13	Jan-14	WilsHTM	QoQ v WilsHTM	Comment
	QTR	QTR	QTR	QTR			
Ore to ROM from pit - Mt	0.69	0.56	0.77	0.73	0.78	-5%	-6%
Total tonnes mined - Mt	3.42	2.71	2.43	4.36	2.84	80%	54%
<b>Mining grade to ROM - Cu</b>	<b>0.67%</b>	<b>0.67%</b>	<b>0.63%</b>	<b>0.85%</b>	<b>0.76%</b>	<b>35%</b>	<b>12%</b>
Ore milled - Mt	0.71	0.72	0.76	0.76	0.75	1%	1%
<b>Milled grade - Cu</b>	<b>0.57%</b>	<b>0.54%</b>	<b>0.63%</b>	<b>0.83%</b>	<b>0.81%</b>	<b>32%</b>	<b>2%</b>
Recovery - Cu	89.1%	89.5%	90.7%	92.4%	91.0%	2%	2%
Cu concentrate produced - dmt	15.57	15.82	19.20	25.05	24.10	30%	4%
<b>Contained metal in conc - Cu - kt</b>	<b>3.59</b>	<b>3.45</b>	<b>4.31</b>	<b>5.84</b>	<b>5.54</b>	<b>36%</b>	<b>5%</b>
Contained metal in conc - Au - oz	2.24	1.27	1.18	1.28	1.74	9%	-26%
Contained metal in conc - Ag - oz	28.30	27.30	33.10	44.15	39.79	33%	11%
Total concentrate sold (kt)	16.18	14.13	18.92	24.81	24.10	31%	3%

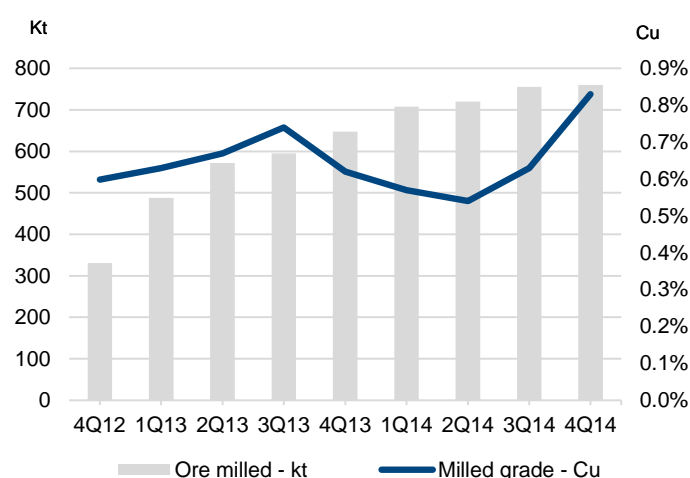
Source: Wilson HTM, company data

**FIGURE 1: ORE MINED AND CU GRADE TO ROM**



Source: Wilson HTM, company data

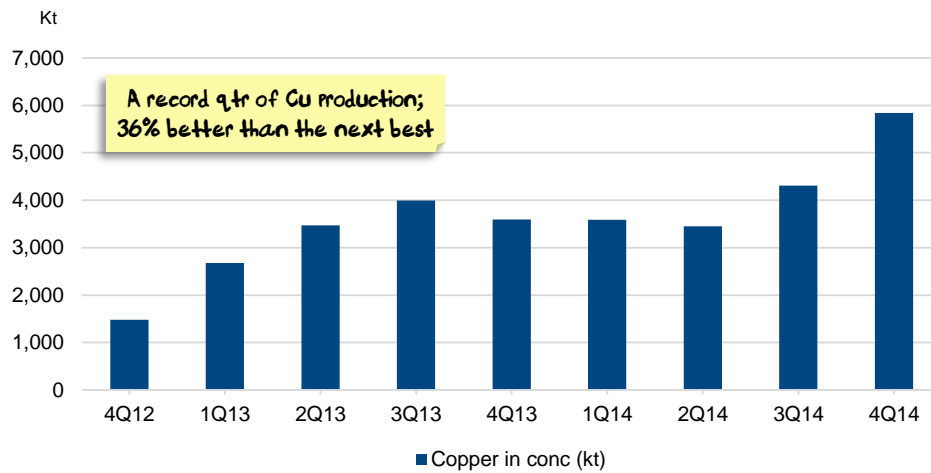
**FIGURE 2: ORE MINED AND CU GRADE TO ROM**



