



Preliminary Signals



Wilson HTM
INVESTMENT GROUP
A Leading Wealth Manager and
Adviser to Emerging Companies

Phillip Chippindale, CFA phillip.chippindale@wilsonhtm.com.au | Tel. +61 2 8247 3149

26 February 2015

Liam Schofield, CFA liam.schofield@wilsonhtm.com.au | Tel. +61 2 8247 3173

HILLGROVE RESOURCES LIMITED (HGO)

Lower costs drive a better result

ANNOUNCEMENT HIGHLIGHTS

- HGO has reported underlying NPAT of \$10.1m, well above WHTMe of \$1.8m and Bloomberg consensus of \$5.2m. Underlying EBITDA of \$53.7m was 27% above WHTMe of \$42.2m.
- Headline NPAT was \$3.8m, after the impact of \$8.6m of post tax one offs (including a \$9.7m post tax inventory writedown), plus \$2.3m hit to the tax line for prior period tax adjustments.
- Cash and debt balance were already known from the recent qtrly report: cash balance was \$8.8m and debt outstanding of \$18m.
- No dividend was declared, as expected. The Chairman said: "While we are not declaring a dividend now, we have a strong desire to do so and release the value of some \$21m of franking credits but it must be at the appropriate time".
- CY15 guidance reaffirmed. Copper production guidance remains 18.5-20.5kt @ US\$2.00-2.25/lb C1.

TABLE: HGO – INTERIM FINANCIAL RESULT SNAPSHOT

| HGO - Fin result snapshot | 2012 | 2013 | 2014 | WHTMe | B'berg cons | HoH | v WHTMe |
|------------------------------------|---------------|---------------|---------------|-----------------|-------------|-------------|-------------|
| Profit & Loss statement | Actual | Actual | Actual | Forecast | | | |
| Revenue | 116.5 | 140.0 | 166.9 | 167.2 | 172.5 | 19% | -0% |
| Costs | 102.6 | 102.3 | 113.2 | 125.0 | | 11% | -9% |
| EBITDA | 13.9 | 37.6 | 53.7 | 42.2 | 45.8 | 43% | 27% |
| D&A | 26.5 | 29.2 | 36.2 | 38.9 | | 24% | |
| EBIT | -12.6 | 8.4 | 17.5 | 3.2 | 8.2 | 107% | |
| Net financing expenses | 5.7 | 5.9 | 3.6 | 2.9 | | -39% | |
| PBT | -18.3 | 2.6 | 13.9 | 0.3 | | 445% | |
| Tax expense | -8.1 | 0.8 | 3.8 | -1.5 | | 354% | |
| Underlying NPAT | -10.2 | 1.7 | 10.1 | 1.8 | 5.2 | 490% | 466% |
| EPS | -1.1 | 0.2 | 6.8 | 1.2 | | n.a. | 466% |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | | n.a. | |
| Cashflows | 2012 | 2013 | 2014 | WHTMe | | | |
| Operating cashflow s | 28.4 | 11.0 | 46.7 | 62.6 | | 326% | -26% |
| Investing cashflow s | -45.7 | -22.2 | -30.0 | -47.0 | | 35% | -36% |
| Financing cashflow s | 24.0 | 0.3 | -24.3 | -23.3 | | -7244% | 4% |
| Balance sheet | 2012 | 2013 | 2014 | WHTMe | | | |
| Debt | 50.3 | 41.7 | 19.0 | 18.1 | | | |
| Cash | 27.4 | 16.5 | 8.9 | 8.8 | | | |
| Net debt | 22.9 | 25.2 | 10.2 | 9.3 | | | |

Source: Company data, Wilson HTM

WHTM VIEW

Initial analysis

- This is a strong result at both the EBITDA and NPAT level, against both WHTM expectations and consensus. Lower costs were the key source of the positive surprise, which was good to see. We note that today's result

Wilson HTM Equities Research – Preliminary Signals – Hillgrove Resources Limited

Issued by Wilson HTM Ltd ABN 68 010 529 665 - Australian Financial Services Licence No 238375. Important disclosures regarding companies that are subject of this report and an explanation of recommendations can be found at the end of this document. Wilson HTM Corporate Finance Ltd acted as Lead Manager for the placement in Hillgrove Resources Limited in September 2013 and as Lead Manager for the placement in Hillgrove Resources Limited in July 2012 and earned fees for acting.



does not contain anything new in the way of cashflows, so our DCF will be relatively unimpacted.

- Some interesting commentary in the announcement regarding the desire for the board to pay a dividend at the appropriate time – ie “once its debt has been restructured and cash flows permit”.
- We do not read much into the inventory writedowns – this is no surprise, and is non-cash.

Earnings implications

- We anticipate slight positive earnings revisions for consensus CY15 forecasts.

Investment view

- We have a BUY rating and a target price of \$0.84ps.



Traffic light key: The traffic lights are a prioritisation tool, and are designed to assist the reader in prioritising work-flow.

- **Red light:** Announcement substantially different to WHTM expectations - **STOP**
- **Orange light:** Announcement largely as per WHTM expectations, but some factors need closer examination - **SLOW DOWN**
- **Green light:** Announcement in line with or better than WHTM expectations - **GO**
- **White light:** Due to compliance reasons coverage or investment view is restricted at this time

Return Reinvestment Matrix and Risk Measures

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

Recommendation Structure and Other Definitions

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

Disclaimer

Whilst Wilson HTM Ltd believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. To the extent permitted by law Wilson HTM Ltd disclaims all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage) however caused, which may be suffered or arise directly or indirectly in respect of such information. Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of Wilson HTM Ltd and therefore may not be realised in the future.

The advice contained in this document is general advice. It has been prepared without taking account of any person's objectives, financial situation or needs and because of that, any person should, before acting on the advice, consider the appropriateness of the advice, having regard to the client's objectives, financial situation and needs. Those acting upon such information without first consulting one of Wilson HTM Ltd investment advisors do so entirely at their own risk. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever. If the advice relates to the acquisition, or possible acquisition, of a particular financial product – the client should obtain a Product Disclosure Statement relating to the product and consider the Statement before making any decision about whether to acquire the product. This communication is not to be disclosed in whole or part or used by any other party without Wilson HTM Ltd's prior written consent.

Disclosure of Interest. Hillgrove Resources Limited

The Directors of Wilson HTM Ltd advise that at the date of this report they and their associates have relevant interests in Hillgrove Resources Limited. They also advise that Wilson HTM Ltd and Wilson HTM Corporate Finance Ltd A.B.N. 65 057 547 323 and their associates have received and may receive commissions or fees from Hillgrove Resources Limited in relation to advice or dealings in securities. Some or all of Wilson HTM Ltd authorised representatives may be remunerated wholly or partly by way of commission.

In producing research reports, members of Wilson HTM Ltd Research may attend site visits and other meetings hosted by the issuers the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Wilson HTM Ltd considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting.

Please see disclosures at <http://www.wilsonhtm.com.au/Disclosures>. Disclosures applicable to companies included in this report can be found in the latest relevant published research.

Regulatory Disclosures

Wilson HTM Corporate Finance Ltd acted as Lead Manager for the placement announced by Hillgrove Resources Limited in September 2013 and earned fees for acting in this capacity. Wilson HTM Corporate Finance Ltd acted as Lead Manager for the placement announced by Hillgrove Resources Limited in July 2012 and earned fees for acting in this capacity. Wilson HTM Investment Group Ltd and its related bodies corporate trades or may trade as principal in the securities that are subject of the research report. Wilson HTM Corporate Finance Ltd has received compensation for corporate advisory services from this company, its subsidiaries or affiliates during the previous 12 months