

BUY

HOLD

SELL

**ACTION & RECOMMENDATION**

We retain our BUY rating. HGO's interim result was inline with our expectations, highlighted by free cashflow of \$11.2m over the 6 mths to 31-Jul. HGO is currently our preferred resources exposure amongst our coverage universe. Key points of appeal are: 1) resumption of dividends (fully franked) expected at the Dec-14 result (in Feb-15), 2) \$21m of franking credits, 3) we expect HGO to be in a net cash position by early CY15, 4) Operations performing well, with 3 qtrs in a row of avg 23ktpa of Copper production, 5) Average free cashflow yield of 26% over CY14-16 (\$70m), and increasing thereafter. Our 12-mth share price target is unchanged at \$0.94ps.

**Strong free cashflow the 'new normal' for HGO****What's Changed**

- **Financial result:** HGO reported its 1H14 financial results which were broadly inline with our estimates. Underlying NPAT of \$5.83m was 5% below WHTMe of \$6.15m. Underlying EBITDA of \$28.0m was 7% below our \$30.2m estimate due to slightly lower achieved prices.
- **Operating cashflows** of \$38.0m were better than our \$32.7m estimate by 16%. Capex in the first half was higher than we had expected, but the full year guidance of \$10.9m of capex is unchanged – so only \$3.5m is now expected to be spent in 2HCY14. This should help support strong free cashflow over the balance of CY14 (5 mths to 31-Dec).
- **Guidance for CY14 is unchanged.** Copper production is expected to be 20.5-22.5kt (WHTMe 21.7kt), gold production of 6-7.8koz (WHTMe 6.2koz) at a C1 cash cost of US\$2.00-2.20/lb (WHTMe US\$2.01/lb).
- **Valuation:** Our DCF valuation for HGO is \$0.94ps, based on a WACC of 11.0%.

**Risks & Catalysts**

- **Key risks around HGO:** 1) operational risk at the Kanmantoo mine, especially while it is operating a single open pit with single lane ramp, and 2) future weakness in the copper price.
- **Catalysts:** 1) The Sept-14 quarterly report which should continue to show a decrease in net debt, 2) entry into a new corporate debt facility by end of CY14, and 3) an improved copper market or weaker AUD.

Year-End January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (\$m)	115.4	139.2	171.2	173.1	166.6
EBITDA Margin (%)	12	27	31	24	25
NPAT Norm (\$m)	-10.2	1.7	12.1	10.5	12.0
Consensus NPAT (\$m)				16.6	17.5
EPS Norm (cps)	-9.8	1.3	8.2	7.1	8.2
EPS Growth (%)	-84	113	530	-13	15
P/E Norm (x)	-6.1	46.2	7.3	8.5	7.4
EV/EBITDA (x)	7.4	2.7	2.0	2.4	2.5
CFM (x)	3.6	11.1	1.5	2.3	2.4
DPS (cps)	0.0	0.0	1.5	3.0	3.0
Franking (%)	0	0	100	100	100

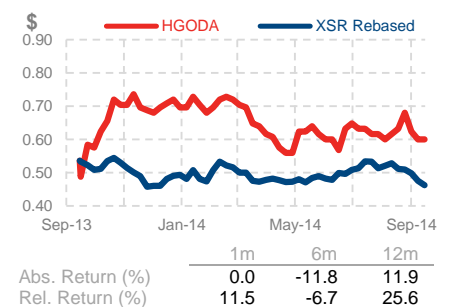
Source: Company data, WHTM estimates, S&P Capital IQ

Mkt Cap: \$89m Enterprise Value: \$103m Shares: 148m Sold Short: 0.0%

<b>12m Target Price (AUD)</b>	<b>\$0.940</b>
Share Price @ 23-Sep-14 (AUD)	\$0.600
Fcst 12m Capital Return	56.7%
Fcst 12m Dividend Yield	5.0%
<b>12m Total S'holder Return</b>	<b>61.7%</b>

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**12m Share Price Performance****WHTM Return Re-Investment Matrix**

Return	Re-Investment	
	Low	High
High	Cash Generator	Champion
Low	Challenged	Potential

**WHTM Risk Assessment**

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Key Changes	19-Sep	After	Var %
<b>Revenue FY14</b>	173	171	-1.3%
<b>(\$m) FY15</b>	173	173	0.0%
<b>FY16</b>	167	167	0.0%
<b>EBITDA: FY14</b>	54.4	52.4	-3.8%
<b>(\$m) FY15</b>	41.8	42.0	0.5%
<b>FY16</b>	41.7	41.7	0.0%
<b>EPS: FY14</b>	8.4	8.2	-2.1%
<b>Norm FY15</b>	7.1	7.1	0.4%
<b>(cps) FY16</b>	8.2	8.2	-0.6%
<b>Price Target:</b>	<b>0.94</b>	<b>0.94</b>	<b>0.0%</b>
<b>Rec:</b>	<b>BUY</b>	<b>BUY</b>	

ASX 300 Wgt: 0.0% Median T'over/Day: \$0.0m

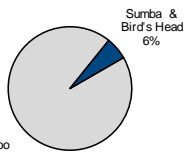
**Wilson HTM Equities Research – Hillgrove Resources Limited**

