



**Wilson HTM**  
INVESTMENT GROUP

A Leading Wealth Manager and  
Adviser to Emerging Companies

01 April 2014

# HILLGROVE RESOURCES LIMITED (HGO)

**BUY**

HOLD

SELL

## ACTION & RECOMMENDATION

We retain our **SPECULATIVE BUY** rating on Hillgrove Resources. The company's January 2014 full-year NPAT was \$1.5m, in line with our expectations of \$1.4m. FY15 guidance was reiterated at 22.3-24.6 kt of contained copper with C1 cash cost guidance of US\$2.10-2.40/lb. We now forecast commencement of fully franked dividend payments in CY16, offering a modest 5% yield (with capacity to upsize this considerably). In our view, Hillgrove remains undervalued by the market. Our share price target of \$0.12 represents a 12-month total shareholder return of 48%.

## Jan-14 full-year result – no surprises

### What's Changed

- HGO has reported full-year NPAT of \$1.5m compared with WHTMe of \$1.4m. Underlying earnings were \$1.7m (once a \$0.3m impairment is excluded).
- The \$0.3m impairment was for financial assets available for sale (we view this as a one-off).
- The cash and debt balance were already known from the recent quarterly report: cash balance \$16.5m and debt outstanding \$40.8m.
- There were no changes to FY15 production guidance (22.3-24.6 kt of contained copper) or cost guidance (C1 US\$2.10-2.40/lb). Capex guidance for FY15 was maintained at \$10.6m. HGO has provided pre-strip guidance of ~\$16.0m (WHTMe \$16.2m).
- Dividends:** We forecast the company achieving a net cash position by the end of January 2015. This provides the opportunity for HGO to potentially commence payment of dividends. We now forecast the payment of a 0.4 cps annual dividend (100% franked), offering a 5% yield based on the current share price.

### Risks & Catalysts

- Key risks** around HGO: 1) Consistency in delivering feed to the mill of above 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) The April 2014 quarterly report which should demonstrate consistency in delivering grades of more than 0.80% copper to the mill; and 2) an improved copper market or weaker AUD.

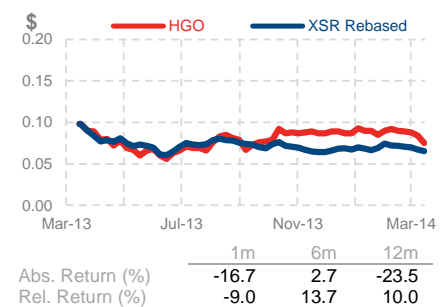
Year-end January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (\$m)	115.4	139.2	191.0	171.2	166.9
EBITDA Margin (%)	12	27	27	22	21
NPAT Norm (\$m)	-10.2	1.7	17.5	9.9	8.2
Consensus NPAT (\$m)			17.2	10.1	
EPS Norm (cps)	-1.2	0.2	1.7	0.9	0.8
EPS Growth (%)	-84	113	923	-43	-18
P/E Norm (x)	-6.6	49.9	4.9	8.6	10.4
EV / EBITDA (x)	8.2	3.0	2.2	3.0	3.3
CFM (x)	3.6	11.1	2.3	2.8	2.9
DPS (cps)	0.0	0.0	0.0	0.4	0.4
Franking (%)	0	0	0	100	100
<b>Mkt Cap:</b> \$89m	<b>Enterprise Value:</b> \$114m		<b>Shares:</b> 1,181m	<b>Sold Short:</b> 1.3%	

<b>12m Target Price (AUD)</b>	<b>\$0.120</b>
Share Price @ 31-Mar-14 (AUD)	\$0.081
Fcst 12m Capital Return	48.4%
Fcst 12m Dividend Yield	0.0%
<b>12m Total S'holder Return</b>	<b>48.4%</b>

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### 12m Share Price Performance



