

BUY

HOLD

SELL

ACTION & RECOMMENDATION

We retain our BUY rating. HGO's Sept-14 2 mth activities report was ahead of expectations, with annualised production of 26.6ktpa Cu, and cash costs of only US\$1.85/lb, driven by higher grades (mined copper grade was 1.06%). Key points of appeal for HGO 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 4 qtrs in a row of avg 24ktpa of copper production, 5) Average free cashflow yield of 27% over CY14-16 (\$64m). Our 12-mth share price target is \$0.93ps.

Copper production rate steps up, again...**What's Changed**

- **Production and costs:** HGO have reported their Aug-Sept-14 activities report. Production of 4.43kt of Cu (contained) was 14% above our forecast of 3.89kt - this equated to ~26.6kt on an annualised basis, a new annualised record. C1 costs of US\$1.85/lb were well below our forecast of US\$2.10/lb, primarily due to higher production. Free cashflow of \$1.7m was slightly below our forecast of \$2.4m.
- **Operations:** Mill performance was inline with our expectations. Both mined grade and milled grade of copper were both well above our forecasts. Mined grade of 1.06% was especially strong, reflecting better grades from Kavanagh pit.
- **Guidance reiterated:** CY15 guidance for Cu production of 20.5-22.5kt and Au prod. of 6.0-7.8koz remains, although the company expects to achieve the low end of gold production guidance. (WHTMe 21.0kt & 5.3koz).
- **Valuation:** We value HGO at A\$0.93ps, based on a DCF using a WACC of 10.9%.

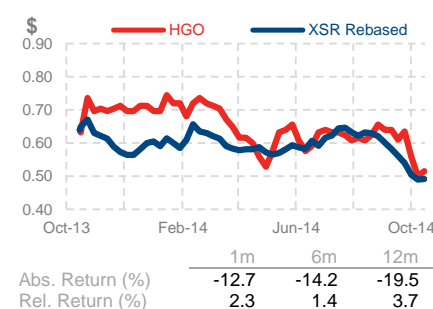
Risks & Catalysts

- **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 Dec-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.

12m Target Price (AUD)	\$0.930
Share Price @ 20-Oct-14 (AUD)	\$0.530
Fcst 12m Capital Return	75.5%
Fcst 12m Dividend Yield	9.1%
12m Total S'holder Return	84.6%

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

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

WHTM Risk Assessment

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

Year-End January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E
Revenue (\$m)	115.4	139.2	175.0	174.0	173.9
EBITDA Margin (%)	12	27	32	23	24
NPAT Norm (\$m)	-10.2	1.7	13.0	12.8	14.5
Consensus NPAT (\$m)				0.8	16.4
EPS Norm (cps)	-9.8	1.3	8.8	8.7	9.8
EPS Growth (%)	-84	113	578	-2	13
P/E Norm (x)	-5.4	40.8	6.0	6.1	5.4
EV/EBITDA (x)	6.7	2.5	1.6	2.3	2.3
CFM (x)	3.2	9.8	1.4	2.1	2.1
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

Key Changes	30-Sep	After	Var %
Revenue FY14	172	175	2.0%
(\$m) FY15	174	174	0.1%
FY16	174	174	0.1%
EBITDA: FY14	52.7	56.5	7.3%
(\$m) FY15	40.5	40.7	0.5%
FY16	40.7	40.9	0.5%
EPS: FY14	8.3	8.8	5.9%
Norm FY15	8.6	8.7	0.4%
(cps) FY16	9.7	9.8	0.5%
Price Target:	0.94	0.93	-1.1%
Rec:	BUY	BUY	

Mkt Cap: \$78m

Enterprise Value: \$92m

Shares: 148m

Sold Short: 0.1%

ASX 300 Wgt: 0.0%

Median T'over/Day: \$0.0m

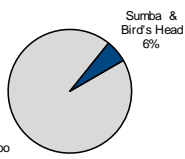
Wilson HTM Equities Research – Hillgrove Resources Limited