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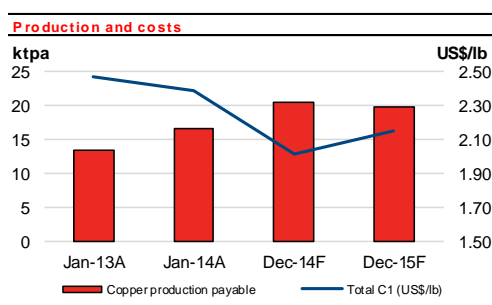


**TABLE 1: HGO - FINANCIAL SUMMARY**

<b>Capital profile</b>				<b>Now Dec year end</b>						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
Number of shares (m)	148			-118	15	12.1	10.5	12.0	6.2	
Market capitalisation (A\$m)	89			-10.2	1.7	12.1	10.5	12.0	6.2	
Enterprise value (A\$m)	114			-11	0.2	8.2	7.1	8.2	4.2	
Enterprise value (US\$m)	105			-0.6	-0.5	17.5	15.9	18.1	19.1	
<b>Resources</b>				<b>Assumptions FY</b>						
	<b>Mt</b>	<b>%</b>	<b>Cont Cu</b>	Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
Resources, incl stockpiles (Mt)	313	@ 0.77%	242 kt	AUD/USD	104	0.97	0.92	0.90	0.87	0.85
Reserves, incl stockpiles (Mt)	22.1	@ 0.71%	157 kt	Copper price (US\$/lb)	3.70	3.62	3.27	3.28	3.25	3.20
EV/t Resource (A\$/t)	A\$469.5	US\$432.0		Gold price (US\$/oz)	1669	142	1290	1269	1250	1241
EV/t Reserve (A\$/t)	A\$726.4			Silver price (US\$/oz)	3113	23.87	20.17	20.25	19.75	19.63
<b>VALUATION</b>				<b>Total Coal Sales (100%)</b>						
<b>Description</b>	<b>A \$m</b>	<b>A \$ps</b>		Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
Kanmantoo	160	1.09		Copper production payable	13.3	16.6	20.4	19.7	18.1	17.8
Sumba & Bird's Head	10	0.07		Gold production payable	6.1	5.5	5.8	10.7	10.7	11.7
<b>Total Operations</b>	<b>170</b>	<b>1.15</b>		Cu. Equiv production payable (kt)	14.5	17.6	21.5	21.6	20.0	19.9
Net (debt) / cash	-14	-0.10		<b>Cash costs @ Kanmantoo</b>						
Corporate overheads (incl WC)	-18	-0.12		Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
Franking Credits	0	0.00		<b>Total C1 (US\$/lb)</b>	<b>2.46</b>	<b>2.38</b>	<b>2.01</b>	<b>2.14</b>	<b>2.11</b>	<b>2.04</b>
Listed investments	0	0.00		Royalties (US\$/lb)	0.05	0.04	0.05	0.07	0.07	0.25
Exploration	0	0.00		Admin (US\$/lb)	0.28	0.16	0.15	0.16	0.15	0.15
<b>Total Valuation</b>	<b>139</b>	<b>0.94</b>		<b>EBITDA costs (US\$/lb)</b>	<b>2.79</b>	<b>2.59</b>	<b>2.22</b>	<b>2.37</b>	<b>2.33</b>	<b>2.45</b>
Premium (Discount)		0.00		Sustaining capex (US\$/lb)	0.14	0.08	0.04	0.04	0.04	0.04
<b>Target Price</b>		<b>0.94</b>		<b>All in cash costs (US\$/lb)</b>	<b>2.93</b>	<b>2.67</b>	<b>2.26</b>	<b>2.41</b>	<b>2.38</b>	<b>2.49</b>
P/NPV		0.64		D&A (US\$/lb)	0.90	0.76	0.83	0.69	0.73	0.81
				<b>EBIT costs (US\$/lb)</b>	<b>3.69</b>	<b>3.35</b>	<b>3.04</b>	<b>3.06</b>	<b>3.07</b>	<b>3.26</b>
<b>Operations NPV split</b>				<b>Margin analysis</b>						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
	Rf rate	5.3%		EBITDA (US\$/lb)	0.90	1.03	1.06	0.91	0.92	0.75
	MRP	6.0%		All-in cash cost margin (US\$/lb)	0.76	0.95	1.02	0.86	0.87	0.71
	Equity beta	14		EBIT (US\$/lb)	0.00	0.27	0.23	0.21	0.18	-0.06
	Ke	14%		<b>Profit and Loss (\$m)</b>						
	Kd	7.0%		Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
	Gearing	30%		Revenue	116	140	171	173	167	169
	Tax rate	30%		Costs	103	102	119	131	125	135
	WACC	11%		EBITDA	14	38	52	42	42	34
	DCF (A\$)	0.94		Depreciation & amortisation	26	29	34	27	26	27
	Prem/disc	0%		EBIT	-13	8	18	15	16	7
	Target (A\$)	0.94		Interest income	1	0	0	1	1	2
				Interest expense	7	6	3	1	0	0
				MRRT	0	0	0	0	0	0
				Pre tax profit	-18	3	15	15	17	9
				Tax expense (benefit)	-8	1	3	4	5	3
				NPAT - underlying	-10	2	12	10	12	6
				Significant items	2	0	0	0	0	0
				NPAT - reported	-12	1	12	10	12	6
				<b>Profitability analysis</b>						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
				EBIT margin	-	6%	10%	9%	10%	4%
				EBITDA margin	12%	27%	31%	24%	25%	20%
				Effective tax rate	44%	33%	20%	30%	30%	30%
				ROA - EBIT / (total assets - cash)	-4%	3%	6%	6%	6%	3%
				ROE - NPAT / equity	-5%	1%	5%	4%	5%	2%
				<b>Cashflow</b>						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
				EBITDA	14	38	52	42	42	34
				Operating cashflow	28	11	59	40	40	32
				Sustaining Capex	-4	-3	-2	-2	-2	-2
				Growth Capex	-34	-16	-34	-17	-13	-4
				<b>Free cashflow</b>	<b>-10</b>	<b>-8</b>	<b>24</b>	<b>22</b>	<b>25</b>	<b>26</b>
				Investing cashflow	-46	-22	-36	-20	-16	-6
				Financing cashflow	24	0	-22	-24	-4	-4
				Net Change in cash	7	-11	1	-3	19	22
				<b>Balance Sheet Analysis</b>						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
				Debt	50	42	19	0	0	0
				Equity	221	229	251	255	264	264
				Assets	336	322	309	286	288	286
				Cash	27	16	18	14	33	55
				Net debt	23	25	2	-14	-33	-55
				Gearing - net debt/equity	10%	11%	1%	-6%	-13%	-21%
				Gearing - net debt/ (net debt + equity)	9%	10%	1%	-6%	-14%	-26%
				Net debt / EBITDA	16	0.7	0.0	-0.3	-0.8	-1.6
				EBIT / net interest	-2.2	14	6.2	564.8	-16.3	-4.2
				EBITDA / net interest	2.4	6.4	18.0	1583.6	-42.0	-20.0
				<b>Free cashflow yield</b>	<b>-11%</b>	<b>-9%</b>	<b>27%</b>	<b>24%</b>	<b>28%</b>	<b>30%</b>



