

BUY

HOLD

SELL

ACTION & RECOMMENDATION

We retain our BUY rating. HGO's 2014 underlying result was above expectations, but this was because the recent qtrly threw us off the scent – this led to positive surprise. The working capital build up looks favourable, and in our view should be reflected in better cashflows over the next 6 mths. We continue to forecast HGO to be in a net cash position by ~Mar-16 qtr. No dividend was declared (as expected), but it's clearly on the radar, subject to restructuring the existing debt for the company (HGO has \$21.3m of franking credits). Our 12-mth share price target is broadly unchanged at \$0.83ps.

12m Target Price (AUD)	\$0.830
Share Price @ 26-Feb-15 (AUD)	\$0.360
Fcst 12m Capital Return	130.6%
Fcst 12m Dividend Yield	14.3%
12m Total S'holder Return	144.9%

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Conservative guidance helps deliver a 2014 earnings beat**What's Changed**

- **Wrong-footed in the right way:** HGO's underlying NPAT beat was a function of its recent qtrly which quoted unaudited EBITDA of \$42.1m. What has become apparent from the full result, is that this guidance was a headline number and included one-offs such as a \$9.7m (post tax) writedown of inventories – so the underlying EBITDA (\$53.7m, a 27% beat), and NPAT, were both better than we expected.
- **Capital management:** no dividend (as expected), but the Chairman did make comment that they have a strong desire to pay a dividend "at the appropriate time". We await a debt restructuring before capital management could be undertaken.
- **Working capital looks ripe for an unwind:** Our analysis shows that net working capital has increased by \$14.9m over the last 6 mths (pre the writedown), which bodes well for this to be reflected in cashflows over the next 6 mths. We forecast free cashflow of \$9m over CY15 (with zero working capital change), which could be higher if there is a working capital unwind.
- **Valuation:** We value HGO at \$0.83ps based on a DCF using a WACC of 11.5%. We note HGO is trading on a FCF yield for CY15 of ~16%, and only 12mth fwd EV/EBITDA of 2.1x.

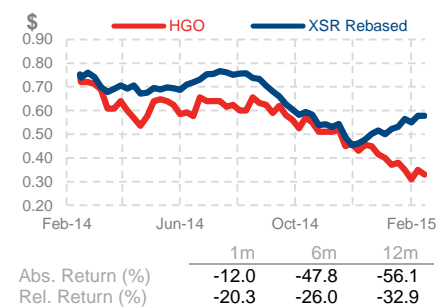
Risks & Catalysts

- **Key risks around HGO:** 1) operational risk at the Kanmantoo mine, and 2) future weakness in the copper price.
- **Catalysts:** 1) debt restructuring, 2) any capital management initiatives, and 3) an improved copper market or weaker AUD.

Year-End January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (\$m)	139.2	166.8	158.6	173.5	183.2
EBITDA Margin (%)	27	32	20	25	22
NPAT Norm (\$m)	1.7	10.1	-0.1	7.7	9.8
Consensus NPAT (\$m)			-1.6	9.7	14.6
EPS Norm (cps)	1.3	6.8	-0.1	5.2	6.6
EPS Growth (%)	113	426	-101	5517	27
P/E Norm (x)	27.7	5.3	-372.4	6.9	5.4
EV/EBITDA (x)	1.7	1.2	2.0	1.5	1.6
CFM (x)	6.7	1.2	1.9	1.3	1.6
DPS (cps)	0.0	0.0	2.5	3.0	3.0
Franking (%)	0	0	100	100	100

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

Mkt Cap: \$53m Enterprise Value: \$63m Shares: 148m Sold Short: 0.1%

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				

Key Changes	03-Feb	After	Var %
Revenue FY15	159	159	-0.2%
(\$m) FY16	174	174	0.0%
FY17	183	183	0.0%
EBITDA: FY15	31.3	30.9	-1.0%
(\$m) FY16	43.7	43.7	0.0%
FY17	40.1	40.1	0.0%
EPS: FY15	0.1	-0.1	<-99%
Norm FY16	5.2	5.2	-0.1%
(cps) FY17	6.7	6.6	-0.4%
Price Target:	0.84	0.83	-1.2%
Rec:	BUY	BUY	