### WHTM Return Re-investment Matrix

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

### WHTM Risk Assessment

Risk	WHTM Risk Assessment			
	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Key Changes	26-Feb	After	Var %
<b>Revenue</b> FY15 (\$m)	192	191	-0.4%
FY16	171	171	0.0%
FY17	167	167	0.0%
<b>EBITDA:</b> FY15 (\$m)	52.2	51.4	-1.5%
FY16	37.8	37.8	0.0%
FY17	34.4	34.4	0.0%
<b>EPS:</b> FY15 (cps)	1.7	1.7	-3.5%
Norm FY16	1.0	0.9	-2.0%
FY17	0.8	0.8	-2.9%
<b>Price Target:</b>	<b>0.12</b>	<b>0.12</b>	<b>-0.5%</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		

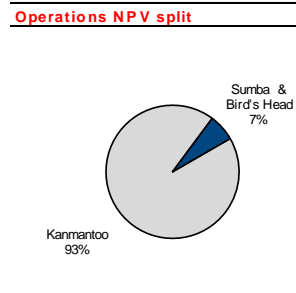
## Wilson HTM Equities Research – Hillgrove Resources Limited

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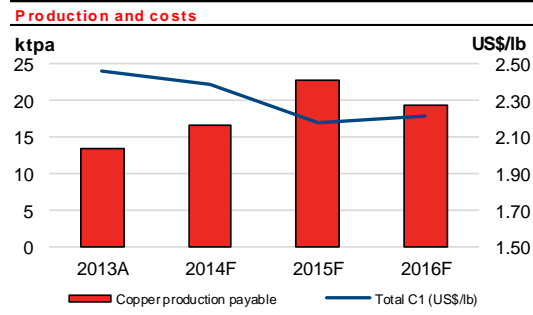