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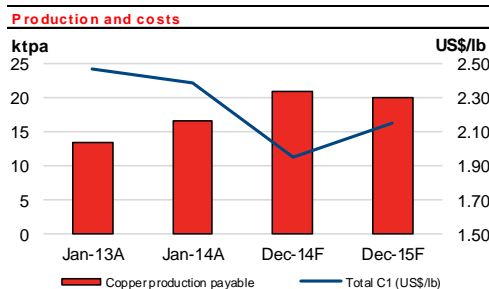
TABLE 1: HGO FINANCIAL SUMMARY

Capital profile				Now Dec year end						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
Number of shares (m)	148			-118	15	13.0	12.8	14.5	5.1	
Market capitalisation (A\$m)	92			-10.2	1.7	13.0	12.8	14.5	5.1	
Enterprise value (A\$m)	117			-11	0.2	8.8	8.7	9.8	3.5	
Enterprise value (US\$m)	107			-0.6	-0.5	16.0	14.5	16.9	21.6	
Resources				Assumptions FY						
	Mt	%	Cont Cu	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	0.91	0.90	0.87	0.85
Reserves, incl stockpiles (Mt)	22.1	@ 0.7%	157 kt	Copper price (US\$/lb)	3.70	3.62	3.25	3.24	3.25	3.20
EV/t Resource (A\$/t)	A\$481.7	US\$443.2		Gold price (US\$/oz)	1669	1412	1279	1261	1250	1241
EV/t Reserve (A\$/t)	A\$745.2			Silver price (US\$/oz)	3113	23.87	19.73	19.75	19.75	19.63
VALUATION				Total Coal Sales (100%)						
Description	A\$m	A\$ps		Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
Kanmantoo	160	108		Copper production payable	13.3	16.6	21.0	20.0	19.0	18.3
Sumba & Bird's Head	10	0.07		Gold production payable	6.1	5.5	5.3	10.5	10.5	11.5
Total Operations	170	1.15		Cu. Equiv production payable (kt)	14.5	17.6	21.9	21.9	20.8	20.3
Net (debt) / cash	-13	-0.09		Cash costs @ Kanmantoo						
Corporate overheads (incl WC)	-20	-0.14		Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
Franking Credits	0	0.00		Total C1 (US\$/lb)	2.46	2.38	1.95	2.15	2.16	2.07
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	0.14	0.16	0.14	0.15
Total Valuation	137	0.93		EBITDA costs (US\$/lb)	2.79	2.59	2.14	2.37	2.38	2.47
Premium (Discount)		0.00		Sustaining capex (US\$/lb)	0.14	0.08	0.04	0.04	0.04	0.06
Target Price		0.93		All in cash costs (US\$/lb)	2.93	2.67	2.18	2.41	2.42	2.53
P/NPV		0.67		D&A (US\$/lb)	0.90	0.76	0.88	0.56	0.58	0.81
				EBIT costs (US\$/lb)	3.69	3.35	3.03	2.94	2.96	3.28
Operations NPV split				Margin analysis						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
				EBITDA (US\$/lb)	0.90	1.03	1.11	0.87	0.87	0.73
				All-in cash cost margin (US\$/lb)	0.76	0.95	1.07	0.83	0.83	0.67
				EBIT (US\$/lb)	0.00	0.27	0.22	0.30	0.29	-0.08
				Profit and Loss (\$m)						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
				Revenue	116	140	175	174	174	172
				Costs	103	102	119	133	133	139
				EBITDA	14	38	57	41	41	33
				Depreciation & amortisation	26	29	37	22	21	28
				EBIT	-13	8	19	18	20	6
				Interest income	1	0	0	0	1	2
				Interest expense	7	6	3	1	0	0
				MRRT	0	0	0	0	0	0
				Pre tax profit	-18	3	16	18	21	7
				Tax expense (benefit)	-8	1	3	5	6	2
				NPAT - underlying	-10	2	13	13	14	5
				Significant items	2	0	0	0	0	0
				NPAT - reported	-12	1	13	13	14	5
				Profitability analysis						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
				EBIT margin	-	6%	11%	11%	11%	3%
				EBITDA margin	12%	27%	32%	23%	24%	19%
				Effective tax rate	44%	33%	20%	30%	30%	30%
				ROA - EBIT / (total assets - cash)	-4%	3%	7%	7%	8%	2%
				ROE - NPAT / equity	-5%	1%	5%	5%	5%	2%
				Cashflow						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
				EBITDA	14	38	57	41	41	33
				Operating cashflow	28	11	58	39	39	32
				Sustaining Capex	-4	-3	-2	-2	-2	-3
				Growth Capex	-34	-16	-34	-18	-14	0
				Free cashflow	-10	-8	22	19	23	29
				Investing cashflow	-46	-22	-37	-21	-17	-3
				Financing cashflow	24	0	-22	-24	-4	-4
				Net Change in cash	7	-11	-1	-5	17	25
				Balance Sheet Analysis						
				Jan-13A	Jan-14A	Dec-14F	Dec-15F	Dec-16F	Dec-17F	
				Debt	50	42	19	0	0	0
				Equity	221	229	248	254	266	266
				Assets	336	322	306	285	291	288
				Cash	27	16	15	10	27	52
				Net debt	23	25	4	-10	-27	-52
				Gearing - net debt/equity	10%	11%	2%	-4%	-10%	-19%
				Gearing - net debt/ (net debt + equity)	9%	10%	2%	-4%	-11%	-24%
				Net debt / EBITDA	16	0.7	0.1	-0.2	-0.7	-1.5
				EBIT / net interest	-2.2	1.4	6.6	13.1	-24.6	-3.6
				EBITDA / net interest	2.4	6.4	19.2	290.0	-50.7	-21.1
				Free cashflow yield	-11%	-9%	24%	21%	25%	32%