Source: Wilson HTM, company data

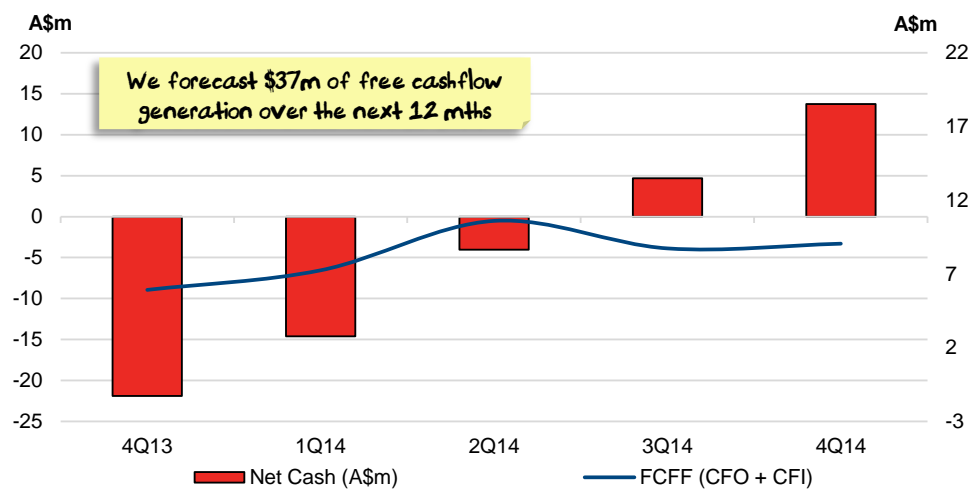


**FIGURE 3: ORE SHIPPED AND MINED**



Source: Wilson HTM, company data

**FIGURE 4: IMPROVING FREE CASH FLOW AND CASH BALANCE**



Source: Wilson HTM, company data

**GUIDANCE**

- Hillgrove has provided detailed production guidance for the year to January 2015 of 22.3-24.6 kt of contained copper, 7-9 koz of contained gold (WHTMe: 23.5kt copper, 8.2 koz gold), processed copper grade of 0.83-0.88% copper, and copper recoveries of 92.5-93.5%.



## CHANGES TO FORECASTS

### Changes to underlying NPAT, valuation & target price

Our earnings forecasts have increased over the forecast period after improvements to our production forecasts – notably we have increased forecast contained copper production from 21.7 kt to 23.5 kt. Our target price is unchanged.

	2014f	2015f	2016f	2017f	NPV (A\$ps)	Target price (A\$ps)
Underlying NPAT (A\$m) - previous	5.2	12.7	11.2	8.4	0.12	0.12
Underlying NPAT (A\$m) - revised	4.2	18.3	11.1	8.3	0.12	0.12
Change (A\$m)	-1.0	5.5	-0.1	-0.1	0.00	0.0
Change (%)	-19%	43%	-1%	-1%	-1%	-1%

Source: Wilson HTM, company data

## VALUATION AND RISKS

We value Hillgrove using a discounted cash flow methodology, on which we base our target price. We apply a weighted average cost of capital of 10.6%. Key downside risks to our target price are higher capex or operating costs, or lower achieved copper prices, than we have forecast. The main upside risks to our forecasts are higher-than-expected achieved prices, or shipments above our expectations.



PRICE TARGET		
	Val. A\$m	Val. A\$ps
Kanmantoo	166.653	0.141
Sumba & Bird's Head	15.000	0.013
<b>Total Operations</b>	<b>181.653</b>	<b>0.154</b>
Net (debt) / cash	-21.887	-0.019
Corporate overheads	-15.799	-0.013
Franking Credits	0.000	0.000
Listed investments	0.000	0.000
Exploration	0.000	0.000
<b>Total Valuation</b>	<b>143.968</b>	<b>0.122</b>
Premium (Discount)		0.000
<b>Target Price</b>		<b>0.122</b>

INTERIMS (\$m)				
Half Yr (AUD)	Jul 12	Jan 13	Jul 13	Jan 14
	1H A	2H A	1H E	2H E
Sales	50.1	65.2	58.6	81.4
EBITDA	3.2	10.7	18.7	17.0
EBIT	-13.1	0.5	6.3	5.8
<b>Net Profit</b>	<b>-11.7</b>	<b>1.5</b>	<b>1.7</b>	<b>2.4</b>
<b>Norm. EPS</b>	<b>-1.4</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
EBIT/Sales	-26.1	0.7	10.7	7.1
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