TABLE 1: HGO – FINANCIAL SUMMARY

Capital profile				Jan year end					
				2013A	2014F	2015F	2016F	2017F	
Number of shares (m)	1,179			NPAT Reported (A\$m)	-11.8	1.5	17.5	9.9	8.2
Market capitalisation (A\$m)	94			NPAT Normalised (A\$m)	-10.2	1.7	17.5	9.9	8.2
Enterprise value (A\$m)	120			EPS (A¢)	-1.1	0.2	1.7	0.9	0.8
Enterprise value (US\$m)	110			CFPS (A¢)	-0.6	-0.5	2.7	2.5	2.6
				DPS (A¢)	0.0	0.0	0.0	0.4	0.4
				P/E (x)	nm	49.3	4.8	8.5	10.3
				P/CF (x)	-12.7	-16.1	2.9	3.2	3.1
				EV/EBITDA (x)	8.4	3.2	1.8	1.9	1.5
				EPS Growth	118%	-115%	923%	-43%	-18%
				Yield (%)	0.0%	0.0%	0.0%	5.0%	5.0%
Resources				Assumptions FY					
	Mt	%	Cont Cu	2013A	2014F	2015F	2016F	2017F	
Resources, incl stockpiles (Mt)	313	@ 0.77%	242 kt	AUD/USD	1.04	0.97	0.91	0.90	0.87
Reserves, incl stockpiles (Mt)	22.1	@ 0.77%	157 kt	Copper price (US\$/lb)	3.70	3.62	3.30	3.25	3.28
EV/t Resource (A\$/t)	A\$492.9	US\$453.5		Gold price (US\$/oz)	1669	1412	1269	1281	1250
EV/t Reserve (A\$/t)	A\$762.5			Silver price (US\$/oz)	31.13	23.87	20.38	21.00	20.50
VALUATION				Total Coal Sales (100%)					
Description	A\$m	A\$ps		2013A	2014F	2015F	2016F	2017F	
Kanmantoo	172	0.15		Copper production payable	13.3	16.6	22.7	19.3	18.1
Sumba & Bird's Head	12	0.01		Gold production payable	4.7	3.6	5.0	9.6	9.8
				Cu. Equiv production payable (kt)	14.2	17.2	23.5	21.0	19.8
<b>Total Operations</b>	<b>184</b>	<b>0.16</b>							
Net (debt) / cash	-13	-0.02		<b>Cash costs @ Kanmantoo</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
Corporate overheads (incl WC)	-25	-0.02		<b>Total C1 (US\$/lb)</b>	<b>2.46</b>	<b>2.38</b>	<b>2.18</b>	<b>2.21</b>	<b>2.24</b>
Franking Credits	0	0.00		Royalties (US\$/lb)	0.05	0.04	0.06	0.07	0.07
Listed investments	0	0.00		Admin (US\$/lb)	0.28	0.24	0.14	0.17	0.15
Exploration	0	0.00		<b>EBITDA costs (US\$/lb)</b>	<b>2.79</b>	<b>2.66</b>	<b>2.39</b>	<b>2.45</b>	<b>2.46</b>
<b>Total Valuation</b>	<b>142</b>	<b>0.120</b>		Sustaining capex (US\$/lb)	0.14	0.08	0.04	0.04	0.04
Premium (Discount)		0.00		<b>All in cash costs (US\$/lb)</b>	<b>2.93</b>	<b>2.74</b>	<b>2.42</b>	<b>2.49</b>	<b>2.50</b>
<b>Target Price</b>		<b>0.120</b>		D&A (US\$/lb)	0.90	0.76	0.53	0.63	0.69
				<b>EBIT costs (US\$/lb)</b>	<b>3.69</b>	<b>3.42</b>	<b>2.92</b>	<b>3.08</b>	<b>3.15</b>
P/NPV		0.67							
				<b>Margin analysis</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				EBITDA (US\$/lb)	0.90	0.96	0.91	0.81	0.82
				All-in cash cost margin (US\$/lb)	0.76	0.88	0.88	0.77	0.78
				<b>EBIT (US\$/lb)</b>	<b>0.00</b>	<b>0.20</b>	<b>0.38</b>	<b>0.18</b>	<b>0.13</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	191	171	167
				Costs	103	102	140	133	133
				EBITDA	14	38	51	38	34
				Depreciation & amortisation	26	29	24	24	24
				EBIT	-13	8	27	14	10
				Interest income	1	0	1	1	1
				Interest expense	7	6	3	0	0
				MRRT	0	0	0	0	0
				Pre tax profit	-13	3	25	14	12
				Tax expense (benefit)	-8	1	7	4	4
				NPAT - underlying	-10	2	17	10	8
				Significant items	2	0	0	0	0
				NPAT - reported	-12	1	17	10	8
				<b>Profitability analysis</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				EBIT margin	-	6%	14%	8%	6%
				EBITDA margin	12%	27%	27%	22%	21%
				Effective tax rate	44%	33%	30%	30%	30%
				ROA - EBIT / (total assets - cash)	-4%	3%	10%	5%	4%
				ROE - NPAT / equity	-5%	1%	7%	4%	3%
				<b>Cashflow</b>	<b>2013A</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				EBITDA	14	38	51	38	34
				Operating cashflow	28	11	41	33	32
				Sustaining Capex	-4	-3	-2	-2	-2
				Growth Capex	-34	-16	-14	-8	-6
				Free cashflow	-10	-8	26	23	25
				Investing cashflow	-46	-22	-16	-10	-8
				Financing cashflow	24	0	-28	-15	-4
				Net Change in cash	7	-11	-3	8	20
				<b>Balance Sheet Analysis</b>	<b>2013F</b>	<b>2014F</b>	<b>2015F</b>	<b>2016F</b>	<b>2017F</b>
				Debt	50	42	13	1	1
				Equity	221	229	243	247	250
				Assets	336	322	301	284	283
				Cash	27	16	14	22	42
				Net debt	23	25	0	-21	-42
				Gearing - net debt/equity	10%	11%	0%	-9%	-17%
				Gearing - net debt/ (net debt + equity)	9%	10%	0%	-9%	-20%
				Net debt / EBITDA	16	0.7	0.0	-0.6	-1.2
				EBIT / net interest	-2.2	1.4	11.2	-38.3	-8.1
				EBITDA / net interest	2.4	6.4	21.0	-104.7	-26.7