<b>Sensitivity (A\$ps/A\$m)</b>	<b>NPV (\$ps)</b>	<b>Dec-14F</b>	<b>Dec-15F</b>
<b>Base Case NPV / NPAT</b>	<b>0.94</b>	<b>12.1</b>	<b>10.5</b>
Copper price +10% increase	+0.34	+4.4	+9.5
<b>Copper price +10% increase</b>	<b>+36%</b>	<b>+42%</b>	<b>+78%</b>
AUD +10% increase	-0.34	-4.7	54.3
<b>AUD +10% increase</b>	<b>-36%</b>	<b>-45%</b>	<b>82%</b>
AUD +1¢ increase	-0.04	-0.5	6.2
<b>AUD +1¢ increase</b>	<b>-4%</b>	<b>-5%</b>	<b>9%</b>



Source: Company data, Wilson HTM



## FINANCIAL RESULT HIGHLIGHTS

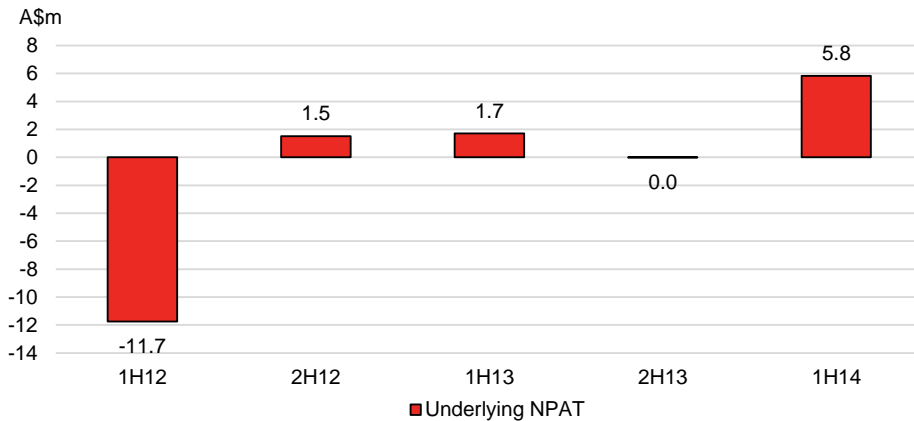
- HGO has reported NPAT of \$5.83m, broadly inline with WHTMe of \$6.15m (-5%). EBITDA of \$28.0m, compared with our forecast of \$30.2m (-7%).
- Cash and debt balance were already known from the recent qtrly report: cash balance was \$12.1m and debt outstanding of \$24.4m.
- Operating cashflows of \$38.0m were better than our \$32.7m estimate by 16%. Capex in the first half was higher than we had expected, with only \$3.5m now expected to be spent in 2HCY14 (full year capex is \$10.9m).
- No changes to CY14 guidance. Copper production guidance reiterated 20.5-22.5kt @ US\$2.00-2.20/lb C1.