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

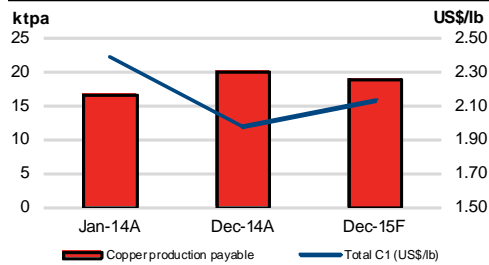
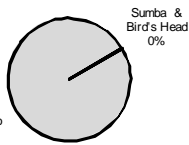
Wilson HTM Equities Research – Hillgrove Resources Limited

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TABLE 1: HGO - FINANCIAL SUMMARY

Capital profile				Now Dec year end							
				Jan-14A	Dec-14A	Dec-15F	Dec-16F	Dec-17F	Dec-18F		
Number of shares (m)	148			15	3.8	-0.1	7.7	9.8	3.3		
Market capitalisation (A\$m)	53			17	10.1	-0.1	7.7	9.8	3.3		
Enterprise value (A\$m)	78			0.2	6.8	-0.1	5.2	6.6	2.2		
Enterprise value (US\$m)	62			CFPS (A€)	-0.5	11.1	7.1	24.2	24.8	20.1	
				DPS (A€)	0.0	0.0	2.5	3.0	3.0	3.0	
				P/E (x)	2217	5.3	nm	6.9	5.4	16.2	
				P/CF (x)	-72.4	3.2	5.1	15	14	18	
				EV/EBITDA (x)	2.1	12	19	0.7	0.0	-0.7	
				EPS Growth	-15%	4105%	-10%	-5517%	27%	-67%	
				Yield (%)	0.0%	0.0%	6.9%	8.3%	8.3%	8.3%	
Resources				Assumptions FY							
	Mt	%	Cont Cu	Jan-14A	Dec-14A	Dec-15F	Dec-16F	Dec-17F	Dec-18F		
Resources, incl stockpiles (Mt)	313	@ 0.77%	242 kt	AUD/USD	0.97	0.90	0.83	0.83	0.81	0.80	
Reserves, incl stockpiles (Mt)	22.1	@ 0.71%	157 kt	Copper price (US\$/lb)	3.62	3.22	2.99	3.19	3.20	3.08	
EV/t Resource (A\$/t)	A\$323.3	US\$255.4		Gold price (US\$/oz)	142	1267	1261	1250	1241	1216	
EV/t Reserve (A\$/t)	A\$500.2			Silver price (US\$/oz)	23.87	18.92	19.75	19.75	19.63	19.88	
VALUATION				Total Coal Sales (100%)							
Description	A\$m	A\$ps		Jan-14A	Dec-14A	Dec-15F	Dec-16F	Dec-17F	Dec-18F		
Kanmantoo	154	1.04		Copper production payable	16.6	20.0	18.9	18.2	18.3	18.0	
Sumba & Bird's Head	0	0.00		Gold production payable	5.5	6.3	5.8	9.5	13.0	13.0	
Total Operations	154	1.04		Cu. Equiv production payable (kt)	17.6	211	20.1	19.9	20.6	20.4	
Net (debt) / cash	-10	-0.07		Cash costs @ Kanmantoo							
Corporate overheads (incl WC)	-20	-0.14		Jan-14A	Dec-14A	Dec-15F	Dec-16F	Dec-17F	Dec-18F		
Franking Credits	0	0.00		Total C1 (US\$/lb)	2.38	1.97	2.13	2.10	1.99	2.00	
Listed investments	0	0.00		Royalties (US\$/lb)	0.04	0.05	0.07	0.08	0.28	0.28	
Exploration	0	0.00		Admin (US\$/lb)	0.16	0.21	0.17	0.15	0.15	0.15	
Total Valuation	123	0.83		EBITDA costs (US\$/lb)	2.59	2.23	2.37	2.33	2.42	2.42	
Premium (Discount)		0.00		Sustaining capex (US\$/lb)	0.08	0.04	0.04	0.04	0.06	0.06	
Target Price		0.83		All in cash costs (US\$/lb)	2.67	2.27	2.41	2.37	2.48	2.48	
P/NPV		0.43		D&A (US\$/lb)	0.76	0.98	0.87	0.98	0.85	0.87	
				EBIT costs (US\$/lb)	3.35	3.21	3.24	3.31	3.27	3.29	
Operations NPV split				Margin analysis							