Sensitivity (A\$ps/A\$m)	NPV (\$ps)	2015F	2016F
<b>Base Case NPV / NPAT</b>	<b>0.120</b>	<b>17.5</b>	<b>9.9</b>
Copper price +10% increase	+0.04	+4.4	+10.0
<b>Copper price +10% increase</b>	<b>+33%</b>	<b>+44%</b>	<b>+122%</b>
AUD +10% increase	-0.04	-4.5	58.2
<b>AUD +10% increase</b>	<b>-32%</b>	<b>-46%</b>	<b>88%</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-14 FY – FINANCIAL ACCOUNTS

- HGO has reported full-year NPAT of \$1.5m compared with WHTMe of \$1.4m. Underlying earnings were \$1.7m (once a \$0.3m impairment is excluded).
- The \$0.3m impairment was for financial assets available for sale (we view this as a one-off). Cash and cash equivalents were \$16.5m and debt outstanding is \$40.8m – both were reported recently at the January 2014 quarterly report.
- HGO's hedgebook is now "in the money": HGO has ~90% of copper production to the end of July 2014 already hedged, and this level decreases to ~65% post July.
- Operations at Kanmantoo are continuing to perform well into the current year, and in line with guidance.

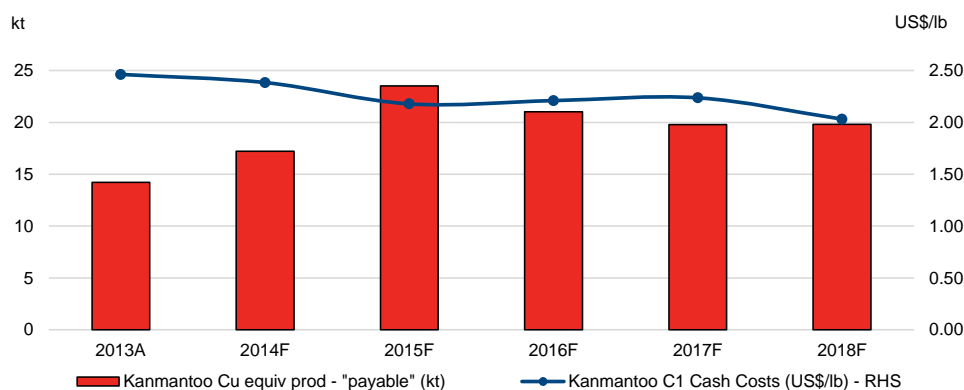
The table below contains a summary of the key financial metrics.

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

HGO - Fin result snapshot	2013	1H13	2H13	2014	WHTMe	B'berg cons	v WHTMe	v B'berg cons
<b>Profit &amp; Loss statement</b>				<b>Actual</b>				
Revenue	116.5	59.1	80.8	140.0	140.5	138.2	-0%	1%
Costs	102.6	40.4	61.9	102.3	105.2		-3%	
EBITDA	13.9	18.7	18.9	37.6	35.3	36.8	7%	2%
D&A	26.5	12.4	16.7	29.2	27.1			
EBIT	-12.6	6.3	2.2	8.4	8.1	8.7		-3%
Net financing expenses	5.7	3.3	2.6	5.9	5.6			
PBT	-18.3	3.0	-0.4	2.6	2.6			
Tax expense	-8.1	1.3	-0.4	0.8	1.1			
<b>Underlying NPAT</b>	<b>-10.2</b>	<b>1.7</b>	<b>0.0</b>	<b>1.7</b>	<b>1.4</b>	<b>4.9</b>	<b>19%</b>	<b>-65%</b>

