

Hillgrove Resources Ltd

HGO : ASX

BUY

Target: A\$0.14

Reg Spencer

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COMPANY STATISTICS:

Share Price (A\$)	0.072
12 Mth Hi-Lo (A\$)	0.094-0.052
Market Cap (A\$m)	85
Enterprise Value (A\$m)	104
Issued Shares (m)	1,178
Options (various)	128
Cash (30/4/14)	A\$14m
Debt (30/4/14)	A\$33m
Major Shareholders	
IOOF	10.4%
Renaissance Smaller Co's	8.4%

EARNINGS SUMMARY:

Jan Yr End	2015e	2016e	2017e
Cu Prod'n (t)	22	19	20
C1 Costs (A\$/lb)	2.12	2.17	2.00
AISC (A\$/lb)	2.56	2.40	2.33
Copper (US\$/lb)	3.14	3.23	3.15
EBITDA (A\$m)	57.5	47.7	54.8
EV/EBITDA	1.2x	0.5x	-0.3x
P/CF	1.5x	1.7x	1.7x
NPAT (A\$m)	17.4	17.0	21.1
EPS (A\$)	\$0.01	\$0.01	\$0.02
PER	4.9x	5.0x	4.0x

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

Q1'FY15 PRODUCTION UPDATE

Investment Perspective

We re-iterate our BUY rating for Hillgrove Resources (HGO), following another strong quarterly operating performance at Kanmantoo. While costs will be revealed in HGO's full Q1'FY15 report, we estimate strong quarterly cashflow based on the production result and material improvements to net debt (previously reported). The positive operational and production outlook is forecast to drive a substantial improvement in full year earnings, cashflow, and balance sheet strength, and we continue to view the shares as undervalued based on both absolute and relative measures.

Investment Highlights

- HGO has reported Q1'FY15 production of 5.6 kt Cu in concentrate, in line with our estimates of 5.5kt. Copper grades were slightly below our forecasts, but this was offset by continued strong performance of the milling operations with throughput and recoveries in line. We note record material movements during the period, reflecting ongoing pre-stripping activities associated with the Nugent pit, as well as the benefit of new mining equipment mobilised during the previous quarter.
- Production costs are expected to be reported with HGO's full Q1'FY15 report on the 19 May '14. However, we anticipate AISC to be slightly higher than our estimates (US\$2.70/lb) due to the higher than forecast material movements. HGO has re-iterated FY15 guidance of 22.3-24.6kt (vs CGAu estimates of 22kt), with the Q1'FY15 result placing HGO well on track to meet full year production expectations.
- HGO previously reported updated net debt at 1 May '14 of \$19m, with the 20% QoQ improvement reflecting strong operational cashflow and debt repayments during the period. We continue to see a positive cashflow outlook for HGO, with a focus on debt reduction over the coming 12 months (currently estimating net cash by Q3'FY15), potentially opening the door for the commencement of dividend payments in 2H calendar 2015.

BUY rating maintained; \$0.14 target unchanged

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:

12/05/2014

Year End:

January

Rating:
Target Price:

BUY
\$0.14

Market Information

Share Price	A\$	0.072
Market Capitalisation	A\$m	84.8
12 Month H-Low	A\$	0.094-0.052
Issued Capital	m	1178
Options	m	128
Fully Diluted	m	1306

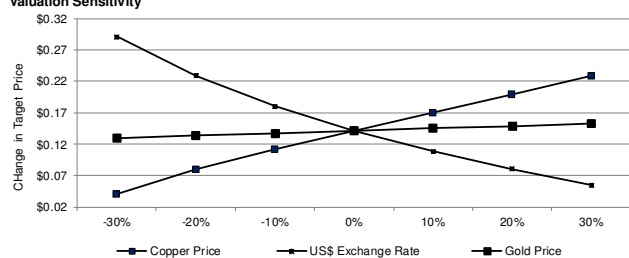
Valuation

	A\$m	A\$/share
Kanmantoo NPV @ 8%	190.0	0.16
Exploration	10.0	0.01
Corporate	(22.1)	(0.02)
Copper Forwards NPV	7.5	0.01
Cash	14.4	0.01
Debt	(33.5)	(0.03)
Total NAV/Price Target	166.4	0.14
Price/NAV		0.51x

Assumptions

	2014a	2015e	2016e	2017e
Gold Price (US\$/oz)	1,300	1,321	1,328	1,366
Copper Price (US\$/lb)	3.19	3.14	3.23	3.15
AUD:USD	0.91	0.93	0.91	0.88

Valuation Sensitivity



Production Metrics

	2014a	2015e	2016e	2017e
Kanmantoo				
Cu Prod'n (kt)	17.2	22.1	19.5	19.8
C1 Costs (A\$/lb)	2.62	2.12	2.17	2.00
All in Sust. Costs (A\$/lb)	3.29	2.56	2.40	2.33

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	185.3	164.4	167.7
Operating Costs	107.9	121.3	109.3	104.5
Royalties	1.6	2.3	2.2	2.2
Corporate & O'heads	3.2	4.9	5.0	5.1
Exploration (Expensed)	0.0	0.0	1.7	4.1
EBITDA	39.4	57.5	47.7	54.8
Dep'n	29.2	32.6	23.4	24.6
EBIT	10.2	24.9	24.3	30.1
Net Interest	0.8	0.7	1.4	3.1
Tax	0.8	7.5	7.3	9.0
NPAT	-6.4	17.4	17.0	21.1
Abnormals	-7.9	0.0	0.0	0.0
NPAT (reported)	1.6	17.4	17.0	21.1

