

Hillgrove Resources Ltd

HGO : ASX : \$0.60

BUY

Target: A\$1.001

Reg Spencer

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COMPANY STATISTICS:

Share Price (A\$)	0.60
12 Mth Hi-Lo (A\$)	0.752-0.488
Market Cap (A\$m)	89
Enterprise Value (A\$m)	102
Issued Shares (m)	148
Options (various)	16
Cash	A\$12m
Debt	A\$25m
Major Shareholders	
Perennial Value Mgt	12.5%
Platinum Partners	8.4%

EARNINGS SUMMARY:

Dec Yr End	2014e	2015e	2016e
Cu Prod'n (t)	21	19	20
C1 Costs (A\$/lb)	2.32	2.17	2.10
AISC (A\$/lb)	2.86	2.56	2.52
Copper (US\$/lb)	3.18	3.23	3.15
EBITDA (A\$m)	45.3	47.0	49.5
EV/EBITDA	2.0x	1.1x	0.5x
P/CF	1.5x	1.8x	1.9x
NPAT (A\$m)	12.5	16.6	17.4
EPS (A\$)	\$0.05	\$0.11	\$0.12
PER	11.9x	5.4x	5.1x

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 +20ktpa copper in concentrate, over a mine life of ~8 years

All amounts are in AUD unless otherwise noted.

Metals and Mining – Base Metals & Minerals

1H RESULTS

Investment Perspective

Following a strong 2Q, HGO has reported a beat on our 1H earnings and profit estimates. We anticipate a big improvement in balance sheet strength over the coming 12 months (debt free by mid'15), and note that the near term release of a revised LOM plan for Kanmantoo will provide some clarity on medium term capex requirements (predominantly waste stripping which we expect to be fully funded from cashflow). Operations now appear to be bedded down with only incremental cost improvements likely. We therefore now see the potential for dividends as a key appeal and possible catalyst in 2015. We continue to see significant value in the shares, and re-iterate our BUY rating.

Investment Highlights

- HGO has reported its 1H'FY15 results (*period ending Jul'14; subsequently moved to Dec year-end reporting from Jan year-end*), with a beat on our forecasts. EBITDA was reported at \$27m and NPAT of \$5.8m, vs CGe of \$23m and net loss of \$0.3m respectively. The key variances against our estimates was a ~\$6m positive adjustment for inventory changes and slightly lower than modelled depreciation charges.
- HGO reported FCF of \$12.5m for the 1H, slightly ahead of our estimates of \$11.2m. The company finished the period with net debt of \$13m, having made +\$15m in repayments during the 1H. Based on projected FCF, we expect a further ~\$16m in repayments in the 2H, putting HGO in a net cash position by the end of CY14, and debt free by mid'15.
- We continue to have a positive outlook for the company. Guidance was recently revised to reflect the move to Dec year end reporting (11 month period), with Cu in conc. production of 20.5-22.5kt and Au in conc. of 6-7.8koz comparing favourably to our estimates of 21.3kt and 6.1koz respectively. This positive outlook is improved by the near term prospects for capital management initiatives including dividends – we forecast HGO moving to net cash by end CY14 and completely debt free in mid'15, at which point we anticipate HGO to commence paying dividends.

Maintain BUY rating and \$1.00 target price

Our target price (NAV comprising Kanmantoo NPV_{8%}, net debt and other adjustments) remains unchanged at \$1.00/share.

FINANCIAL SUMMARY

Hillgrove Resources Limited

HGO:ASX

Analyst :

Reg Spencer

Rating:

BUY

Date:

23/09/2014

Target Price:

\$1.00

Year End:

December*

Market Information

Share Price	A\$	0.60
Market Capitalisation	A\$m	88.6
12 Month Hi-Lo	A\$	0.752-0.488
Issued Capital	m	148
Options	m	16
Fully Diluted	m	164