Source: Wilson HTM, company data

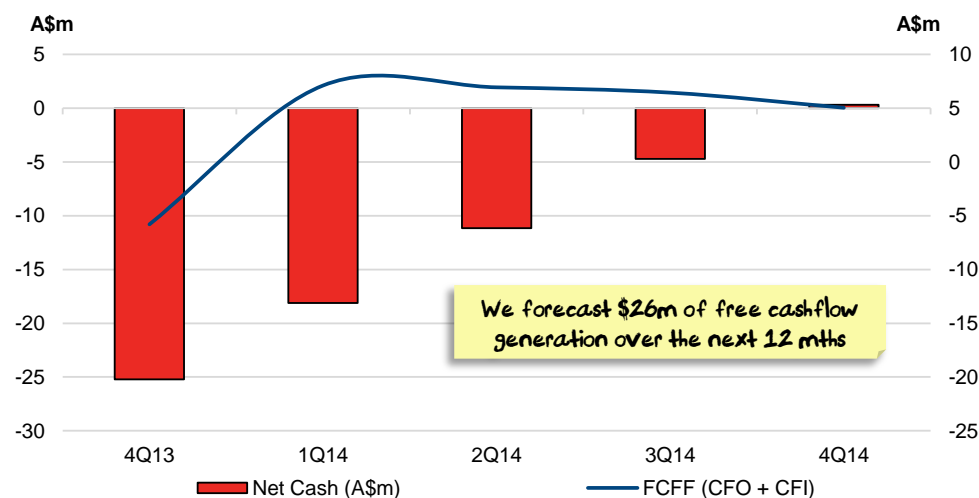
**FIGURE 1: KANMANTOO PRODUCTION AND C1 COSTS**



Source: Wilson HTM, company data



**FIGURE 2: IMPROVING FREE CASH FLOW AND CASH BALANCE**



Source: Wilson HTM, company data

## GUIDANCE

- No changes to FY15 production (22.3-24.6 kt of copper) or cost guidance (C1 US\$2.10-2.40/lb).
- Capex guidance for FY15 remains \$10.6m. The FY15 capex budget comprises:
  - Tailings storage facility: A\$5.3m
  - Controlled potential sulphidation: A\$2.0m
  - Dust mitigation: A\$1.0m
  - Other sustaining capital: A\$2.3m
- In addition, HGO has given pre-strip guidance for FY15 of ~A\$16.0m (WHTMe \$16.2m).

## CHANGES TO FORECASTS

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

Our earnings forecasts have been decreased for FY15 reflecting anticipated lower achieved prices. Our target price is broadly unchanged.

	2014a	2015f	2016f	2017f	NPV (A\$ps)	Target price (A\$ps)
Underlying NPAT (A\$m) - previous	14	18.1	10.1	8.4	0.121	0.121
Underlying NPAT (A\$m) - revised	17	17.5	9.9	8.2	0.120	0.120
Change (A\$m)	0.3	-0.6	-0.2	-0.2	0.00	0.0
Change (%)	19%	-4%	-2%	-3%	-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 11.2%. The 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	172.486	0.146
Sumba & Bird's Head	12.000	0.010
<b>Total Operations</b>	<b>184.486</b>	<b>0.157</b>
Net (debt) / cash	-18.107	-0.015
Corporate overheads	-24.746	-0.021
Franking Credits	0.000	0.000
Listed investments	0.000	0.000
Exploration	0.000	0.000
<b>Total Valuation</b>	<b>141.634</b>	<b>0.120</b>
Premium (Discount)		0.000
<b>Target Price</b>		<b>0.120</b>

INTERIMS (\$m)				
Half Yr (AUD)	Jul 13	Jan 14	Jul 14	Jan 15
	1HA	2HA	1HE	2HE
Sales	58.6	80.6	95.5	95.6
EBITDA	18.7	18.9	26.3	25.1
EBIT	6.3	2.2	14.3	13.1
<b>Net Profit</b>	<b>1.7</b>	<b>0.0</b>	<b>8.9</b>	<b>8.6</b>
<b>Norm. EPS</b>	<b>0.2</b>	<b>0.0</b>	<b>0.8</b>	<b>0.8</b>
EBIT/Sales	10.7	2.7	15.0	13.7
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