	Valuation inputs			Jan-14A	Dec-14A	Dec-15F	Dec-16F	Dec-17F	Dec-18F		
	Rf rate	5.3%		EBITDA (US\$/lb)	103	0.99	0.62	0.87	0.78	0.65	
	MRP	6.0%		All-in cash cost margin (US\$/lb)	0.95	0.95	0.58	0.82	0.72	0.59	
	Equity beta	152		EBIT (US\$/lb)	0.27	0.01	-0.25	-0.12	-0.07	-0.22	
	Ke	14%		Profit and Loss (\$m)							
	Kd	7.0%		Jan-14A	Dec-14A	Dec-15F	Dec-16F	Dec-17F	Dec-18F		
	Gearing	30%		Revenue	140	167	159	174	183	175	
	Tax rate	30%		Costs	102	113	128	130	143	146	
	WACC	12%		EBITDA	38	54	31	44	40	30	
	DCF (A\$)	0.83		Depreciation & amortisation	29	36	30	33	28	28	
	Prem/disc	0%		EBIT	8	18	1	11	12	2	
	Target (A\$)	0.83		Interest income	0	0	0	0	2	3	
				Interest expense	6	4	1	0	0	0	
				MRRT	0	0	0	0	0	0	
				Pre tax profit	3	14	0	11	14	5	
				Tax expense (benefit)	1	4	0	3	4	1	
				NPAT - underlying	2	10	0	8	10	3	
				Significant items	0	6	0	0	0	0	
				NPAT - reported	1	4	0	8	10	3	
Sensitivity (A\$ps/A\$m)				Profitability analysis							
	NPV (\$ps)	Dec-14A	Dec-15F	Jan-14A	Dec-14A	Dec-15F	Dec-16F	Dec-17F	Dec-18F		
Base Case NPV / NPAT	0.83	10.1	-0.1	EBIT margin	6%	10%	0%	6%	7%	1%	
Copper price +10% increase	+0.34	+2.1	+9.7	EBITDA margin	27%	32%	20%	25%	22%	17%	
Copper price +10% increase	+40%	+1453%	+125%	Effective tax rate	33%	27%	30%	30%	30%	30%	
AUD +10% increase	-0.33	-2.1	58.7	ROA - EBIT / (total assets - cash)	3%	6%	0%	5%	6%	1%	
AUD +10% increase	-40%	1481%	88%	ROE - NPAT / equity	1%	4%	0%	3%	4%	1%	
AUD +1¢ increase	-0.04	-0.3	7.1	Cashflow							
AUD +1¢ increase	-5%	178%	11%	Jan-14A	Dec-14A	Dec-15F	Dec-16F	Dec-17F	Dec-18F		
				EBITDA	38	54	31	44	40	30	
				Operating cashflow	11	44	30	43	37	30	
				Sustaining Capex	-3	-2	-2	-2	-3	-3	
				Growth Capex	-16	-28	-19	-8	0	0	
				Free cashflow	-8	14	9	34	34	27	
				Investing cashflow	-22	-30	-22	-11	-3	-3	
				Financing cashflow	0	-22	-13	-11	-4	-4	
				Net Change in cash	-11	-8	-6	21	29	22	
Production and costs				Balance Sheet Analysis							
ktpa	US\$/lb			Jan-14A	Dec-14A	Dec-15F	Dec-16F	Dec-17F	Dec-18F		
25	2.50			Debt	42	19	8	1	1	1	
20	2.30			Equity	229	240	229	237	241	239	
15	2.10			Assets	322	304	271	263	263	258	
10	1.90			Cash	16	9	3	25	54	76	
5	1.70			Net debt	25	10	4	-24	-53	-75	
0	1.50			Gearing - net debt/equity	11%	4%	2%	-10%	-22%	-32%	
				Gearing - net debt/ (net debt + equity)	10%	4%	2%	-1%	-28%	-46%	
				Net debt / EBITDA	0.7	0.2	0.1	-0.5	-1.3	-2.5	
				EBIT / net interest	14	4.9	0.8	277.8	-7.8	-0.8	
				EBITDA / net interest	6.4	14.9	32.6	1093.4	-25.3	-113	
				Free cashflow yield	-15%	27%	16%	63%	63%	50%	



