

Hillgrove Resources Ltd

HGO : ASX

BUY

Target: A\$0.14

Reg Spencer

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COMPANY STATISTICS:

Share Price (A\$)	0.081
12 Mth Hi-Lo (A\$)	0.135-0.052
Market Cap (A\$m)	95
Enterprise Value (A\$m)	120
Issued Shares (m)	1,178
Options (various)	128
Cash (31/1/14)	A\$16m
Debt (31/1/14)	A\$41m
Major Shareholders	
IOOF	10.4%
Renaissance Smaller Co's	8.4%

EARNINGS SUMMARY:

Jan Yr End	2015e	2016e	2017e
Cu Prod'n (t)	22,024	19,490	19,809
C1 Costs (A\$/lb)	1.95	2.12	1.95
AISC (A\$/lb)	2.29	2.35	2.28
Copper (US\$/lb)	3.30	3.26	3.15
EBITDA (A\$m)	69.0	52.1	57.5
EV/EBITDA	0.9x	0.4x	-0.3x
P/CF	1.4x	1.9x	1.9x
NPAT (A\$m)	25.1	19.8	23.0
EPS (A\$)	\$0.02	\$0.02	\$0.02
PER	3.8x	4.8x	4.1x

Source: Canaccord Genuity estimates

SHARE PRICE PERFORMANCE:



Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Hillgrove Resources Ltd (HGO:ASX) is an Australian mining company whose primary asset is the 100%-owned Kanmantoo copper mine, located in South Australia. The mine is capable of producing up to +20,000 tpa copper in concentrate, over a mine life of +8 years

All amounts are in AUD unless otherwise noted.

Metals and Mining – Base Metals & Minerals

PRELIMINARY FY14 RESULTS

Investment Perspective

There were no major surprises in Hillgrove Resources (HGO) preliminary FY14 results with all key metrics in line with our forecasts. FY14 was a turnaround year for HGO, and with several key operational improvements now implemented, we continue to expect HGO to record a very strong FY15 (+30% yoy production and 30% reduction in AISC). We also highlight that ~90% of HGO's copper production is hedged over the next 6 months (9kt at +A\$3.60) providing a very valuable floor price during current copper price weakness (current spot ~A\$3.27/lb). We maintain our BUY rating.

Investment Highlights

- HGO's FY14 (Jan Year end) results saw no major variation from our estimates. Based on a much improved production profile from Kanmantoo, HGO delivered significant improvement on the pcp with EBITDA of \$37m (+100% on the pcp and in line with CGAu est. of \$38m). NPAT was reported at \$1.5m (vs \$12m loss in FY13), which was lower than our estimates of \$4.9m due to FX losses and inventory movements.
- Cashflow was in line with our estimates at \$10.9m net cash outflow for FY14, with the result reflecting costs associated with major operational improvements such as the replacement primary crusher, and the move to an owner operated mining fleet model. Based on significantly higher copper production for FY15, we have no reason to adjust expectations for major improvements in FCF over the next 12 months.
- HGO's balance sheet remains in reasonable shape (net debt of \$24m), with improved cashflow in FY15 to be applied to further reductions in debt levels. We note that debt is now expected to be reduced by ~\$30m in FY15, and we currently estimate HGO to move into a net cash position by mid 2014.

BUY rating and A\$0.14/share target price maintained

Our target price (NPV_{8%} based Net Asset Valuation) remains unchanged at \$0.14/share.

FINANCIAL SUMMARY

Hillgrove Resources Limited

HGO:ASX

Analyst :

Reg Spencer

Date:

31/03/2014

Year End:

January

Rating:
Target Price:

BUY
\$0.14

Market Information

Share Price	A\$	0.081
Market Capitalisation	A\$m	95.5
12 Month Hi-Lo	A\$	0.135-0.052
Issued Capital	m	1178
Options	m	128
Fully Diluted	m	1306

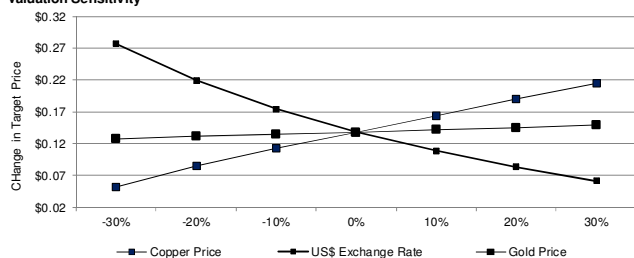
Valuation

	A\$m	A\$/share
Kanmantoo NPV @ 8%	201.7	0.17
Exploration	10.0	0.01
Corporate	(22.8)	(0.02)
Copper Forwards NPV	(1.7)	(0.00)
Cash	16.5	0.01
Debt	(40.8)	(0.03)
Total NAV/Price Target	162.8	0.14
Price/NAV		0.59x

