

Hillgrove Resources Ltd

Updating for FY14 financials

HGO reported normalised NPAT of A\$1m which was roughly in-line with our estimate. The cash performance was stronger than forecast which resulted in the better-than-expected end-of-period net debt of A\$25m vs. JPMe A\$29m. We believe there must be a sustained uptick in milled grades – which did show a recovery in the recent quarterly – and continued operating performance improvements before the stock will re-rate. Maintain Neutral recommendation.

- Financials.** HGO reported normalised NPAT of A\$1m which was ahead of our forecast of a loss of A\$1m, driven by higher-than-expected revenue which flowed down the P&L. Negative free cashflow of A\$8m was better than our forecast of negative A\$13m, due to a stronger operating performance and despite higher than expected capital spend (~A\$19m vs. JPMe A\$17m); as a result net debt finished at A\$25m vs. JPMe A\$29m.
- Quarterly production.** We have also incorporated the recent quarterly production report into our model. Copper production of 5.8kt was +13% vs. JPMe 5.1kt, driven by higher mill throughput (0.76Mt, +5% vs. JPMe), grades (0.83% vs. 0.78% JPMe) and recoveries (92% vs. JPMe 91%) which reduced C1 costs to US\$2.00/lb (JPMe US\$2.12/lb). Gold production, however, of 1.3koz was weaker-than-expected, due to grades and recoveries. We have also taken the opportunity to implement updated FY15 guidance of 22.3-24.6kt copper and 7-9koz gold at a C1 cost of US\$2.10-2.40/lb Cu (JPMe 22.4kt copper, 7koz gold at US\$2.27/lb Cu).
- Maintain Neutral.** We believe the stock is unlikely to re-rate until there is evidence of a sustained uptick in milled grades and continued improvement in operating performance and, as such, we reiterate our Neutral recommendation with a price target of A\$0.10ps.

Neutral

HGO.AX, HGO AU

Price: A\$0.07

▲ **Price Target: A\$0.10**
Previous: A\$0.09

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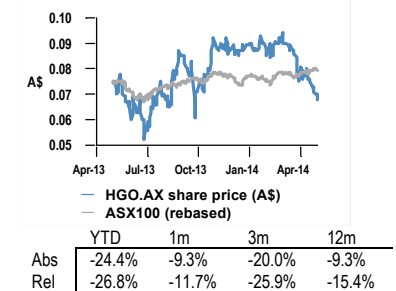
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J.P. Morgan Securities Australia Limited

Price Performance



Hillgrove Resources Ltd (Reuters: HGO.AX, Bloomberg: HGO AU)

Year-end Jan (A\$)	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (A\$ mn)	12	115	139	188	175
EBITDA (A\$ mn)	(2)	19	37	40	29
Net Profit (A\$ mn)	(8)	(11)	1	12	4
EPS (A\$)	(0.01)	(0.01)	0.00	0.01	0.00
P/E (x)	NM	NM	48.2	6.7	18.6
EV/EBITDA (x)	NM	4.8	2.5	1.8	1.8
DPS (A\$)	0.00	0.00	0.00	0.00	0.00
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Normalised EPS (A\$)	(0.01)	(0.01)	0.00	0.01	0.00
Normalised EPS Growth	(28.3%)	38.1%	(112.6%)	996.0%	(63.9%)
Normalised PE	NM	NM	73.6	6.7	18.6

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Shares O/S (mn)	1,024
Market Cap (A\$ mn)	69.62
Market Cap (\$ mn)	64.65
Price (A\$)	0.07
Date Of Price	30 Apr 14
Free Float(%)	-
3M - Avg daily vol (mn)	1.21
3M - Avg daily val (A\$ mn)	0.10
3M - Avg daily val (\$ mn)	0.1
ASX100	4533.50
Exchange Rate	0.93
Price Target End Date	31-Jan-15
Price Target (A\$)	0.10

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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Change to forecasts

We have updated our model for the FY14 financial report, incorporated the recent quarterly production result and updated our operating forecasts. The changes have resulted in an increase to earnings estimates given upgrades to production in FY15. Our valuation has increased given higher production as well as a roll forward of our NPV to Jan-15. The net change to earnings and valuation are shown in the table below.

