

Hillgrove Resources Ltd

HGO : ASX

BUY

Target: A\$0.13

Reg Spencer

+61.2.9263.2701

reg.spencer@canaccord.com.au

COMPANY STATISTICS:

Share Price (A\$)	0.078
12 Mth Hi-Lo (A\$)	0.094-0.052
Market Cap (A\$m)	92
Enterprise Value (A\$m)	111
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)	2.20	2.26	2.10
AISC (A\$/lb)	2.76	2.49	2.43
Copper (US\$/lb)	3.14	3.23	3.15
EBITDA (A\$m)	53.6	43.4	49.9
EV/EBITDA	1.6x	1.0x	0.3x
P/CF	1.7x	2.0x	1.9x
NPAT (A\$m)	13.7	14.0	17.7
EPS (A\$)	\$0.01	\$0.01	\$0.01
PER	6.7x	6.6x	5.2x

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

SITE VISIT: KANMANTOO

Investment Perspective

We maintain our BUY rating for Hillgrove Resources (HGO), following our recent visit to the company's Kanmantoo copper mine in South Australia. The key takeaway in our view was a clear management focus on cost control, with a notable effort in changing on-site culture to include "ownership" of performance among operating staff. While further major cost reductions may be harder to achieve, incremental improvements are nevertheless welcome. Expectations of an improved balance sheet from strong operating cashflow, and a low P/NAV of 0.6X continues to support our positive view of the shares.

Investment Highlights

- Mining performing well:** The move to an owner-operated model has had a positive impact on performance, and comes at a time when mining activity increases as the focus shifts from Kavanagh (reaching the limits of the current pit design) to the Nugent pit, pre-stripping commences at Emily Star, and the Giant cut back commences. We also highlight improved performance of the concentrator with the plant consistently running above nameplate capacity, reflecting recent initiatives including improved crushing practices and the introduction of multi-stream analyser.
- Cost reduction:** We were impressed by Management's current focus on cost control. Strategies include mostly minor, "low hanging fruit" such as improved tails pumping practices, more efficient equipment utilisation and tyre wear management, and consumables handling. Of special note was an assumption of "ownership" of performance by operating staff, through the recent introduction of STI's ("Salary at risk") for achieving stretch targets.
- Updated LOM plan:** Planning and design work is underway for the Giant pit cutback, as part of an updated LOM plan. The revision is expected to confirm sequencing and mining rates, with increases in material movements over FY16 and FY17 as part of the cut back. It is also expected to include batch processing of oxide stockpiles through the introduction of a sulphidisation circuit in CY15.
- Assessing longer-term mine life potential:** Near term focus is expected to remain on near mine targets within the existing ML. However, regional strategies are also to be pursued, such as the recent acquisition of an option over the Kitticoola Cu/Au prospect, located 35km from Kanmantoo. Kitticoola was previously a high-grade underground mine at various stages from 1846 to 1971 which focused on oxide mineralisation. HGO plan to assess the potential for high grade primary mineralisation where previous exploration had encountered grades up to 14 g/t Au and 4.5% Cu.

BUY rating and \$0.13/share target maintained

Our target price (NPV_{8%} based NAV) is unchanged at \$0.13/share.

FINANCIAL SUMMARY

Hillgrove Resources Limited

HGO:ASX

Analyst : Reg Spencer
 Date: 6/06/2014
 Year End: January

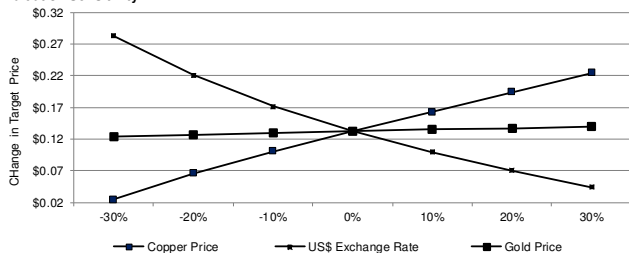
Rating: **BUY**
 Target Price: **\$0.13**

Market Information	
Share Price	A\$ 0.078
Market Capitalisation	A\$m 91.9
12 Month Hi-Lo	A\$ 0.094-0.052
Issued Capital	m 1178
Options	m 128
Fully Diluted	m 1306

Valuation		A\$m	A\$/share
Kanmantoo	NPV @ 8%	179.7	0.15
Exploration		10.0	0.01
Corporate		(22.1)	(0.02)
Copper Forwards NPV		7.5	0.01
Cash		14.1	0.01
Debt		(33.5)	(0.03)
Total NAV/Price Target		155.8	0.13
Price/NAV			0.59x

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	2.20	2.26	2.10
All in Sust. Costs (A\$/lb)	3.29	2.76	2.49	2.43

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
Hori, 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	179.3	160.5	163.4
Operating Costs	107.9	119.2	109.3	104.5
Royalties	1.6	2.2	2.1	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	53.6	43.4	49.9
Dep'n	29.2	34.0	23.4	24.6
EBIT	10.2	19.6	20.0	25.2
Net Interest	0.8	0.6	1.0	2.4
Tax	0.8	5.9	6.0	7.6
NPAT	-6.4	13.7	14.0	17.7
Abnormals	-7.9	0.0	0.0	0.0
NPAT (reported)	1.6	13.7	14.0	17.7

