

Australian Equity Research

26 February 2015

BUY

unchanged

PRICE TARGET A\$1.05

unchanged

Price (26-Feb) A\$0.36
Ticker HGO-ASX

52-Week Range (A\$):	0.31 - 0.75
Avg Daily Vol (M) :	0.1
Shares Out. (M) :	147.7
Market Cap (A\$M):	53.9
Enterprise Value (A\$M):	54.1
Cash (A\$M):	8.85
Long-Term Debt (A\$):	(18.7)
NAV /Shr (AUC):	1.06
Major Shareholders:	Perennial Value Mgt 12.5% Platinum Partners 8.4%

FYE Dec	2015E	2016E	2017E
Copper production (000t)	18	19	21
C1 Cash Cost (US\$/lb)	1.94	2.11	1.98
EBITDA (A\$M)	31.3↓	31.6↓	55.3
Previous	32.0	32.5	-
EV/EBITDA (x)	1.7	1.1	0.3
P/E (x)	8.6	8.3	2.5



HGO
Source: FactSet

Hillgrove Resources Ltd (HGO:ASX) is an Australian mining company whose primary asset is the 100%-owned Kanmantoo copper mine, located in South Australia

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Company Update

Preliminary FY14 Results

Investment Recommendation

We maintain our BUY rating for HGO following the Preliminary FY14 results announcement, which were mostly in line with expectations. In our view, a re-structure of outstanding debt remains a priority given the near-term outlook for metal prices, capital requirements for the Giant pit cut back, and the company's somewhat tight balance sheet. Notwithstanding this, on our current commodity price deck (we remain bullish on Cu prices in the medium term), we see sufficient valuation upside to support our positive longer-term view.

Highlights

- **Prelim results mostly in line:** Preliminary FY14 results (11 months to 31 Dec'15) saw EBITDA of A\$42.7m broadly in line with our estimates (CGe A\$41m) and above Bloomberg consensus. NPAT of A\$3.8m was impacted by the impairment of stockpiles due to lower metal prices, with the variance from our forecasts also due to unmodelled tax benefits. Underlying NPAT of A\$10.1m compares to the pcp (12 months to 31 Jan'14) A\$2.6m, and reflects the results of cost reduction efforts at Kanmantoo over the period.
- **Balance sheet looks tight:** Net debt at period end was reported at A\$10.1m, and looking at HGO's balance sheet, it does look tight from a working capital perspective. HGO is currently working with its financiers regarding a possible re-structure of its remaining debt (~\$19m), in an effort to more effectively match capital requirements for the Giant pit cut back with debt repayments. An update on the re-structure is expected in the coming weeks.
- **Outlook:** CY15 production guidance was published following the DecQ, with the 18.5-20.5kt Cu and 6-7.8koz Au in concentrate comparing with CGe of 18.4kt Cu and 6.3koz Au. HGO's hedge book is currently in the money with 17kt Cu sold forward at an average price of A\$3.50/lb (vs spot A\$3.28/lb) to MarQ'16.

Valuation

We have made a number of minor adjustments to our valuation for HGO. These include a reduction in ascribed value for exploration potential, and minor increases to our unit mining costs and near-term TC/RC's, offset by updated forward curve based (6 Feb '15) precious metal price assumptions. Based on our current commodity price and FX rate deck, the revisions have resulted in no change to our sum of the parts NAV (NPV_{8%}) and target price of A\$1.05/share.