Table 1: Changes to HGO forecasts

	NPV A\$ps	Underlying NPAT (A\$m)		
		2015F	2016F	2017F
Previous	0.09	-1	-1	-1
Revised	0.10	12	4	1
Change	0.01	13	6	1
Change	12%	na	na	na

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Hillgrove Resources Ltd (*Neutral; Price Target: A\$0.10*)

Investment Thesis

We maintain our Neutral recommendation on HGO. We believe a sustained uptick in milled grades and continued operating performance improvements must occur before further re-rating will materialize.

Valuation

Our Jan-15 price target of A\$0.10ps, is derived off our Jan-14 NPV of A\$0.10ps, based on our DCF valuation of Kanmantoo using a 12% WACC.

Risks to Rating and Price Target

Key upside and downside risks to our Neutral recommendation include: 1) better- or worse-than-expected grade profile at Kanmantoo; 2) better- or worse-than-expected operating cost performance; 3) adverse commodity price moves, albeit HGO is somewhat protected in the near term given its hedging; and 4) ore body risk in terms of grades and tonnages.

HGO Summary: Jan-yr end (A\$m)

Relative recommendation: N

Profit & Loss (A\$m)					Valuation Summary				
	2014A	2015E	2016E	2017E					A\$m
Revenue	140	188	175	174	Current Market Capitalisation				79.1
Operating Expenses	(102)	(148)	(146)	(150)	EV				81.3
EBITDA	37	40	29	25					
Depreciation & Amortisation	(29)	(21)	(22)	(24)	12 mth price target (January 2015)				0.10
EBIT	8	19	7	0	Capital growth to price target				49%
Other	(1)	-	-	-	12 mth forecast DY'd				0.0%
Interest	(5)	(2)	(1)	1	12 mth forecast total return				49.3%
PBT	2	17	6	1	WACC				12.0%
Tax	(1)	(5)	(2)	(0)					
Minorities & other	-	-	-	-	Current DCF (January 2015)				
NPAT - reported	1	12	4	1					A\$m
Exceptional items	(1)	-	-	-	Kanmantoo				138.1
NPAT - adjusted	1	12	4	1	Investments				0.2
					Corporate costs				(23.2)
					Sub-total				115.1
Shares outstanding (m)	1,176	1,186	1,186	1,186	Net cash/(debt)				(2.2)
Reported EPS (A¢ps)	0.1	1.0	0.4	0.1	Exploration potential				3.0
Normalised EPS (A¢ps)	0.1	1.0	0.4	0.1	Total				115.9
Normalised EPS growth	n/a	694%	(64%)	(86%)					0.10
DPS (A¢ps)	0.0	0.0	0.0	0.0					
DPS growth	n/a	n/a	n/a	n/a					
DPS / EPS payout	0%	0%	0%	0%					
Cashflow (A\$m)					Key Ratios				
	2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E
Cashflow from operations	11	32	29	25	PE Ratio	52.7	6.6	18.3	132.5
Capex	(19)	(9)	(9)	(10)	EV / EBITDA	2.8	2.0	2.1	1.9
Free cashflow	(8)	23	19	16	Dividend yield	0%	0%	0%	0%