Assumptions

	2014a	2015e	2016e	2017e
Gold Price (US\$/oz)	1,305	1,321	1,328	1,366
Copper Price (US\$/lb)	3.24	3.30	3.26	3.15
AUD:USD	0.91	0.90	0.90	0.88

Valuation Sensitivity



Production Metrics

	2014a	2015e	2016e	2017e
Kanmantoo				
Cu Prod'n (t)	17,184	22,024	19,490	19,809
C1 Costs (A\$/lb)	2.62	1.95	2.12	1.95
All in Sust. Costs (A\$/lb)	3.29	2.29	2.35	2.28

Group Reserves & Resources

	Mt	Grade Cu	Tonnes Cu
Reserves (100%)			
Kanmantoo	22.10	0.71%	156,730
Resources (100%)			
Kanmantoo	31.29	0.78%	242,529

Directors

Name	Position
Hon. D Brown	Chairman
G Hall	CEO & MD
J Gooding	NED
M Loomes	NED
D Snedden	NED
E Zemancheff	NED

Substantial Shareholders

	Shares (m)	%
IOOF	122.14	10.4%
Renaissance Smaller Co's	98.86	8.4%
Platinum Partners	83.31	7.1%

Company Description

Hillgrove Resources Limited (HGO:ASX) is an Australian mining company whose primary asset is the 100%-owned Kanmantoo Copper mine located in SE South Australia. The mine was commissioned in 2012, and is capable of producing +20,000 tpa of copper in concentrate, over a mine life of +8 years.

Profit & Loss (A\$m)

	2014a	2015e	2016e	2017e
Revenue	139.2	188.6	166.3	167.7
Operating Costs	107.9	113.2	107.3	102.3
Royalties	1.6	2.6	2.3	2.3
Corporate & O'heads	3.2	4.9	5.0	5.1
Exploration (Expensed)	0.0	0.0	1.7	4.1
EBITDA	39.4	69.0	52.1	57.5
Dep'n	29.2	33.0	23.9	24.6
EBIT	10.2	35.9	28.2	32.9
Net Interest	0.8	1.0	2.0	3.6
Tax	0.8	10.8	8.5	9.9
NPAT	-6.4	25.1	19.8	23.0
Abnormals	-7.9	0.0	0.0	0.0
NPAT (reported)	1.6	25.1	19.8	23.0

Cash Flow (A\$m)

	2014a	2015e	2016e	2017e
Cash Receipts	121.3	188.4	167.2	167.1
Cash paid to suppliers & employees	-107.5	-120.6	-114.6	-109.6
Tax Paid	0.0	0.0	-4.1	-9.9
Net Interest	-2.8	-0.5	2.0	3.6
Other costs	0.0	0.0	0.0	0.0
Operating Cash Flow	11.0	67.2	50.6	51.2
Exploration and Evaluation	-3.8	-1.5	-2.9	-2.1
Capex	-19.0	-11.3	-1.7	-5.9
Other	0.4	0.0	0.0	0.0
Investing Cash Flow	-22.3	-12.8	-4.5	-8.0
Debt Drawdown (repayment)	-9.8	-30.6	-10.2	0.0
Share capital	10.8	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	-4.7
Financing Expenses	-0.6	0.0	0.0	0.0
Financing Cash Flow	0.4	-30.6	-10.2	-4.7
Opening Cash	27.4	16.5	40.2	76.1
Increase / (Decrease) in cash	-10.9	23.8	35.8	38.4
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	16.5	40.2	76.1	114.5

Balance Sheet (A\$m)

	2014a	2015e	2016e	2017e
Cash + S/Term Deposits	16.5	40.2	76.1	114.5
Other current assets	35.4	45.5	40.4	41.1
Current Assets	51.8	85.7	116.5	155.6
Property, Plant & Equip.	225.7	203.9	181.7	163.0
Exploration & Develop.	30.6	32.1	34.9	37.0
Other Non-current Assets	14.1	28.4	25.3	10.7
Payables	23.9	24.6	21.9	22.3
Short Term debt	30.6	10.2	0.0	0.0
Long Term Debt	10.2	0.0	0.0	0.0
Other Liabilities	28.9	61.6	65.4	54.7
Net Assets	228.5	253.7	271.1	289.4
Shareholders Funds	206.9	206.9	206.9	206.9
Reserves	-3.3	-3.3	-3.3	-3.3
Retained Earnings	25.0	50.1	67.5	85.8
Total Equity	228.5	253.7	271.1	289.4