Source: Company data, Wilson HTM



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.
- **The key reason for the underlying EBITDA beat and NPAT beat** has to do with the Dec-14 qtrly. HGO stated that the 2014 EBITDA (unaudited) at \$42.1m. However, it turns out that this was headline EBITDA (post the writedown), NOT underlying. So, because of HGO's conservatism at the qtrly, they basically had underwritten an earnings 'beat'.
- **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 2 : HGO – 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	44.2	62.6		304%	-29%
Investing cashflow s	-45.7	-22.2	-30.0	-47.0		35%	-36%
Financing cashflow s	24.0	0.3	-21.9	-23.3		-6528%	-6%
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

After incorporating today's 2014 financial result, our valuation is broadly unchanged. Our earnings goforecasts over FY15-17 are also broadly unchanged.

TABLE 3: CHANGES TO FORECASTS

	Jan-14A	Dec-14F	Dec-15F	Dec-16F	NPV (A\$ ps)	Target price (A\$ ps)
Underlying NPAT (A\$m) - previous	1.7	1.8	0.1	7.7	0.84	0.84
Underlying NPAT (A\$m) - revised	1.7	10.1	-0.1	7.7	0.83	0.83
Change (A\$m)	0.0	8.3	-0.2	0.0	-0.01	-0.01
Change (%)	0%	466%	-268%	0%	-1%	-1%

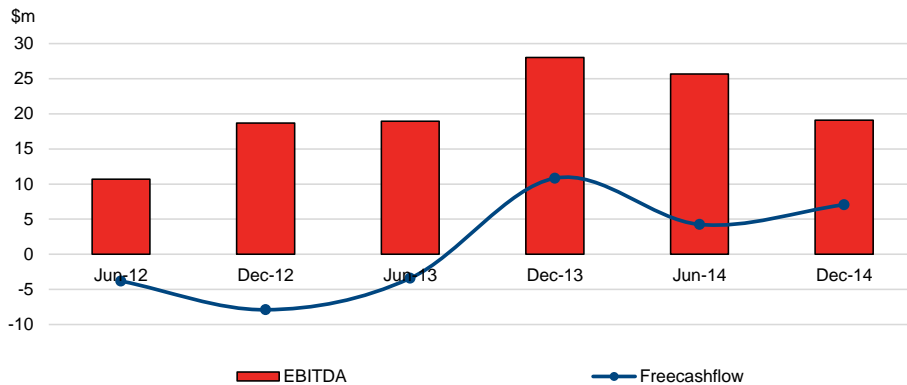
Source: Company data, Wilson HTM



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 11.5%. 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.