Investing cashflow	(22)	(9)	(9)	(10)	ROE [Norm NPAT / Equity]	0%	5%	2%	0%
Dividends	-	-	-	-	ROA [EBIT / (assets - cash)]	3%	7%	3%	0%
Financing cashflow	0	(21)	(14)	(7)	ROIC [EBIT / assets]	3%	6%	2%	0%
Change in cash	(11)	2	6	9	EBIT / net interest	1.5	8.7	9.8	na
					EBITDA / net interest	6.9	18.0	41.3	na
					Net Debt / EBITDA	0.7	0.1	na	na
					Gearing - net debt / equity	11%	1%	-7%	-13%
					Gearing - net debt / (net debt + equ)	10%	1%	-8%	-15%
					EBITDA margin	27%	21%	17%	14%
					Effective tax rate	33%	30%	30%	30%
					CFPS (A¢)	(0.7)	1.9	1.6	1.3
					FCF yield	-10%	29%	24%	20%
Balance Sheet (A\$m)					Attributable Production				
	2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E
Cash and cash equivalents	16	18	24	33	Concentrate (kt)	75.4	96.1	89.2	85.7
Property plant & equipment	226	214	201	186	Copper (kt metal in conc.)	17.2	22.4	20.0	19.2
Total assets	322	308	299	292	Gold (koz)	6.0	7.0	9.5	9.1
Debt	42	21	7	-	Silver (koz metal in conc.)	132.9	111.9	175.6	168.5
Total liabilities	94	67	54	47					
Total equity	229	241	245	245	Cash Costs (C1)				
Net debt / (cash)	25	2	(17)	(33)	US\$/lb (post credits)	2.51	2.46	2.65	2.78
					A\$/lb (post credits)	2.42	2.25	2.38	2.50
Half Yearly P&L (A\$m)					Price Assumptions				
	1H14A	2H14A	1H15A	2H15A		2014A	2015E	2016E	2017E
Revenue	58.8	80.7	97.8	89.8	A\$/US\$ FX rate	0.92	0.90	0.89	0.85
Operating Expenses	-40.4	-61.6	-75.0	-72.7	Copper (US\$/t)	6,854	6,683	6,857	7,102
EBITDA	18.4	19.1	22.9	17.1	Gold (US\$/oz)	1,235	1,217	1,236	1,261
Depreciation & Amortisation	-12.4	-16.7	-10.1	-10.5	Silver (US\$/oz)	20.92	21.00	20.38	19.28
EBIT	6.0	2.3	12.8	6.6					
Other	3.3	-3.9	0.0	0.0	Sensitivities (+/- 10% move)				
Interest	-3.0	-2.4	-1.4	-0.9	Copper (US\$/lb)				
PBT	6.3	-4.0	11.4	5.7	Gold (US\$/oz)				
Tax	-2.3	1.5	-3.4	-1.7	A\$/US\$ FX rate				
Minorities & other	0.0	0.0	0.0	0.0					
NPAT - reported	4.0	-2.5	8.0	4.0					
Exceptional items	-3.0	2.5	0.0	0.0					
NPAT - adjusted	1.0	0.0	8.0	4.0					
Segmented revenue (A\$m)									
	2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E
Copper	126.2	168.0	157.3	157.1	Copper (US\$/lb)				
Gold	9.8	15.2	13.4	13.4	Gold (US\$/oz)				
Silver	3.1	4.4	4.3	4.0	A\$/US\$ FX rate				

Source: J.P.Morgan estimates, Company data, Bloomberg

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01 May 2014

J.P.Morgan

JPM Q-Profile

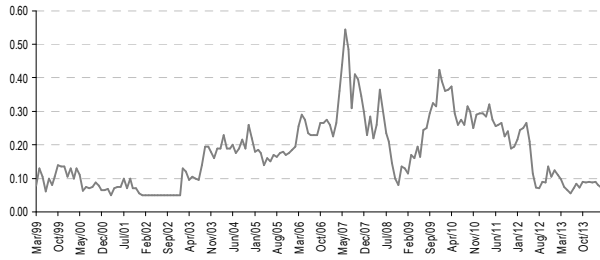
Hillgrove Resources Limited (AUSTRALIA / Materials)