TABLE 2: HGO – MINI-MODEL

Hillgrove Resources (HGO) Wilson HTM				
Assumptions	CY14	CY15	CY16	Comment
AUD:USD	0.9200	0.898	0.873	
Cu price (US\$/lb)	3.27	3.28	3.25	
Au price (US\$/oz)	1290	1269	1250	
Ag price (US\$/oz)	20.17	20.25	19.75	
<b>Production</b>				
Copper production (contained) (koz)	21.2	20.4	18.7	
	<i>Cu guidance</i> 20.5-22.5			
Gold production (koz)	6.2	11.5	11.5	
Silver production (koz)	134.0	132.6	132.6	
<b>Payable sales</b>				
Copper production (koz)	20.4	19.7	18.1	Decrease in grade over time towards reserve
Gold production (koz)	5.8	10.7	10.7	
Silver production (koz)	120.6	119.4	119.4	
<b>C1 cash costs (US\$/lb)</b>				
royalties	2.01	2.14	2.11	CY14 guidance is 2.00-2.20/lb
add back by-product credits	0.05	0.07	0.07	
	0.23	0.37	0.39	
<b>Cash costs (incl roy, pre by-prod)</b>	<b>2.30</b>	<b>2.58</b>	<b>2.58</b>	
pre-strip	0.40	0.28	0.25	
<b>Cash costs (post pre-strip)</b>	<b>2.70</b>	<b>2.85</b>	<b>2.83</b>	
<b>Financials A\$m</b>				
Revenues (A\$m)	171.2	176.4	166.5	
Costs - real (A\$m)	112.6	124.8	117.8	
		<i>aggregate cost inflation</i> 0.0%	1.6%	
Costs - nominal (A\$m)	112.6	124.8	119.7	
<b>EBITDA (A\$m)</b>	<b>58.6</b>	<b>51.6</b>	<b>46.9</b>	
other costs (A\$m)	18.5	12.4	10.2	Pre-strip
<b>EBITDA, post pre-stripping (A\$m)</b>	<b>40.0</b>	<b>39.2</b>	<b>36.7</b>	
Tax payable	0	0	0	No cash tax payable for next few years
Capex (A\$m)	10.8	5.5	3.5	
<b>Net project cashflow (EBITDA, post strip, minus tax minus capex)</b>	<b>29.3</b>	<b>33.7</b>	<b>33.1</b>	
Corporate costs	-6.7	-7.0	-6.0	
Exploration	-0.7	-1.2	-1.2	
<b>Pro-forma HGO net cashflow (A\$m)</b>	<b>21.9</b>	<b>25.5</b>	<b>25.9</b>	
net interest payments	-3.0	-0.6	0.8	
working capital / timing adjustments	4.3	-3.4	-2.0	
<b>Wilson HTM forecast HGO free cashflow (A\$m)</b>	<b>23.2</b>	<b>21.5</b>	<b>24.7</b>	
<b>Free cashflow yield</b>	<b>26%</b>	<b>24%</b>	<b>28%</b>	
<b>3yr HGO free cashflow yield</b>	<b>26%</b>			