FINANCIAL STABILITY			
Year-end January	FY13A	FY14E	FY15E
Net Debt	22.9	21.9	-13.7
Net Debt / Equity (%)	9.9	9.6	<0
<b>Net Debt / EV (%)</b>	<b>16.5</b>	<b>15.8</b>	<b>&lt;0</b>
Current Ratio (x)	4.6	5.5	9.8
Interest Cover (x)	<0	2.2	13.4
<b>Adj. Cash Int. Cover (x)</b>	<b>3.8</b>	<b>4.9</b>	<b>22.1</b>
Debt / CashFlow (x)	1.8	2.3	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)				
	FY13A		FY14E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	115	115	140	140
EBIT	-11.1	-12.6	9.7	12.0
<b>Net Profit</b>	<b>-8.7</b>	<b>-10.2</b>	<b>1.9</b>	<b>4.2</b>
Notional Earn.	0.0	0.0	0.0	0.0
Pref./Conv. Div.	0.0	0.0	0.0	0.0
<b>Profit for EPS</b>	<b>-8.7</b>	<b>-10.2</b>	<b>1.9</b>	<b>4.2</b>
Diluted Shrs(m)	834	834	1,052	1,052
<b>Diluted EPS (c)</b>	<b>-1.0</b>	<b>-1.2</b>	<b>0.2</b>	<b>0.4</b>

RETURNS				
	FY13A	FY14E	FY15E	FY16E
ROE (%)	-4.6	1.8	7.7	4.4
ROIC (%)	-3.6	3.3	8.2	4.7
Incremental ROE	-58.5	160.4	212.5	-56.2
Incremental ROIC	-52.5	337.9	-97.0	37.8

KEY ASSUMPTIONS								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
AUD/USD	1.0330	1.0359	0.9684	0.9075	0.8950	0.8727	0.8450	0.8173
Copper price (US\$/lb)	4.09	3.70	3.33	3.33	3.40	3.30	3.20	3.08
Copper price (US\$/t)	9,027	8,150	7,332	7,330	7,495	7,275	7,054	6,779
Gold price (US\$/oz)	1,572	1,669	1,412	1,269	1,281	1,250	1,241	1,216
Silver price (US\$/oz)	35.3	31.1	23.9	20.4	21.0	20.5	20.7	20.2
Copper Prod Payable (kt)	1.4	13.3	16.6	22.7	19.3	18.1	18.1	18.1
Gold Prod Payable (koz)	0.0	4.7	3.5	5.0	9.6	9.8	9.8	9.8
Cu. Equiv Prod Payable (kt)	0.0	14.2	17.2	23.5	21.0	19.8	19.8	19.8

PROFIT & LOSS (\$m)								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales Revenue	11.6	115.4	140.0	191.8	171.1	166.9	168.1	167.2
EBITDA	-2.1	13.9	35.7	52.2	38.4	33.0	24.4	19.9
Depn & Amort	5.2	26.5	23.6	24.0	24.0	24.0	24.0	24.0
<b>EBIT</b>	<b>-7.3</b>	<b>-12.6</b>	<b>12.0</b>	<b>28.2</b>	<b>14.4</b>	<b>9.0</b>	<b>0.4</b>	<b>-4.1</b>
Net Interest Expense	-1.2	5.7	5.5	2.1	-1.4	-2.9	-4.1	-4.9
Tax	-2.0	-8.1	2.3	7.8	4.7	3.6	1.4	0.2
Minorities / pref divs	0.0	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>-4.1</b>	<b>-10.2</b>	<b>4.2</b>	<b>18.3</b>	<b>11.1</b>	<b>8.3</b>	<b>3.2</b>	<b>0.5</b>
Abn's / Ext's / Signif.	4.4	1.6	-2.3	0.0	0.0	0.0	0.0	0.0
<b>Reported Net Profit</b>	<b>0.3</b>	<b>-8.7</b>	<b>1.9</b>	<b>18.3</b>	<b>11.1</b>	<b>8.3</b>	<b>3.2</b>	<b>0.5</b>