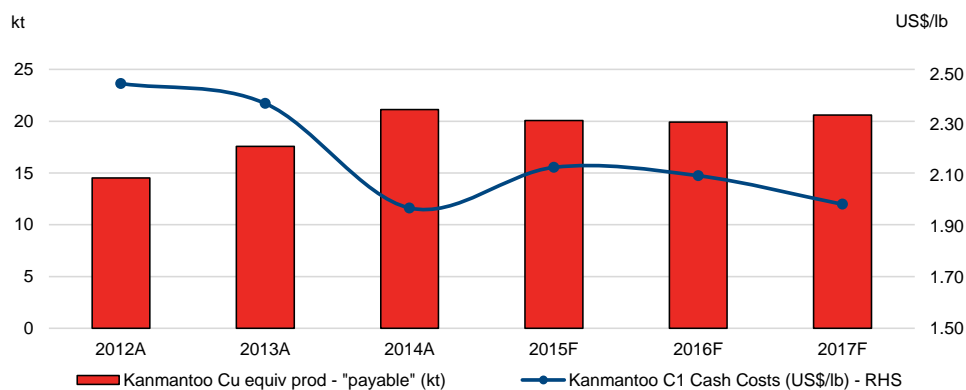
CHART 1: EBITDA AND FCF (BY HALF YEARS)



We forecast FCF in CY15 of \$8.5m, compared with an EBITDA of ~\$31m

Source: Company data, Wilson HTM

CHART 2: PRODUCTION AND C1 CASH COST PROFILE



Source: Company data, Wilson HTM



PRICE TARGET		
	Val. A\$m	Val. A\$ps
Kanmantoo	153.686	1.040
<u>Sumba & Bird's Head</u>	<u>0.000</u>	<u>0.000</u>
Total Operations	153.686	1.040
Net (debt) / cash	-10.182	-0.069
Corporate overheads	-20.406	-0.138
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	123.099	0.833
<u>Premium (Discount)</u>	<u>-0.003</u>	
Target Price		0.830

INTERIMS (\$m)				
Half-yr (AUD)	Jul 13	Jan 14	Jul 14	Jan 15
	1HA	2HA	1HE	2HE
Sales	92.5	74.3	81.1	77.5
EBITDA	28.0	25.7	19.1	11.8
EBIT	8.1	9.4	3.5	-2.8
Net Profit	5.8	4.3	2.0	-2.1
Norm. EPS	3.9	2.9	1.4	-1.5
EBIT/Sales	8.8	12.6	4.3	-3.6
Dividend (c)	0.0	0.0	1.0	1.5
Franking (%)	0.0	0.0	100.0	100.0

FINANCIAL STABILITY			
Year-end January	FY14A	FY15E	FY16E
Net Debt	10.2	4.4	-23.7
Net Debt / Equity (%)	4.3	1.9	<0
Net Debt / EV (%)	16.1	6.9	<0
Current Ratio (x)	5.5	8.8	17.5
Interest Cover (x)	4.9	0.8	>99
Adj. Cash Int. Cover (x)	14.0	30.1	>99
Debt / CashFlow (x)	0.9	0.6	0.2
Net Debt (cash) / share (\$)	0.1	0.0	<0
NTA / share (\$)	1.6	1.6	1.6
Book Value / share (\$)	1.6	1.6	1.6
Payout Ratio (%)	0	<0	57
Adj. Payout Ratio (%)	0	5	11

EPS RECONCILIATION (\$m)				
	FY14A		FY15E	
	Rep.	Norm.	Rep.	Norm.
Sales Revenue	167	167	159	159
EBIT	23.8	17.5	0.7	0.7
Net Profit	16.4	10.1	-0.1	-0.1
Notional Earn.	0.0	0.0	0.0	0.0
Pref./Conv. Div.	0.0	0.0	0.0	0.0
Profit for EPS	16.4	10.1	-0.1	-0.1
Diluted Shrs(m)	148	148	148	148
Diluted EPS (c)	11.1	6.8	-0.1	-0.1

RETURNS				
	FY14A	FY15E	FY16E	FY17E
ROE (%)	4.4	-0.1	3.3	4.1
ROIC (%)	5.0	0.2	3.5	4.3
Incremental ROE	208.3	-144.3	-841.1	34.3
Incremental ROIC	-273.9	351.2	-40.5	-4.0