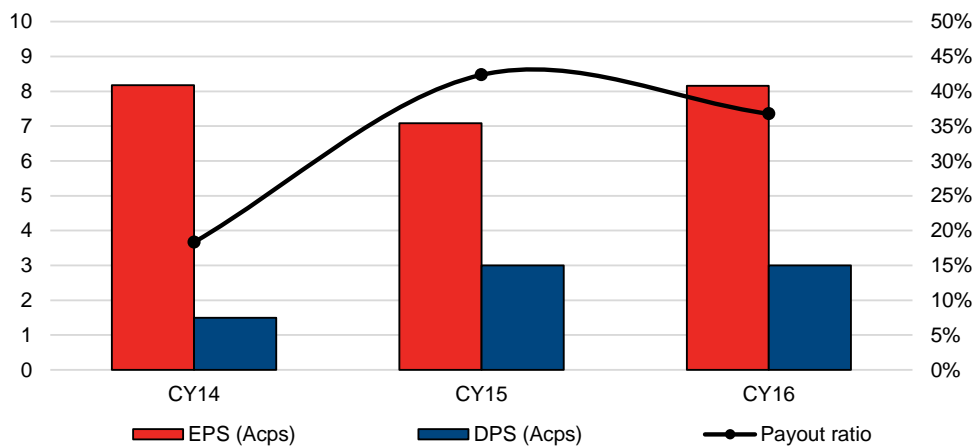


### CHART 1: UNDERLYING NPAT – A STRONG HALF YEAR PERFORMANCE



Source: company data, Wilson HTM

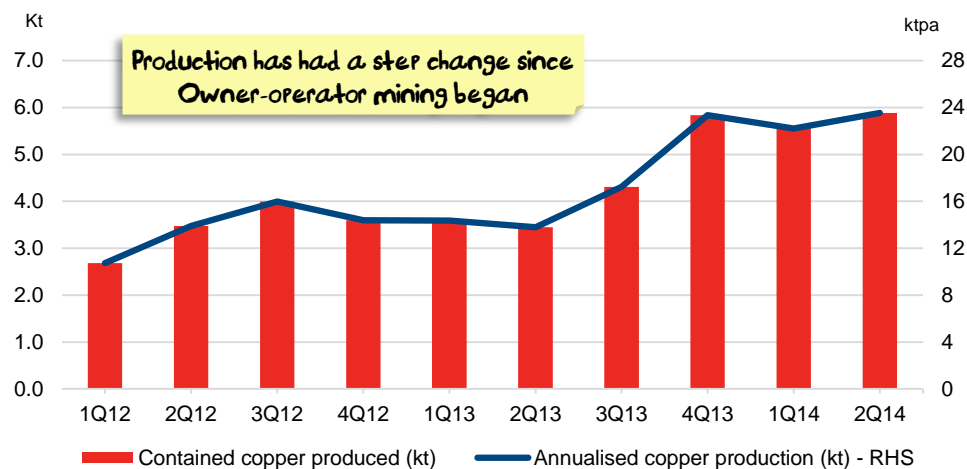
### CHART 2: FORECAST HGO DIVIDEND AND EPS PROFILE