Ratios & Multiples

	2014a	2015e	2016e	2017e
EBITDA Margin	28%	37%	31%	34%
EV/EBITDA	3.0x	0.9x	0.4x	-0.3x
Op. Cashflow/Share	\$0.01	\$0.06	\$0.04	\$0.04
P/CF	8.7x	1.4x	1.9x	1.9x
EPS	\$0.00	\$0.02	\$0.02	\$0.02
EPS Growth	-114%	1064%	-21%	17%
PER	44.2x	3.8x	4.8x	4.1x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	2%	5%
ROE	1%	10%	7%	8%
ROIC	5%	23%	18%	18%
Debt/Equity	4%	0%	0%	0%
Net Interest Cover	nm	nm	nm	nm
Book Value/share	\$0.19	\$0.22	\$0.23	\$0.25
Price/Book Value	0.4x	0.4x	0.4x	0.3x

Source: Company reports & Canaccord Genuity estimates

INVESTMENT RISKS

The key investment risks for HGO include:

- Geological & Resource risk – the actual characteristics of a mineral deposit may differ significantly from initial interpretations and expectations. HGO's LOM Plan incorporates Mineral Resources and Exploration Targets whose actual economics are yet to be determined. Grades and tonnages for Exploration Targets are conceptual in nature
 - Operating Risk - As a producer, operating risk is an inherent risk for the company. Halts and or reductions in production due to equipment availability, geotechnical issues, people issues, environmental issues, and weather issues can all reduce and or stop production and therefore revenue and cashflow. Operating risk is a key risk for the company, in particular as HGO is a single asset company.
 - Capital expenditure & operating risk – the risk that capital and or operating costs exceed budget and/or exhaust available funding, reducing the profitability and free cash generation of the project.
 - Commodity price and exchange rate risk: As with all mining and mineral exploration companies, commodity price and exchange rate risk should also be considered.
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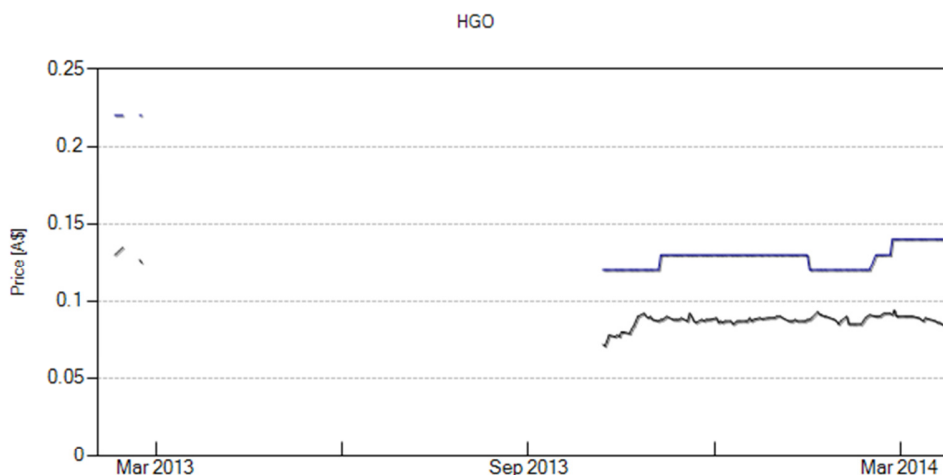
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Site Visit: Price Chart: An analyst has visited the company's material operations in South Australia. No payment was received for related travel costs.



Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 11/09/2012	Bertincourt	Buy	0.21	5) 01/16/2014	Spencer	Buy	0.12
2) 01/23/2013	Smith	Buy	0.22	6) 02/17/2014	Spencer	Buy	0.13
3) 10/08/2013	Spencer	Buy	0.12	7) 02/25/2014	Spencer	Buy	0.14
4) 11/05/2013	Spencer	Buy	0.13				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings: Global Stock Ratings (as of 31 December 2013)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	564	57.0%	38.1%	
Speculative Buy	47	4.7%	42.6%	
Hold	325	32.8%	11.4%	
Sell	50	5.1%	6.0%	
	990*	100.0%		

*Total includes stocks that are Under Review

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