FINANCIAL STABILITY			
Year-end January	FY14A	FY15E	FY16E
Net Debt	25.2	-0.3	-21.3
Net Debt / Equity (%)	11.6	<0	<0
<b>Net Debt / EV (%)</b>	<b>22.2</b>	<b>&lt;0</b>	<b>&lt;0</b>
Current Ratio (x)	5.0	11.3	18.0
Interest Cover (x)	1.4	11.2	<0
<b>Adj. Cash Int. Cover (x)</b>	<b>2.5</b>	<b>20.1</b>	<b>&lt;0</b>
Debt / CashFlow (x)	4.6	1.0	0.4
Net Debt (cash) / share	0.0	0.0	<0
NTA / share (\$)	0.2	0.2	0.2
Book Value / share (\$)	0.2	0.2	0.2
Payout Ratio (%)	0	0	42
Adj. Payout Ratio (%)	0	0	7

EPS RECONCILIATION (\$m)				
	FY14A		FY15E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	139	139	191	191
EBIT	8.7	8.4	27.4	27.4
<b>Net Profit</b>	<b>1.9</b>	<b>1.7</b>	<b>17.5</b>	<b>17.5</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>1.9</b>	<b>1.7</b>	<b>17.5</b>	<b>17.5</b>
Diluted Shrs(m)	1,052	1,052	1,052	1,052
<b>Diluted EPS (c)</b>	<b>0.2</b>	<b>0.2</b>	<b>1.7</b>	<b>1.7</b>

RETURNS				
	FY14A	FY15E	FY16E	FY17E
ROE (%)	0.8	7.6	4.1	3.3
ROIC (%)	2.4	7.9	4.1	3.3
Incremental ROE	292.9	253.9	-52.1	-52.3
Incremental ROIC	784.8	-246.8	108.3	14.0

KEY ASSUMPTIONS								
Year-end January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
AUD/USD	1.0359	0.9684	0.9075	0.8950	0.8727	0.8450	0.8173	
Copper price (US\$/lb)	3.70	3.33	3.21	3.40	3.30	3.20	3.08	
Copper price (US\$/t)	8,150	7,332	7,075	7,495	7,275	7,054	6,779	
Gold price (US\$/oz)	1,669	1,412	1,269	1,281	1,250	1,241	1,216	
Silver price (US\$/oz)	31.1	23.9	20.4	21.0	20.5	20.7	20.2	
Copper Prod Payable (kt)	13.3	16.6	22.7	19.3	18.1	18.1	18.1	
Gold Prod Payable (koz)	4.7	3.6	5.0	9.6	9.8	9.8	9.8	
Cu. Equiv Prod Payable (kt)	14.2	17.2	23.5	21.0	19.8	19.8	19.8	

PROFIT & LOSS (\$m)								
Year-end January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Sales Revenue	115.4	139.2	191.0	171.2	166.9	168.1	167.3	
EBITDA	13.9	37.6	51.4	37.8	34.4	32.4	31.2	
Depn & Amort	26.5	29.2	24.0	24.0	24.0	24.0	24.0	
<b>EBIT</b>	<b>-12.6</b>	<b>8.4</b>	<b>27.4</b>	<b>13.8</b>	<b>10.4</b>	<b>8.4</b>	<b>7.2</b>	
Net Interest Expense	5.7	5.9	2.4	-0.4	-1.3	-2.1	-3.0	
Tax	-8.1	0.8	7.5	4.3	3.5	3.1	3.1	
Minorities / pref divs	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	
<b>Net Profit pre Sig. Items</b>	<b>-10.2</b>	<b>1.7</b>	<b>17.5</b>	<b>9.9</b>	<b>8.2</b>	<b>7.3</b>	<b>7.1</b>	
Abn's / Ext's / Signif.	1.6	0.2	0.0	0.0	0.0	0.0	0.0	
<b>Reported Net Profit</b>	<b>-8.7</b>	<b>1.9</b>	<b>17.5</b>	<b>9.9</b>	<b>8.2</b>	<b>7.3</b>	<b>7.1</b>	