HGO have stated its dividend policy is to payout a minimum of 40% of earnings

Source: Wilson HTM

### CHART 3: 3 QUARTERS IN A ROW OF IMPROVED PRODUCTION

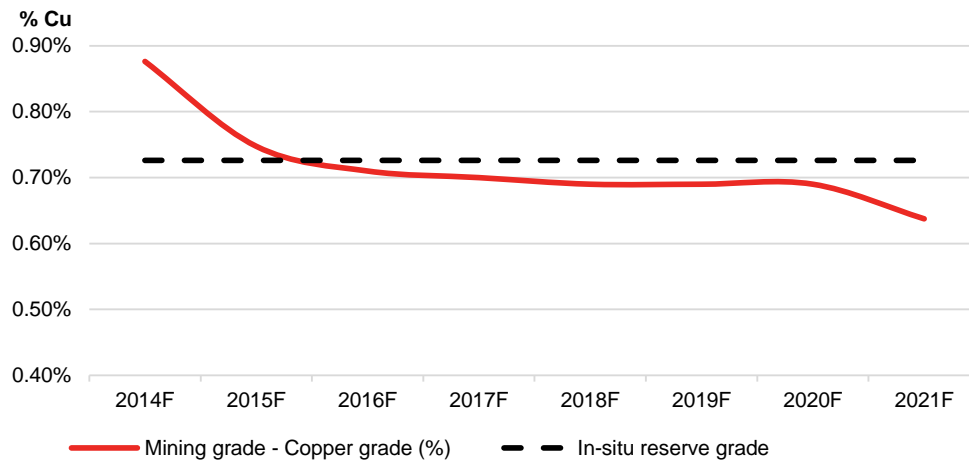


Mining operations now performing well on a sustained basis

Source: Company data, Wilson HTM

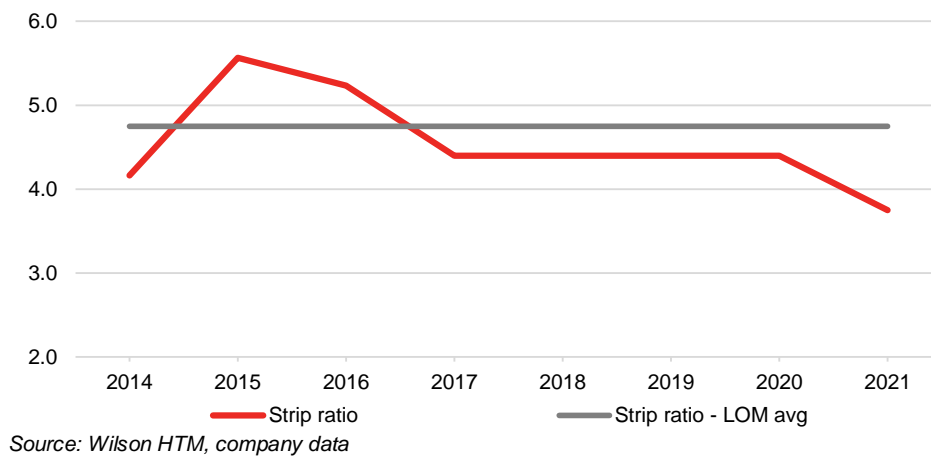


#### CHART 4: MINED COPPER GRADE V RESERVE GRADE (0.73% IN-SITU)



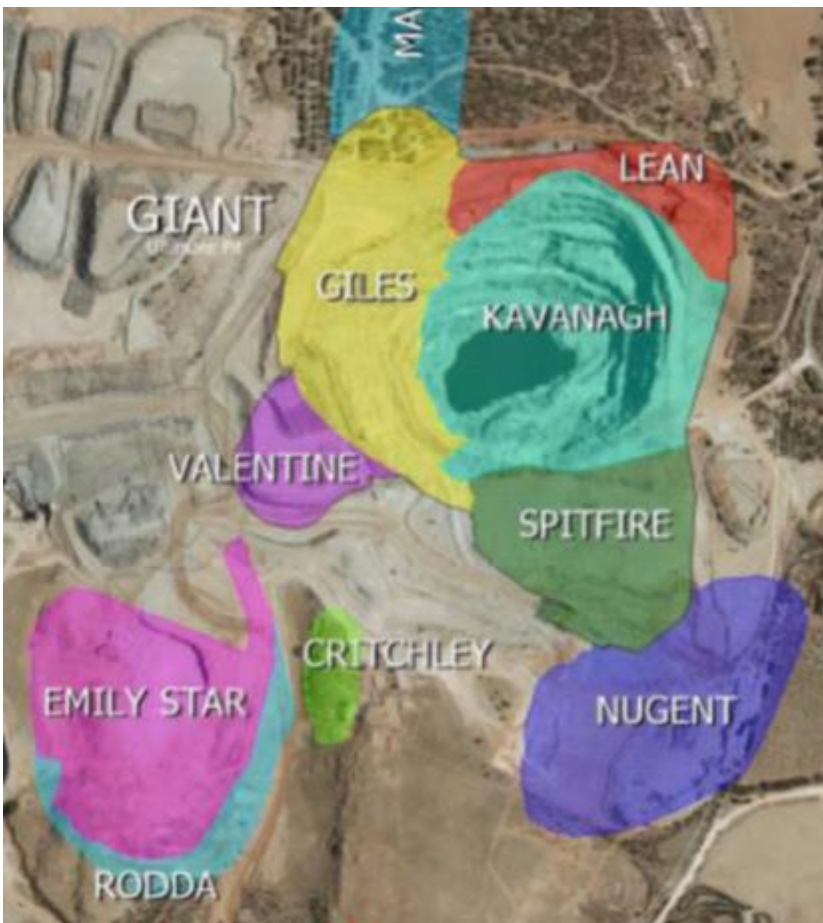
*Kavanagh and Nugent pits provide copper grades above reserve grade*

#### CHART 5: KANMANTOO STRIP RATIO





**FIGURE 1: KANMANTOO PITS – CURRENTLY ORE IS SOURCED FROM KAVANAGH AND NUGENT**



## CHANGES TO FORECASTS

	Jan-14A	Dec-14F	Dec-15F	Dec-16F	NPV (A\$ps)	Target price (A\$ps)
Underlying NPAT (A\$m) - previous	17	12.3	10.4	12.1	0.94	0.94
Underlying NPAT (A\$m) - revised	17	12.1	10.5	12.0	0.94	0.94
Change (A\$m)	0.0	-0.3	0.0	-0.1	0.00	0.00
Change (%)	0%	-2%	0%	-1%	0%	0%

Source: Company data, Wilson HTM

## VALUATION AND RISKS

We value Hillgrove using a discounted cash flow methodology, on which we base our target price. We apply a weighted average cost of capital of 11.0%. The key downside risks to our target price are higher capex or operating costs, or lower achieved copper prices, than we have forecast. The main upside risks to our forecasts are higher-than-expected achieved prices, or shipments above our expectations.



PRICE TARGET		
	Val. A\$m	Val. A\$ps
Kanmantoo	160.307	1.085
<u>Sumba &amp; Bird's Head</u>	<u>10.000</u>	<u>0.068</u>
<b>Total Operations</b>	<b>170.307</b>	<b>1.153</b>
Net (debt) / cash	-14.143	-0.096
Corporate overheads	-17.640	-0.119
Franking Credits	0.000	0.000
Listed investments	0.000	0.000
<u>Exploration</u>	<u>0.000</u>	<u>0.000</u>
<b>Total Valuation</b>	<b>138.524</b>	<b>0.938</b>
<u>Premium (Discount)</u>		<u>0.002</u>
<b>Target Price</b>		<b>0.940</b>

INTERIMS (\$m)				
Half-yr (AUD)	Jul 12	Jan 13	Jul 13	Jan 14
	1HA	2HA	1HA	2HE
Sales	58.6	80.6	92.5	78.7
EBITDA	18.7	18.9	28.0	24.4
EBIT	6.3	2.2	8.1	9.8
<b>Net Profit</b>	<b>1.7</b>	<b>0.0</b>	<b>5.8</b>	<b>6.2</b>
<b>Norm. EPS</b>	<b>1.3</b>	<b>0.0</b>	<b>3.9</b>	<b>4.2</b>
EBIT/Sales	10.7	2.7	8.8	12.5
Dividend (c)	0.0	0.0	0.0	1.5
Franking (%)	0.0	0.0	0.0	100.0

FINANCIAL STABILITY			
Year-end January	FY13A	FY14E	FY15E
Net Debt	25.2	1.8	-14.1
Net Debt / Equity (%)	11.6	0.7	<0
<b>Net Debt / EV (%)</b>	<b>24.5</b>	<b>1.7</b>	<b>&lt;0</b>
Current Ratio (x)	5.0	6.9	16.3
Interest Cover (x)	1.4	6.2	>99
<b>Adj. Cash Int. Cover (x)</b>	<b>2.5</b>	<b>21.7</b>	<b>&gt;99</b>
Debt / CashFlow (x)	4.6	0.7	0.5
Net Debt (cash) / share	0.0	0.0	<0
NTA / share (\$)	0.2	1.7	1.7
Book Value / share (\$)	0.2	1.7	1.7
Payout Ratio (%)	0	18	42
Adj. Payout Ratio (%)	0	0	12