As Of: 25-Apr-2014

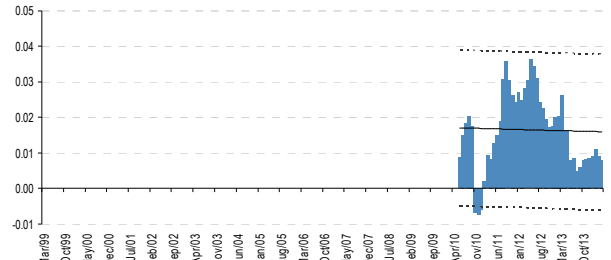
Global Equity Quantitative Analysis

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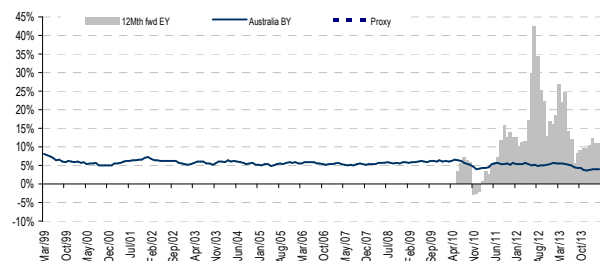
Local Share Price Current: **0.07**



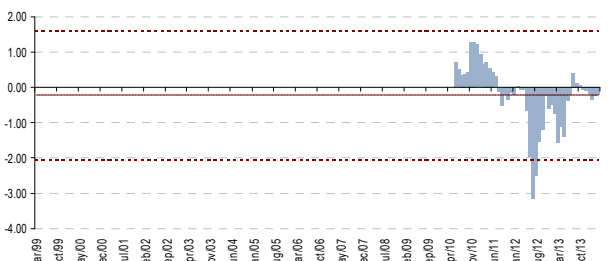
12 Mth Forward EPS Current: **0.01**



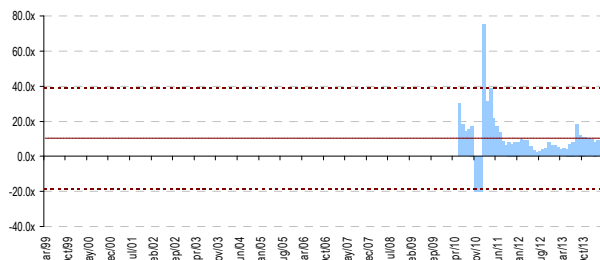
Earnings Yield (& local bond Yield) Current: **11%**



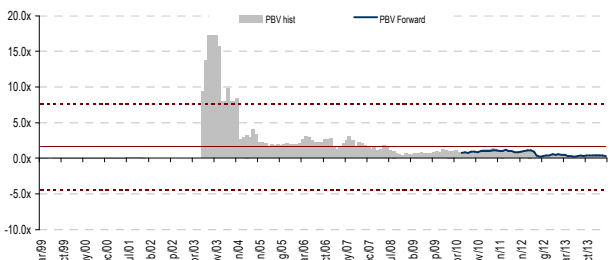
Implied Value Of Growth* Current: **-20.96%**