Cash Flow (A\$m)

	2014a	2015e	2016e	2017e
Cash Flow (A\$m)				
Cash Receipts	121.3	187.2	165.7	166.6
Cash paid to suppliers & employees	-107.5	-128.5	-116.4	-111.8
Tax Paid	0.0	0.0	0.0	-7.0
Net Interest	-2.8	-0.9	1.4	3.1
Other costs	0.0	0.0	0.0	0.0
Operating Cash Flow	11.0	57.9	50.7	50.9
Exploration and Evaluation	-3.8	-0.8	-2.9	-2.1
Capex	-19.0	-16.9	-1.7	-5.9
Other	0.4	0.0	0.0	0.0
Investing Cash Flow	-22.3	-17.7	-4.5	-8.0
Debt Drawdown (repayment)	-9.8	-30.5	-10.3	0.0
Share capital	10.8	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	-3.5
Financing Expenses	-0.6	0.0	0.0	0.0
Financing Cash Flow	0.4	-30.5	-10.3	-3.5
Opening Cash	27.4	16.5	26.1	61.9
Increase / (Decrease) in cash	-10.9	9.6	35.8	39.4
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	16.5	26.1	61.9	101.3

Balance Sheet (A\$m)

	2014a	2015e	2016e	2017e
Balance Sheet (A\$m)				
Cash + S/Term Deposits	16.5	26.1	61.9	101.3
Other current assets	35.4	44.6	39.8	41.0
Current Assets	51.8	70.7	101.7	142.3
Property, Plant & Equip.	225.7	210.0	188.3	169.6
Exploration & Develop.	30.6	31.4	34.2	36.3
Other Non-current Assets	14.1	27.9	24.9	10.7
Payables	23.9	24.2	21.6	22.2
Short Term debt	30.5	10.3	0.0	0.0
Long Term Debt	10.3	0.0	0.0	0.0
Other Liabilities	28.9	59.6	65.8	58.5
Net Assets	228.5	246.0	261.8	278.2
Shareholders Funds	206.9	206.9	206.9	206.9
Reserves	-3.3	-3.3	-3.3	-3.3
Retained Earnings	25.0	42.4	58.3	74.7
Total Equity	228.5	246.0	261.8	278.2

Ratios & Multiples

	2014a	2015e	2016e	2017e
Ratios & Multiples				
EBITDA Margin	28%	31%	29%	33%
EVEBITDA	2.8x	1.2x	0.5x	-0.3x
Op. Cashflow/Share	\$0.01	\$0.05	\$0.04	\$0.04
P/CF	7.7x	1.5x	1.7x	1.7x
EPS	\$0.00	\$0.01	\$0.01	\$0.02
EPS Growth	-114%	707%	-2%	24%
PER	39.3x	4.9x	5.0x	4.0x
Dividend Per Share	\$0.000	\$0.000	\$0.001	\$0.004
Dividend Yield	0%	0%	1%	6%
ROE	1%	7%	7%	8%
ROIC	5%	16%	15%	17%
Debt/Equity	5%	0%	0%	0%
Net Interest Cover	nm	nm	nm	nm
Book Value/share	\$0.19	\$0.21	\$0.22	\$0.24
Price/Book Value	0.4x	0.3x	0.3x	0.3x

Source: Company reports & Canaccord Genuity estimates

INVESTMENT RISKS

The key investment risks for HGO include:

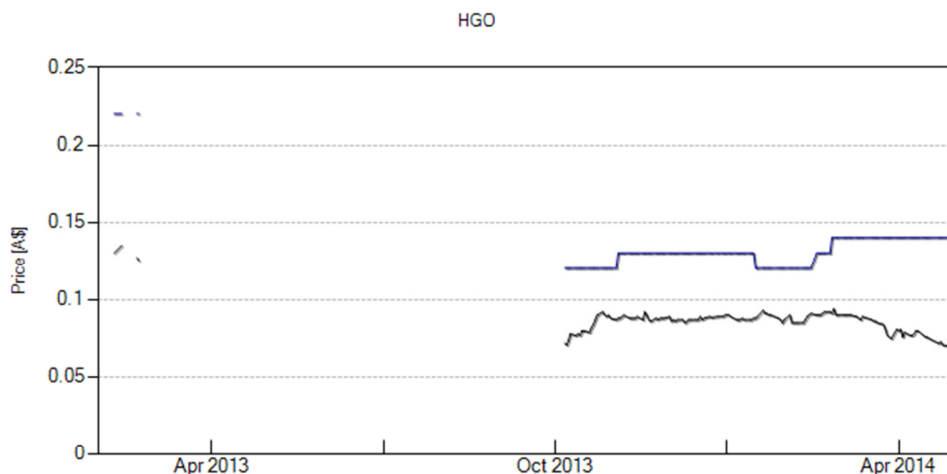
- Geological & Resource risk – the actual characteristics of a mineral deposit may differ significantly from initial interpretations and expectations. HGO's LOM Plan incorporates Mineral Resources and Exploration Targets whose actual economics are yet to be determined. Grades and tonnages for Exploration 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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Site Visit: An analyst has visited the company's material operations in South Australia. No payment was received for related travel costs.
Price Chart:*



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	8) 04/10/2014	Smith	Buy	0.14

*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 March 2014)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	580	58.7%	37	37.1%
Speculative Buy	43	4.4%	25	55.8%
Hold	317	32.1%	16	13.2%
Sell	45	4.6%	2	4.4%
	988*	100.0%		

*Total includes stocks that are Under Review

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Hillgrove Resources Ltd	7

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