CASHFLOW (\$m)								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
EBITDA	-2.1	13.9	35.7	52.2	38.4	33.0	24.4	19.9
Interest & Tax	2.8	-3.1	-4.7	-7.1	-4.7	-0.9	1.9	4.1
Working Cap / Other	-20.1	17.6	-8.9	-6.5	0.0	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>-19.5</b>	<b>28.4</b>	<b>22.0</b>	<b>38.6</b>	<b>33.7</b>	<b>32.1</b>	<b>26.3</b>	<b>23.9</b>
Maintenance Capex	-4.0	-4.0	-3.0	-2.0	-2.0	-2.0	-2.0	-2.0
<b>Free Cash Flow</b>	<b>-23.5</b>	<b>24.4</b>	<b>19.0</b>	<b>36.6</b>	<b>31.7</b>	<b>30.1</b>	<b>24.3</b>	<b>21.9</b>
Dividends Paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Capex	-128.1	-34.1	-19.7	-0.9	9.3	6.6	-2.0	-5.0
Invest. / Disposals	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Other Inv. Flows	14.4	-81.4	-9.0	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow Pre Financing</b>	<b>-137.2</b>	<b>-90.8</b>	<b>-9.6</b>	<b>35.6</b>	<b>41.0</b>	<b>36.6</b>	<b>22.3</b>	<b>17.0</b>
Funded by Equity	0.0	97.5	10.8	0.0	0.0	0.0	0.0	0.0
Funded by Debt	40.0	0.0	-9.6	-31.0	-9.9	0.0	0.0	0.0
Funded by Cash	97.2	-6.7	8.4	-4.6	-31.1	-36.6	-22.3	-17.0

BALANCE SHEET SUMMARY (\$m)								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Cash	20.7	27.4	19.0	23.6	54.7	91.4	113.6	130.6
Current Receivables	6.4	6.4	2.5	1.7	0.8	0.4	0.2	0.1
Current Inventories	9.3	19.7	35.5	24.2	10.7	5.3	2.7	1.3
Net PPE	229.4	243.5	222.2	201.2	169.8	141.3	121.3	104.3
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles / Capitalised	1.0	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Other	32.9	48.7	51.9	51.9	51.9	51.9	51.9	51.9
<b>Total Assets</b>	<b>299.6</b>	<b>346.3</b>	<b>331.6</b>	<b>303.0</b>	<b>288.4</b>	<b>290.6</b>	<b>290.1</b>	<b>288.6</b>
Current Payables	16.0	41.6	40.8	26.9	12.8	6.5	3.5	1.8
Total Debt	50.3	50.3	40.9	9.9	0.0	0.0	0.0	0.0
Other Liabilities	23.4	23.5	22.0	22.0	22.0	22.0	22.0	22.0
<b>Total Liabilities</b>	<b>89.6</b>	<b>115.4</b>	<b>103.7</b>	<b>58.8</b>	<b>34.8</b>	<b>28.5</b>	<b>25.5</b>	<b>23.8</b>
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholder Equity</b>	<b>210.0</b>	<b>231.0</b>	<b>227.9</b>	<b>244.2</b>	<b>253.6</b>	<b>262.1</b>	<b>264.6</b>	<b>264.8</b>
<b>Total Funds Employed</b>	<b>260.3</b>	<b>281.2</b>	<b>268.8</b>	<b>254.1</b>	<b>253.6</b>	<b>262.1</b>	<b>264.6</b>	<b>264.8</b>



## RETURN RE-INVESTMENT MATRIX

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

Currently progressing a 20 ktpa copper mine in South Australia. Project largely derisked 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 the 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

Hillgrove Resources Limited (HGO) is an Australian mining company focused on the operation of the Kanmantoo copper mine in South Australia, and exploration of 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 55 km from Adelaide. Ramp-up of the open pit mine and processing circuit is progressing to an initial throughput of 2.8 Mtpa producing ~80 kt of concentrate per annum (~20 ktpa of copper metal).

## INVESTMENT THESIS

HGO completed a \$19m raising to provide sufficient working capital to allow it to address elevated grade dilution and low mining rates at its Kanmantoo mine. In our base case, operational improvements are achieved and we value the company at \$0.20/sh. The current share price approximately reflects the replacement value of the Kanmantoo mine. While we highlight the near-term operating risks, we do see value should these issues be resolved. We rate HGO 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: 1,022.8m
- Options: 50m
- Market capitalisation: \$110m (at A\$0.094/sh)
- Cash: \$17m (31-Jul-13)
- Debt: \$48m (31-Jul-13)

## KEY ASSETS

Kanmantoo copper mine (South Australia) is an open-cut mine with throughput of 2.8 Mtpa, producing approximately 80,000 tonnes of concentrate and containing about 20,000 tonnes of copper metal and 10,000 ounces of gold with exploration potential for further copper.

## RESERVES & RESOURCES

- Kanmantoo:
  - In-situ resource: 31.2 Mt @ 0.82% copper
  - Long-term stockpile resource: 1.6 Mt @ 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 the 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

## 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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The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in Hillgrove Resources Ltd. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Hillgrove Resources Ltd in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

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