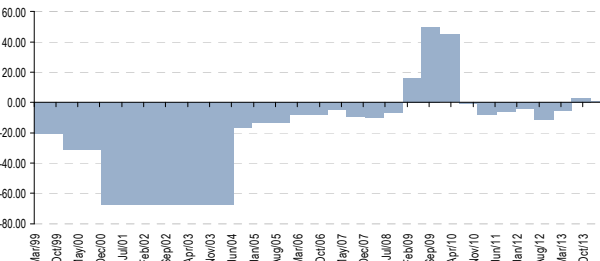
PE (1Yr Forward) Current: **9.1x**



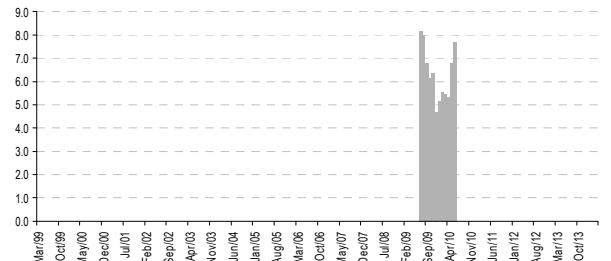
Price/Book Value Current: **0.4x**



ROE (Trailing) Current: **0.67**



Dividend Yield (Trailing) Current: **0.00**



Summary

Hillgrove Resources Limited		SEDOL		6426150		As Of:		25-Apr-14			
AUSTRALIA						Local Price:		0.07			
Materials						EPS:		0.01			
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	9.13x	-20.00	75.00	8.24	10.22	38.94	-18.50	-319%	722%	-10%	12%
P/BV (Trailing)	0.38x	0.00	17.33	0.79	1.64	7.67	-4.39	-100%	4503%	111%	335%
Dividend Yield (Trailing)	0.00	0.00	8.16	0.00	0.42	3.63	-2.79				
ROE (Trailing)	0.67	-67.43	50.00	-10.37	-19.10	43.47	-81.68	-10223%	7406%	-1657%	-2968%
Implied Value of Growth	-21.0%	-3.17	1.29	-0.16	-0.22	1.61	-2.05	-1410%	716%	22%	-4%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, J.P. Morgan Calcs

* Implied Value Of Growth = (1 - EY/Cost of equity) where cost of equity = Bond Yield + 5.0% (ERP)

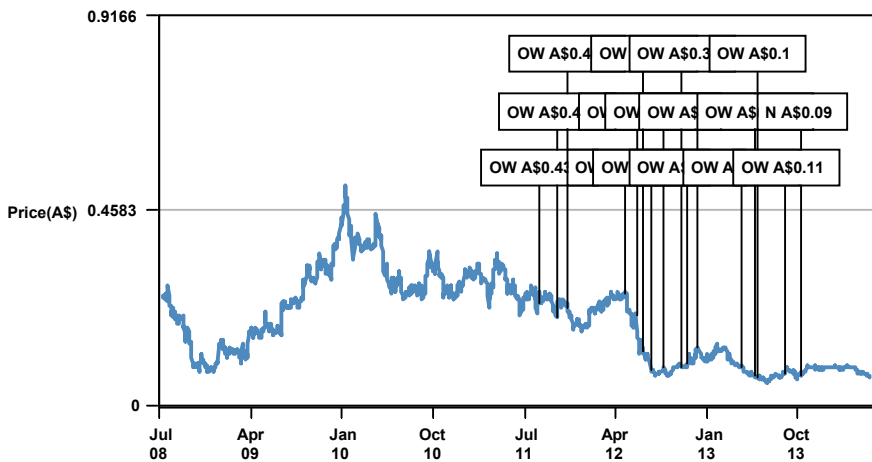
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Hillgrove Resources Ltd (HGO.AX, HGO AU) Price Chart



Date	Rating	Share Price (A\$)	Price Target (A\$)
12-Aug-11	OW	0.24	0.43
06-Oct-11	OW	0.20	0.42
08-Nov-11	OW	0.23	0.41
27-Apr-12	OW	0.26	0.44
01-Jun-12	OW	0.21	0.41
21-Jun-12	OW	0.12	0.41
16-Jul-12	OW	0.08	0.32
23-Aug-12	OW	0.09	0.32
12-Oct-12	OW	0.09	0.31
02-Nov-12	OW	0.10	0.31
30-Nov-12	OW	0.14	0.28
09-Apr-13	OW	0.09	0.13
24-May-13	OW	0.07	0.13
31-May-13	OW	0.07	0.10
21-Aug-13	OW	0.08	0.11
08-Oct-13	N	0.07	0.09

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Aug 12, 2011.

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	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	44%	44%	11%
IB clients*	58%	49%	40%
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IB clients*	78%	67%	60%

*Percentage of investment banking clients in each rating category.

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