Cash Flow (A\$m)	2014a	2015e	2016e	2017e
Cash Receipts	121.3	181.5	161.8	162.4
Cash paid to suppliers & employees	-107.5	-126.3	-116.4	-111.8
Tax Paid	0.0	0.0	0.0	-5.8
Net Interest	-2.8	-1.0	1.0	2.4
Other costs	0.0	0.0	0.0	0.0
Operating Cash Flow	11.0	54.2	46.3	47.2
Exploration and Evaluation	-3.8	-0.8	-2.9	-2.1
Capex	-19.0	-22.9	-1.7	-5.9
Other	0.4	0.0	0.0	0.0
Investing Cash Flow	-22.3	-23.7	-4.5	-8.0
Debt Drawdown (repayment)	-9.8	-30.5	-10.3	0.0
Share capital	9.8	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	-8.2
Financing Expenses	-0.6	0.0	0.0	0.0
Financing Cash Flow	0.4	-30.5	-10.3	-8.2
Opening Cash	27.4	16.5	16.5	48.0
Increase / (Decrease) in cash	-10.9	0.0	31.5	30.9
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	16.5	16.5	48.0	78.9

Balance Sheet (A\$m)	2014a	2015e	2016e	2017e
Cash + S/Term Deposits	16.5	16.5	48.0	78.9
Other current assets	35.4	43.2	38.7	39.8
Current Assets	51.8	59.7	86.8	118.7
Property, Plant & Equip.	225.7	214.5	192.8	174.1
Exploration & Develop.	30.6	31.4	34.2	36.3
Other Non-current Assets	14.1	27.0	24.2	9.9
Payables	23.9	23.4	21.0	21.5
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	56.6	64.3	57.8
Net Assets	228.5	242.2	252.7	259.7
Shareholders Funds	206.9	206.9	206.9	206.9
Reserves	-3.3	-3.3	-3.3	-3.3
Retained Earnings	25.0	38.7	49.1	56.2
Total Equity	228.5	242.2	252.7	259.7

Ratios & Multiples	2014a	2015e	2016e	2017e
EBITDA Margin	28%	30%	27%	31%
EV/EBITDA	3.0x	1.6x	1.0x	0.3x
Op. Cashflow/Share	\$0.01	\$0.05	\$0.04	\$0.04
P/CF	8.3x	1.7x	2.0x	1.9x
EPS	\$0.00	\$0.01	\$0.01	\$0.01
EPS Growth	-114%	534%	2%	26%
PER	42.6x	6.7x	6.6x	5.2x
Dividend Per Share	\$0.000	\$0.000	\$0.003	\$0.009
Dividend Yield	0%	0%	4%	12%
ROE	1%	6%	6%	7%
ROIC	5%	12%	13%	12%
Debt/Equity	5%	0%	0%	0%
Net Interest Cover	nm	nm	nm	nm
Book Value/share	\$0.19	\$0.21	\$0.21	\$0.22
Price/Book Value	0.4x	0.4x	0.4x	0.4x

Source: Company reports & Canaccord Genuity estimates

INVESTMENT RISKS

The key investment risks for HGO include:

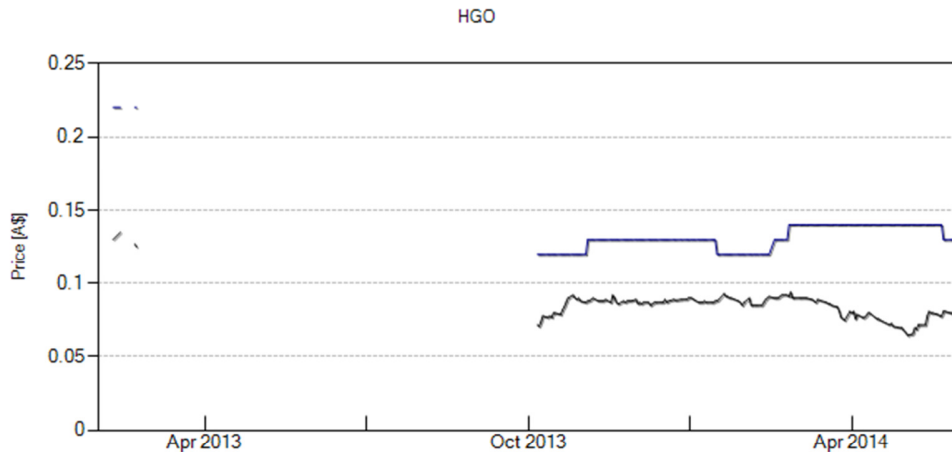
- Geological & Resource risk – the actual characteristics of a mineral deposit may differ significantly from initial interpretations and expectations. HGO's LOM Plan incorporates Mineral Resources and Exploration Targets whose actual economics are yet to be determined. Grades and tonnages for Exploration 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	6) 02/17/2014	Spencer	Buy	0.13
2) 01/23/2013	Smith	Buy	0.22	7) 02/25/2014	Spencer	Buy	0.14
3) 10/08/2013	Spencer	Buy	0.12	8) 04/10/2014	Smith	Buy	0.14
4) 11/05/2013	Spencer	Buy	0.13	9) 05/05/2014	Spencer	Buy	0.14
5) 01/16/2014	Spencer	Buy	0.12	10) 05/22/2014	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 March 2014)**

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	580	58.7%	37	37.1%
Speculative Buy	43	4.4%	30	55.8%
Hold	317	32.1%	16	13.2%
Sell	45	4.6%	1	4.4%
	988*	100.0%		

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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Hillgrove Resources Ltd	7

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