EPS RECONCILIATION (\$m)				
	FY13A		FY14E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	139	139	171	171
EBIT	8.7	8.4	17.9	17.9
<b>Net Profit</b>	<b>1.9</b>	<b>1.7</b>	<b>12.1</b>	<b>12.1</b>
Notional Earn.	0.0	0.0	0.0	0.0
Pref./Conv. Div.	0.0	0.0	0.0	0.0
<b>Profit for EPS</b>	<b>1.9</b>	<b>1.7</b>	<b>12.1</b>	<b>12.1</b>
Diluted Shrs(m)	1,052	1,052	148	148
<b>Diluted EPS (c)</b>	<b>0.2</b>	<b>1.3</b>	<b>8.2</b>	<b>8.2</b>

RETURNS				
	FY13A	FY14E	FY15E	FY16E
ROE (%)	0.8	5.2	4.1	4.6
ROIC (%)	2.4	5.1	4.2	4.8
Incremental ROE	292.9	105.0	-8.8	24.7
Incremental ROIC	784.8	-990.4	168.7	-7.9

KEY ASSUMPTIONS								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
AUD/USD	1.0359	0.9684	0.9200	0.8975	0.8727	0.8450	0.8173	
Copper price (US\$/lb)	3.70	3.33	2.82	3.26	3.28	3.20	3.08	
Copper price (US\$/t)	8,150	7,332	6,221	7,192	7,220	7,054	6,779	
Gold price (US\$/oz)	1,669	1,412	1,290	1,269	1,250	1,241	1,216	
Silver price (US\$/oz)	31.1	23.9	20.2	20.3	19.8	19.6	19.9	
Copper Prod Payable (kt)	13.3	16.6	20.4	19.7	18.1	17.8	17.6	
Gold Prod Payable (koz)	6.1	5.5	5.8	10.7	10.7	11.7	11.7	
Cu. Equiv Prod Payable (kt)	14.5	17.6	21.5	21.6	20.0	19.9	19.7	

PROFIT & LOSS (\$m)								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales Revenue	115.4	139.2	171.2	173.1	166.6	168.7	165.8	
EBITDA	13.9	37.6	52.4	42.0	41.7	34.2	28.4	
Depn & Amort	26.5	29.2	34.4	27.0	25.5	27.0	27.0	
<b>EBIT</b>	<b>-12.6</b>	<b>8.4</b>	<b>17.9</b>	<b>15.0</b>	<b>16.2</b>	<b>7.2</b>	<b>1.4</b>	
Net Interest Expense	5.7	5.9	2.9	0.0	-1.0	-1.7	-2.6	
Tax	-8.1	0.8	2.9	4.5	5.2	2.7	1.2	
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Net Profit pre Sig. Items</b>	<b>-10.2</b>	<b>1.7</b>	<b>12.1</b>	<b>10.5</b>	<b>12.0</b>	<b>6.2</b>	<b>2.8</b>	
Abn's / Ext's / Signif.	1.6	0.2	0.0	0.0	0.0	0.0	0.0	
<b>Reported Net Profit</b>	<b>-8.7</b>	<b>1.9</b>	<b>12.1</b>	<b>10.5</b>	<b>12.0</b>	<b>6.2</b>	<b>2.8</b>	

CASH FLOW (\$m)								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
EBITDA	13.9	37.6	52.4	42.0	41.7	34.2	28.4	
Interest & Tax	-3.1	-2.8	-3.0	-0.6	0.8	-1.8	0.8	
Working Cap / Other	17.6	-23.8	10.0	-1.0	-3.0	0.0	0.0	
<b>Operating Cash Flow</b>	<b>28.4</b>	<b>11.0</b>	<b>59.4</b>	<b>40.3</b>	<b>39.5</b>	<b>32.4</b>	<b>29.1</b>	
Maintenance Capex	-4.0	-3.0	-2.0	-2.0	-2.0	-2.0	-2.0	
<b>Free Cash Flow</b>	<b>24.4</b>	<b>8.0</b>	<b>57.4</b>	<b>38.3</b>	<b>37.5</b>	<b>30.4</b>	<b>27.1</b>	
Dividends Paid	0.0	0.0	0.0	-4.4	-4.4	-4.4	-4.4	
Development Capex	-34.1	-16.0	-34.2	-18.0	-14.0	-4.2	-2.3	
Invest. / Disposals	0.3	0.5	0.0	0.0	0.0	0.0	0.0	
Other Inv. Flows	-81.4	-3.7	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash Flow Pre Financing</b>	<b>-90.8</b>	<b>-11.3</b>	<b>23.2</b>	<b>15.9</b>	<b>19.1</b>	<b>21.8</b>	<b>20.4</b>	
Funded by Equity	97.5	10.2	0.0	0.0	0.0	0.0	0.0	
Funded by Debt	0.0	-9.8	-22.1	-19.3	0.0	0.0	0.0	
Funded by Cash	-6.7	11.0	-1.1	3.4	-19.1	-21.8	-20.4	