Valuation inputs	
Rf rate	5.3%
MRP	6.0%
Equity beta	1.36
Ke	13%
Kd	7.0%
Gearing	30%
Tax rate	30%
WACC	11%
DCF (A\$)	0.93
Prem/disc	0%
Target (A\$)	0.93

Sensitivity (A\$ps/A\$m)	NPV (\$ps)	Dec-14F	Dec-15F
Base Case NPV / NPAT	0.93	13.0	12.8
Copper price +10% increase	+0.36	+4.5	+10.0
Copper price +10% increase	+38%	+35%	+69%
AUD +10% increase	-0.36	-4.7	5.19
AUD +10% increase	-39%	-37%	78%
AUD +1% increase	-0.05	-0.5	5.9
AUD +1% increase	-5%	-4%	9%



Source: Company data, Wilson HTM



HIGHLIGHTS

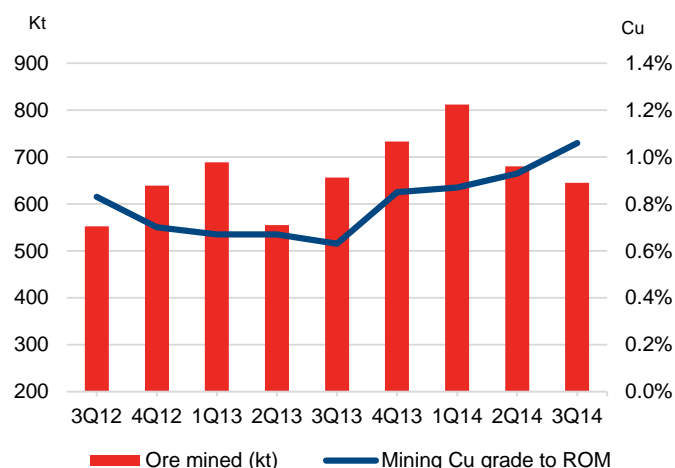
- HGO have reported their Aug-Sept-14 activities report for the Jul-14 qtr. Production of 4.43kt of Cu (contained) was 14% above our forecast of 3.89kt – this equated to ~26.6kt on an annualised basis, a new annualised record.
- Mill performance was inline with our expectations. Both mined grade and milled grade of copper were both well above our forecasts. Mined grade of 1.06% was especially strong, reflecting better grades from Kavanagh.
- C1 cash costs of US\$1.85/lb were 12% lower than our US\$2.10/lb estimate. YTD costs of US\$1.98/lb are below the CY14 guidance range of US\$2.00-2.20/lb.
- Net debt has decreased ~\$1.5m over the 2 mth quarter, to A\$11.6m (WHTMe \$10.9m). Cash balance is now ~\$11.4m, and debt is ~\$23m. This reflects free cashflow of \$1.7m, slightly below our forecast of \$2.4m.
- No changes to production (20.5-22.5kt Cu) or cost (US\$2.00-2.20/lb) guidance, although the company has stated it expects gold production to come in towards the lower end of the 6.0-7.8koz guidance. We also note clarification of the CY14 capex expenditure of \$9.4m.