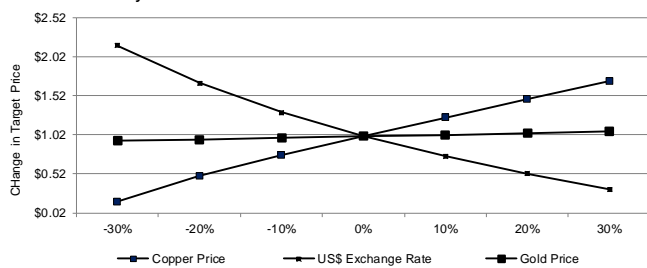
Valuation

	A\$m	A\$/share	
Kanmantoo	NPV @ 8%	167.0	1.13
Exploration		10.0	0.07
Corporate	(21.3)	(0.14)	
Copper Forwards NPV	5.7	0.04	
Cash	12.1	0.08	
Debt	(25.4)	(0.17)	
Total NAV/Price Target	148.1	1.00	
Price/NAV		0.60x	

Assumptions

	2014a*	2014e	2015e	2016e
Gold Price (US\$/oz)	1,300	1,317	1,337	1,367
Copper Price (US\$/lb)	3.19	3.18	3.23	3.15
AUD:USD	0.91	0.93	0.92	0.88

Valuation Sensitivity



Production Metrics

	2014a*	2014e	2015e	2016e
Kanmantoo				
Cu Prod'n (kt)	17.2	21.3	19.5	19.8
C1 Costs (A\$/lb)	2.62	2.32	2.17	2.10
All in Sust. Costs (A\$/lb)	3.29	2.86	2.56	2.52

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

Substantial Shareholders

	Shares (m)	%
Perennial Value Mgt	18.46	12.5%
Platinum Partners	12.36	8.4%
Renaissance Smaller Co's	10.90	7.4%

* - moved to Dec Yr-end reporting from Jan Year -end as at August'14

Source: Company reports & Canaccord Genuity estimates

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*	2014e	2015e	2016e
Revenue	139.2	173.1	160.2	163.4
Operating Costs	107.9	120.9	105.3	104.5
Royalties	1.6	2.1	2.1	2.2
Corporate & O'heads	3.2	3.9	4.9	5.0
Exploration (Expensed)	0.0	0.0	1.7	4.1
EBITDA	39.4	45.3	47.1	49.7
Dep'n	29.2	34.2	23.3	24.6
EBIT	10.3	11.0	23.8	25.0
Net Interest	0.8	-2.0	0.9	2.0
Tax	0.8	3.1	7.1	7.5
NPAT	-6.4	19.7	16.7	17.5
Abnormals	-7.9	7.1	0.0	0.0
NPAT (reported)	1.6	12.5	16.7	17.5

Cash Flow (A\$m)

	2014a*	2014e	2015e	2016e
Cash Flow				
Cash Receipts	121.3	175.4	161.5	162.4
Cash paid to suppliers & employees	-107.5	-114.5	-112.3	-111.7
Tax Paid	0.0	0.0	0.0	-5.8
Net Interest	-2.8	-2.0	0.9	2.0
Other costs	0.0	4.1	0.0	0.0
Operating Cash Flow	11.0	63.1	50.0	47.0
Exploration and Evaluation	-3.8	-0.7	-2.9	-2.1
Capex	-19.0	-34.7	-8.8	-10.0
Other	0.4	0.0	0.0	0.0
Investing Cash Flow	-22.3	-35.4	-11.7	-12.1
Debt Drawdown (repayment)	-9.8	-30.9	-9.7	0.0
Share capital	10.8	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	-8.7
Financing Expenses	-0.6	0.0	0.0	0.0
Financing Cash Flow	0.4	-30.9	-9.7	-8.7
Opening Cash	27.4	16.5	13.3	42.0
Increase / (Decrease) in cash	-10.9	-3.2	28.7	26.1
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	16.5	13.2	42.0	68.1

Balance Sheet (A\$m)