BALANCE SHEET SUMMARY (\$m)								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Cash	27.4	16.5	17.5	14.1	33.2	55.0	75.5	
Current Receivables	6.4	5.0	2.8	1.4	0.7	0.3	0.2	
Current Inventories	19.7	26.2	23.7	11.9	5.8	2.9	1.5	
Net PPE	243.5	215.3	220.2	212.0	201.3	180.5	157.7	
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Intangibles / Capitalised	0.6	0.3	0.1	0.1	0.1	0.1	0.1	
Other	48.7	48.6	45.0	46.2	47.4	47.4	47.4	
<b>Total Assets</b>	<b>346.3</b>	<b>311.8</b>	<b>309.3</b>	<b>285.7</b>	<b>288.5</b>	<b>286.3</b>	<b>282.4</b>	
Current Payables	41.6	23.9	19.9	11.3	5.5	3.0	1.5	
Total Debt	50.3	41.7	19.3	0.0	0.0	0.0	0.0	
Other Liabilities	23.5	28.1	19.4	19.4	19.4	19.4	19.4	
<b>Total Liabilities</b>	<b>115.4</b>	<b>93.7</b>	<b>58.6</b>	<b>30.7</b>	<b>24.8</b>	<b>22.4</b>	<b>20.9</b>	
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Shareholder Equity</b>	<b>231.0</b>	<b>218.2</b>	<b>250.7</b>	<b>255.0</b>	<b>263.6</b>	<b>264.0</b>	<b>261.4</b>	
<b>Total Funds Employed</b>	<b>281.2</b>	<b>259.8</b>	<b>270.0</b>	<b>255.0</b>	<b>263.6</b>	<b>264.0</b>	<b>261.4</b>	



## RETURN RE-INVESTMENT MATRIX

Return	High	Cash Generator	Champion
	Low	Challenged	Potential
		Low	High
		Re-Investment	

Currently progressing a 22 ktpa copper mine in South Australia. Project largely derisked and should provide consistent returns. We also consider ability to grow organically as likely.

## RISK MEASURES

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Share price risk: Earnings subject to copper price exposure and strength of AUD.

Business risk: Main risk is that the project does not deliver forecast copper production profile. Further risk is that exploration potential in South Australia and south-east Asia is not realised.

## BUSINESS DESCRIPTION

Hillgrove Resources Limited (HGO) is an Australian mining company focused on the operation of the Kanmantoo copper mine in South Australia, and exploration of its Indonesian tenements. The Kanmantoo copper mine is located less than 55 km from Adelaide. The open pit mine and processing circuit are operating with throughput of ~3.0 Mtpa producing ~80 kt of concentrate per annum (~20-22 ktpa of copper metal).

## INVESTMENT THESIS

HGO completed a \$19m raising in 2HCY13 to provide sufficient working capital to allow it to address elevated grade dilution and low mining rates at its Kanmantoo mine. Since then, operations have had a significant turnaround, and we value the company at \$0.94/sh. The current share price approximately reflects the replacement value of the Kanmantoo mine. We rate HGO a BUY.

## REVENUE DRIVERS

- Copper and gold prices
- Improved mining rates and copper feed grades to the mill
- Successful exploration at Kanmantoo and Indonesia

## BALANCE SHEET

- Equity: 1,180.9m
- Options: 50m
- Market capitalisation: \$96m (at A\$0.080/sh)
- Cash: \$16.4m (31-Jan-14)
- Debt: \$41.7m (31-Jan-14)

## KEY ASSETS

The Kanmantoo copper mine (South Australia) is an open-cut mine with throughput of 3.0 Mtpa, producing approximately 80,000 tonnes of concentrate and containing about 22,000 tonnes of copper metal and 6-10,000 ounces of gold with exploration potential for further copper.

## RESERVES & RESOURCES

- Kanmantoo:
- In-situ resource: 31.2 Mt @ 0.82% copper
- Long-term stockpile resource: 1.6 Mt @ 0.37% copper

## BOARD

- Dean Brown (Chairman)
- John Gooding (Non-Executive Director)
- John Quirke (Non-Executive Director)
- Douglas Snedden (Non-Executive Director)
- Edwin Zemancheff (Non-Executive Director)

## KEY ISSUES/CATALYSTS

- Maintaining production in excess of 20ktpa.
- Increased resource at Kanmantoo to increase mine life towards 10 years

## MANAGEMENT

- Mr Greg Hall (Managing Director)
- Russell Middleton (Chief Financial Officer)
- Shanthy Smith (Company Secretary)
- Steven McClare (General Manager, Kanmantoo Copper Mine)

## RISK TO VIEW

- Inability to achieve and maintain full production capacity at Kanmantoo

## MISCELLANEOUS AND OTHER

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#### Return Reinvestment Matrix and Risk Measures

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

#### Recommendation Structure and Other Definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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