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	12.7	14.4	0.94	0.94
Underlying NPAT (A\$m) - revised	17	13.0	12.8	14.5	0.93	0.93
Change (A\$m)	0.0	0.7	0.1	0.1	-0.01	-0.01
Change (%)	0%	6%	0%	1%	-1%	-1%

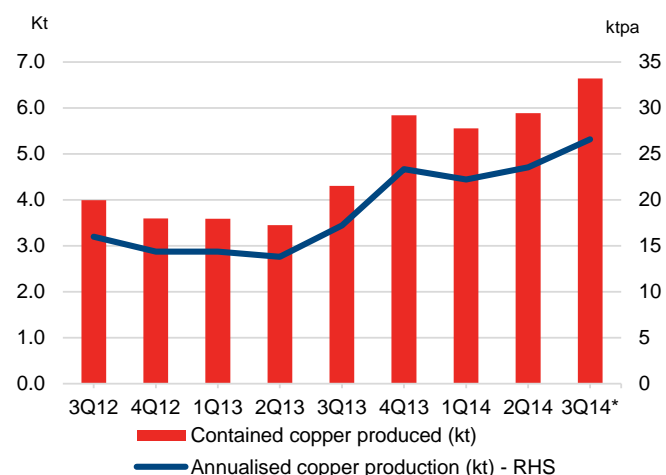
Source: Company data, Wilson HTM

CHART 1: ORE MINED AND MINING GRADE (ORE MINED CONVERTED INTO 3 MTH EQUIV)