CASHFLOW (\$m)								
Year-end January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
EBITDA	13.9	37.6	51.4	37.8	34.4	32.4	31.2	
Interest & Tax	-3.1	-2.8	-6.3	-4.6	-2.2	-1.4	-0.4	
Working Cap / Other	17.6	-23.8	-4.0	0.0	0.0	0.0	0.0	
<b>Operating Cash Flow</b>	<b>28.4</b>	<b>11.0</b>	<b>41.1</b>	<b>33.2</b>	<b>32.2</b>	<b>31.0</b>	<b>30.8</b>	
Maintenance Capex	-4.0	-3.0	-2.0	-2.0	-2.0	-2.0	-2.0	
<b>Free Cash Flow</b>	<b>24.4</b>	<b>8.0</b>	<b>39.1</b>	<b>31.2</b>	<b>30.2</b>	<b>29.0</b>	<b>28.8</b>	
Dividends Paid	0.0	0.0	0.0	-2.1	-4.2	-4.2	-2.1	
Development Capex	-34.1	-16.0	-13.5	-8.1	-5.6	-4.4	-2.4	
Invest. / Disposals	0.3	0.5	0.0	0.0	0.0	0.0	0.0	
Other Inv. Flows	-81.4	-3.7	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow Pre Financing</b>	<b>-90.8</b>	<b>-11.3</b>	<b>25.5</b>	<b>21.0</b>	<b>20.3</b>	<b>20.4</b>	<b>24.3</b>	
Funded by Equity	97.5	10.2	0.0	0.0	0.0	0.0	0.0	
Funded by Debt	0.0	-9.8	-28.2	-12.6	0.0	0.0	0.0	
Funded by Cash	-6.7	11.0	2.7	-8.4	-20.3	-20.4	-24.3	

BALANCE SHEET SUMMARY (\$m)								
Year-end January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Cash	27.4	16.5	13.8	22.2	42.5	62.9	87.2	
Current Receivables	6.4	5.0	3.5	1.5	0.8	0.4	0.2	
Current Inventories	19.7	26.2	18.0	8.0	3.9	2.0	1.0	
Net PPE	243.5	215.3	217.2	203.3	187.0	169.3	149.7	
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Intangibles / Capitalised	0.6	0.3	0.3	0.3	0.3	0.3	0.3	
Other	48.7	48.6	48.6	48.6	48.6	48.6	48.6	
<b>Total Assets</b>	<b>346.3</b>	<b>311.8</b>	<b>301.3</b>	<b>283.9</b>	<b>283.0</b>	<b>283.5</b>	<b>287.0</b>	
Current Payables	41.6	23.9	16.4	7.8	4.0	2.0	1.0	
Total Debt	50.3	41.7	13.4	0.9	0.9	0.9	0.9	
Other Liabilities	23.5	28.1	28.1	28.1	28.1	28.1	28.1	
<b>Total Liabilities</b>	<b>115.4</b>	<b>93.7</b>	<b>57.9</b>	<b>36.8</b>	<b>32.9</b>	<b>31.0</b>	<b>30.0</b>	
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Shareholder Equity</b>	<b>231.0</b>	<b>218.2</b>	<b>243.4</b>	<b>247.1</b>	<b>250.2</b>	<b>252.5</b>	<b>257.1</b>	
<b>Total Funds Employed</b>	<b>281.2</b>	<b>259.8</b>	<b>256.8</b>	<b>248.0</b>	<b>251.0</b>	<b>253.4</b>	<b>257.9</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: 1,180.9m
- Options: 50m
- Market capitalisation: \$96m (at A\$0.080/sh)
- Cash: \$16.4m (31-Jan-14)
- Debt: \$41.7m (31-Jan-14)

## KEY ASSETS

The 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)
- Shanthy 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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Wilson HTM Corporate Finance Ltd acted as Lead Manager for the placement announced by Hillgrove Resources Ltd in September 2013 and earned fees for acting in this capacity. Wilson HTM Corporate Finance Ltd acted as Lead Manager for the placement announced by Hillgrove Resources Ltd in July 2012 and earned fees for acting in this capacity. Wilson HTM Investment Group Ltd and its related bodies corporate trades or may trade as principal in the securities that are subject of the research report. Wilson HTM Corporate Finance Ltd has received compensation for corporate advisory services from this company, its subsidiaries or affiliates during the previous 12 months