KEY ASSUMPTIONS								
Year-end January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
AUD/USD	0.9684	0.9024	0.8325	0.8250	0.8050	0.8000		
Copper price (US\$/lb)	3.33	2.87	2.91	3.25	3.20	3.08		
Copper price (US\$/t)	7,332	6,356	6,425	7,165	7,054	6,779		
Gold price (US\$/oz)	1,412	1,267	1,261	1,250	1,241	1,216		
Silver price (US\$/oz)	23.9	18.9	19.8	19.8	19.6	19.9		
Copper Prod Payable (kt)	16.6	20.0	18.9	18.2	18.3	18.0		
Gold Prod Payable (koz)	5.5	6.3	5.8	9.5	13.0	13.0		
Cu. Equiv Prod Payable (kt)	17.6	21.1	20.1	19.9	20.6	20.4		

PROFIT & LOSS (\$m)								
Year-end January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Sales Revenue	139.2	166.8	158.6	173.5	183.2	175.5		
EBITDA	37.6	53.7	30.9	43.7	40.1	29.8		
Depn & Amort	29.2	36.2	30.2	32.6	27.7	27.7		
EBIT	8.4	17.5	0.7	11.1	12.4	2.1		
Net Interest Expense	5.9	3.6	0.9	0.0	-1.6	-2.6		
Tax	0.8	3.8	-0.1	3.3	4.2	1.4		
Minorities / pref divs	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		
Net Profit pre Sig. Items	1.7	10.1	-0.1	7.7	9.8	3.3		
Abn's / Ext's / Signif.	0.2	6.3	0.0	0.0	0.0	0.0		
Reported Net Profit	1.9	16.4	-0.1	7.7	9.8	3.3		

CASH FLOW (\$m)								
Year-end January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
EBITDA	37.6	53.7	30.9	43.7	40.1	29.8		
Interest & Tax	-2.8	-2.4	-1.2	-0.4	-3.3	0.1		
Working Cap / Other	-23.8	-6.2	0.0	0.0	0.0	0.0		
Operating Cash Flow	11.0	45.1	29.7	43.3	36.8	29.9		
Maintenance Capex	-3.0	-2.0	-2.0	-2.0	-3.0	-3.0		
Free Cash Flow	8.0	43.1	27.7	41.3	33.8	26.9		
Dividends Paid	0.0	0.0	-1.5	-4.4	-4.4	-4.4		
Development Capex	-16.0	-28.1	-20.4	-8.7	-0.1	-0.2		
Invest. / Disposals	0.5	0.2	0.0	0.0	0.0	0.0		
Other Inv. Flows	-3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow Pre Financing	-11.3	15.1	5.8	28.1	29.3	22.3		
Funded by Equity	10.2	0.0	0.0	0.0	0.0	0.0		
Funded by Debt	-9.8	-21.9	-11.4	-6.7	0.0	0.0		
Funded by Cash	11.0	6.8	5.5	-21.4	-29.3	-22.3		

BALANCE SHEET SUMMARY (\$m)								
Year-end January (AUD)	FY13A	FY14A	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Cash	16.5	8.9	3.3	24.7	53.9	76.2		
Current Receivables	5.0	5.0	2.3	1.3	0.7	0.3		
Current Inventories	26.2	32.7	15.2	8.8	4.7	2.2		
Net PPE	215.3	212.8	202.4	179.4	154.8	130.3		
Investments	0.0	0.0	0.0	0.0	0.0	0.0		
Intangibles / Capitalised	0.3	0.0	0.0	0.0	0.0	0.0		
Other	48.6	46.1	47.3	48.5	48.5	48.5		
Total Assets	311.8	305.4	270.5	262.7	262.6	257.5		
Current Payables	27.0	32.3	18.5	9.5	5.3	2.7		
Total Debt	41.7	19.0	7.7	0.9	0.9	0.9		
Other Liabilities	28.1	15.0	15.0	15.0	15.0	15.0		
Total Liabilities	96.7	66.4	41.2	25.5	21.3	18.7		
Minorities / Convertibles	0.0	0.0	0.0	0.0	0.0	0.0		
Shareholder Equity	215.1	239.0	229.3	237.2	241.3	238.8		
Total Funds Employed	256.8	258.1	237.0	238.1	242.3	239.8		



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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