Source: Company data, Wilson HTM

CHART 2: COPPER PRODUCTION – REACHES ANOTHER ANNUALISED RECORD



Source: Company data, Wilson HTM
 * Converted into 3mth equivalent



TABLE 2: SUMMARY OF KANMANTOO MODEL – CY14-16

Hillgrove Resources (HGO) Wilson HTM				
Assumptions	CY14	CY15	CY16	Comment
AUD:USD	0.9106	0.895	0.873	
Cu price (US\$/lb)	3.25	3.24	3.25	
Au price (US\$/oz)	1279	1261	1250	
Ag price (US\$/oz)	19.725	19.75	19.75	
Production				
Copper production (contained) (koz)	21.7	20.7	19.7	
	Cu guidance 20.5-22.5			
Gold production (koz)	5.7	11.3	11.3	
Silver production (koz)	144.1	136.2	136.2	
Payable sales				
Copper production (koz)	21.0	20.0	19.0	Decrease in grade over time towards reserve
Gold production (koz)	5.3	10.5	10.5	
Silver production (koz)	129.7	122.6	122.6	
by-product credits (US\$/lb)	0.21	0.36	0.37	
C1 cash costs (US\$/lb)				
royalties	1.95	2.15	2.16	CY14 guidance is 2.00-2.20/lb
Cash costs (incl roy)	2.00	2.21	2.24	
pre-strip	0.39	0.28	0.25	
Cash costs (post pre-strip)	2.39	2.50	2.49	
Financials A\$m				
Revenues (A\$m)	175.2	177.2	173.9	
Costs - real (A\$m)	101.5	109.1	107.3	
	<i>aggregate cost inflation</i>	0.2%	2.2%	
Costs - nominal (A\$m)	101.5	109.3	109.6	
EBITDA (A\$m)	73.7	67.9	64.3	
other costs (A\$m)	18.6	13.0	10.9	Pre-strip
EBITDA, post pre-stripping (A\$m)	55.1	54.9	53.4	
Tax payable	0	0	0	No cash tax payable for next few years
Capex (A\$m)	11.4	5.5	3.6	
Net project cashflow (EBITDA, post strip, minus tax minus capex)	43.7	49.4	49.8	
Corporate costs	-6.7	-7.0	-6.0	
Exploration	0.0	-1.2	-1.2	
Pro-forma HGO net cashflow (A\$m)	37.0	41.2	42.6	
net interest payments	-3.1	-0.8	0.6	
working capital / timing adjustments	-12.4	-20.9	-20.3	
Wilson HTM forecast HGO free cashflow (A\$m)	21.5	19.5	23.0	
Freecashflow yield	27%	25%	29%	
3yr HGO free cashflow yield	27%			

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 10.9%. 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	160.175	1.084
<u>Sumba & Bird's Head</u>	<u>10.000</u>	<u>0.068</u>
Total Operations	170.175	1.152
Net (debt) / cash	-13.197	-0.089
Corporate overheads	-20.222	-0.137
Franking Credits	0.000	0.000
Listed investments	0.000	0.000
<u>Exploration</u>	<u>0.000</u>	<u>0.000</u>
Total Valuation	136.756	0.926
<u>Premium (Discount)</u>		<u>0.004</u>
Target Price		0.930

INTERIMS (\$m)				
Half-yr (AUD)	Jul 12	Jan 13	Jul 13	Jan 14
	1HA	2HA	1HA	2HE
Sales	58.6	80.6	92.5	82.5
EBITDA	18.7	18.9	28.0	28.5
EBIT	6.3	2.2	8.1	11.2
Net Profit	1.7	0.0	5.8	7.2
Norm. EPS	1.3	0.0	3.9	4.9
EBIT/Sales	10.7	2.7	8.8	13.6
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	4.1	-9.7
Net Debt / Equity (%)	11.6	1.7	<0
Net Debt / EV (%)	27.3	4.5	<0
Current Ratio (x)	5.0	6.9	16.1
Interest Cover (x)	1.4	6.6	>99
Adj. Cash Int. Cover (x)	2.5	21.1	>99
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	17	35
Adj. Payout Ratio (%)	0	0	12

EPS RECONCILIATION (\$m)				
	FY13A		FY14E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	139	139	175	175
EBIT	8.7	8.4	19.3	19.3
Net Profit	1.9	1.7	13.0	13.0
Notional Earn.	0.0	0.0	0.0	0.0
Pref./Conv. Div.	0.0	0.0	0.0	0.0
Profit for EPS	1.9	1.7	13.0	13.0
Diluted Shrs(m)	1,052	1,052	148	148
Diluted EPS (c)	0.2	1.3	8.8	8.8

RETURNS				
	FY13A	FY14E	FY15E	FY16E
ROE (%)	0.8	5.6	5.1	5.6
ROIC (%)	2.4	5.5	5.2	5.8
Incremental ROE	292.9	134.3	-1.3	18.4
Incremental ROIC	784.8	-804.3	-123.0	-15.7