	2014a*	2014e	2015e	2016e
Balance Sheet				
Cash + S/Term Deposits	16.5	13.3	42.0	68.1
Other current assets	35.4	41.7	38.7	39.7
Current Assets	51.9	54.9	80.6	107.8
Property, Plant & Equip.	225.7	226.1	211.6	197.0
Exploration & Develop.	30.5	31.3	34.2	36.3
Other Non-current Assets	14.1	26.0	24.2	13.1
Payables	23.9	22.6	20.9	21.5
Short Term debt	31.2	9.7	0.0	0.0
Long Term Debt	9.7	0.0	0.0	0.0
Other Liabilities	28.9	72.3	83.1	79.2
Net Assets	228.5	233.9	246.6	253.5
Shareholders Funds	206.9	206.9	206.9	206.9
Reserves	-3.3	-10.5	-10.5	-10.5
Retained Earnings	25.0	37.5	50.2	57.1
Total Equity	228.5	233.9	246.6	253.5

Ratios & Multiples

	2014a*	2014e	2015e	2016e
Ratios & Multiples				
EBITDA Margin	28%	26%	29%	30%
EV/EBITDA	18.6x	1.9x	1.0x	0.4x
Op. Cashflow/Share	\$0.01	\$0.43	\$0.34	\$0.32
P/CF	64.1x	1.4x	1.8x	1.9x
EPS	\$0.00	\$0.05	\$0.11	\$0.12
EPS Growth	-114%	2633%	124%	5%
PER	326.3x	11.9x	5.3x	5.1x
Dividend Per Share	\$0.000	\$0.000	\$0.027	\$0.072
Dividend Yield	0%	0%	5%	12%
ROE	1%	5%	7%	7%
ROIC	5%	7%	15%	12%
Debt/Equity	4%	0%	0%	0%
Net Interest Cover	nm	4.4x	nm	nm
Book Value/share	\$0.19	\$1.58	\$1.67	\$1.72
Price/Book Value	3.1x	0.4x	0.4x	0.3x

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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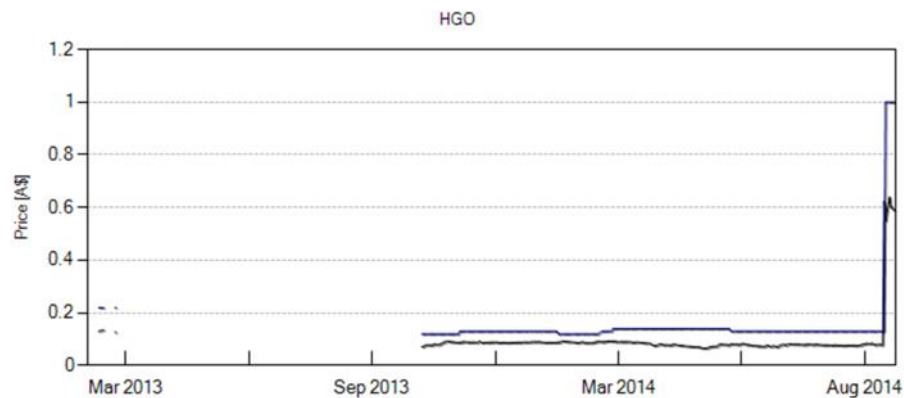
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Site Visit: An analyst has visited the company's material operations in South Australia. No payment was received for related travel costs.

Price Chart:*



Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 11/09/2012	Bertincourt	Buy	0.21	8) 04/10/2014	Smith	Buy	0.14
2) 01/23/2013	Smith	Buy	0.22	9) 05/05/2014	Spencer	Buy	0.14
3) 10/08/2013	Spencer	Buy	0.12	10) 05/22/2014	Spencer	Buy	0.13
4) 11/05/2013	Spencer	Buy	0.13	11) 07/14/2014	Smith	Buy	0.13
5) 01/16/2014	Spencer	Buy	0.12	12) 08/25/2014	Spencer	Buy	0.13
6) 02/17/2014	Spencer	Buy	0.13	13) 09/12/2014	Spencer	Buy	1.00
7) 02/25/2014	Spencer	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 3 July 2014)**

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	602	61.2%	38	38.2%
Speculative Buy	49	5.0%	33	55.1%
Hold	290	29.5%	17	13.1%
Sell	41	4.2%	3	7.3%
	984	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.
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