KEY ASSUMPTIONS								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
AUD/USD	1.0359	0.9684	0.9106	0.8950	0.8727	0.8450	0.8173	
Copper price (US\$/lb)	3.70	3.33	2.83	3.18	3.28	3.20	3.08	
Copper price (US\$/t)	8,150	7,332	6,235	7,011	7,220	7,054	6,779	
Gold price (US\$/oz)	1,669	1,412	1,279	1,261	1,250	1,241	1,216	
Silver price (US\$/oz)	31.1	23.9	19.7	19.8	19.8	19.6	19.9	
Copper Prod Payable (kt)	13.3	16.6	21.0	20.0	19.0	18.3	18.0	
Gold Prod Payable (koz)	6.1	5.5	5.3	10.5	10.5	11.5	11.5	
Cu. Equiv Prod Payable (kt)	14.5	17.6	21.9	21.9	20.8	20.3	20.1	

PROFIT & LOSS (\$m)								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Sales Revenue	115.4	139.2	175.0	174.0	173.9	172.5	169.5	
EBITDA	13.9	37.6	56.5	40.7	40.9	33.5	27.4	
Depn & Amort	26.5	29.2	37.2	22.3	21.1	27.7	27.7	
EBIT	-12.6	8.4	19.3	18.4	19.9	5.7	-0.3	
Net Interest Expense	5.7	5.9	2.9	0.1	-0.8	-1.6	-2.5	
Tax	-8.1	0.8	3.3	5.5	6.2	2.2	0.7	
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	
Net Profit pre Sig. Items	-10.2	1.7	13.0	12.8	14.5	5.1	1.5	
Abn's / Ext's / Signif.	1.6	0.2	0.0	0.0	0.0	0.0	0.0	
Reported Net Profit	-8.7	1.9	13.0	12.8	14.5	5.1	1.5	

CASH FLOW (\$m)								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
EBITDA	13.9	37.6	56.5	40.7	40.9	33.5	27.4	
Interest & Tax	-3.1	-2.8	-3.1	-0.8	0.6	-1.4	1.2	
Working Cap / Other	17.6	-23.8	4.4	-1.0	-3.0	0.0	0.0	
Operating Cash Flow	28.4	11.0	57.9	39.0	38.6	32.1	28.6	
Maintenance Capex	-4.0	-3.0	-2.0	-2.0	-2.0	-3.0	-3.0	
Free Cash Flow	24.4	8.0	55.9	37.0	36.6	29.1	25.6	
Dividends Paid	0.0	0.0	0.0	-4.4	-4.4	-4.4	-4.4	
Development Capex	-34.1	-16.0	-35.0	-18.7	-14.8	-0.1	-0.2	
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
Cash Flow Pre Financing	-90.8	-11.3	20.8	13.8	17.4	24.5	20.9	
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	1.3	5.4	-17.4	-24.5	-20.9	

BALANCE SHEET SUMMARY (\$m)								
Year-end January (AUD)	FY12A	FY13A	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E
Cash	27.4	16.5	15.2	9.7	27.1	51.6	72.5	
Current Receivables	6.4	5.0	2.9	1.4	0.7	0.3	0.2	
Current Inventories	19.7	26.2	24.8	12.1	6.0	3.0	1.5	
Net PPE	243.5	215.3	218.2	215.4	209.9	185.3	160.8	
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	
Total Assets	346.3	311.8	306.2	284.9	291.2	287.8	282.5	
Current Payables	41.6	23.9	19.7	11.4	5.7	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	
Total Liabilities	115.4	93.7	58.4	30.8	25.1	22.4	20.9	
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholder Equity	231.0	218.2	247.8	254.1	266.1	265.4	261.6	
Total Funds Employed	281.2	259.8	267.1	254.1	266.1	265.4	261.6	



RETURN RE-INVESTMENT MATRIX

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

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.

RISK MEASURES

	Low	Med	High	Spec
Share Price Risk				
Business Risk				

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.

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 ~3.0-3.3 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 \$0.93/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: \$79m (at A\$0.535/sh)
- Cash: \$11.6m (30-Sept-14)
- Debt: \$23.0m (30-Sept-14)

KEY ASSETS

The Kanmantoo copper mine (South Australia) is an open-cut mine with throughput of 3.0-3.3 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)
- Shanthi 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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