FINANCIAL SUMMARY

Hillgrove Resources Limited

HGO:ASX

Analyst : Reg Spencer
Date: 26/02/2015
Year End: December

Rating:
Target Price:

BUY
\$1.05

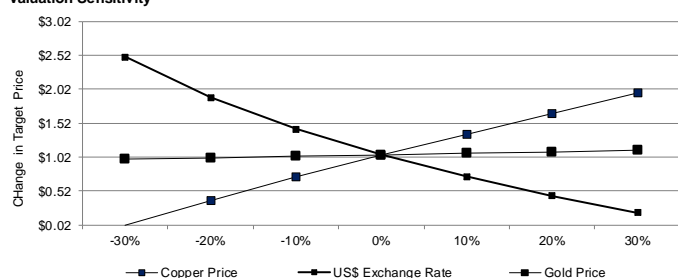
Market Information

Share Price	A\$	0.36
Market Capitalisation	A\$m	53.2
12 Month Hi-Lo	A\$	0.752-0.31
Issued Capital	m	148
Options	m	16
Fully Diluted	m	164

Valuation		A\$m	A\$/share
Kanmantoo	NPV @ 8%	199.1	1.35
Exploration		-	-
Corporate		(24.3)	(0.16)
Copper Forwards NPV		(8.6)	(0.06)
Cash		8.9	0.06
Debt		(18.7)	(0.13)
Total NAV		156.3	
Price/NAV			0.34x
Target Price (rounded)			1.05

Assumptions	2014a	2015e	2016e	2017e
Gold Price (US\$/oz)	1,246	1,297	1,305	1,320
Copper Price (US\$/lb)	3.07	2.98	3.06	3.31
AUD:USD	0.84	0.77	0.76	0.76
Copper Price (A\$/lb)	3.63	3.85	4.01	4.38

Valuation Sensitivity



Production Metrics	2014a	2015e	2016e	2017e
Kanmantoo				
Cu Prod'n (kt)	20.7	18.4	18.8	21.0
C1 Costs (A\$/lb)	2.51	2.50	2.77	2.62
AISC (A\$/lb)	3.17	3.08	3.14	3.46
AISC (US\$/lb)	2.68	2.38	2.40	2.61

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%

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 7 years.

Profit & Loss (A\$m)	2014a	2015e	2016e	2017e
Revenue	166.8	152.0	166.6	205.8
Operating Costs	125.6	114.0	127.5	136.2
Royalties	2.1	2.1	2.2	9.4
Corporate & O'heads	3.1	4.9	5.0	5.1
Exploration (Expensed)	0.0	0.4	0.8	0.8
EBITDA	40.1	31.3	31.6	55.3
Dep'n	35.2	20.9	21.6	24.3
EBIT	4.9	10.4	10.0	30.9
Net Interest	-3.5	-0.9	0.1	0.9
Tax (benefit)	-2.1	2.6	3.1	9.3
NPAT	3.1	6.2	6.4	21.7
Abnormals	6.8	0.0	0.0	0.0
NPAT (reported)	3.7	6.2	6.4	21.7

Cash Flow (A\$m)	2014a	2015e	2016e	2017e
Cash Receipts	163.2	152.4	165.1	203.4
Cash paid to suppliers & employees	-113.3	-121.0	-134.7	-150.6
Tax Paid	0.0	0.0	-3.1	-9.3
Net Interest	-2.4	-0.9	0.1	0.9
Other costs	-3.3	0.0	0.0	0.0
Operating Cash Flow	44.2	30.5	27.4	44.4
Exploration and Evaluation	-0.3	-0.8	-0.4	-0.4
Capex	-29.8	-20.8	-8.2	-25.3
Other	0.2	0.0	0.0	0.0
Investing Cash Flow	-30.0	-21.6	-8.7	-25.7
Debt Drawdown (repayment)	-21.9	-1.0	-17.7	0.0
Share capital	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	0.0	0.0	0.0	0.0
Financing Cash Flow	-21.9	-1.0	-17.7	0.0
Opening Cash	16.5	8.9	16.8	17.8
Increase / (Decrease) in cash	-7.7	8.0	1.0	18.7
FX Impact	0.0	0.0	0.0	0.0
Closing Cash	8.8	16.8	17.8	36.5

Balance Sheet (A\$m)	2014a	2015e	2016e	2017e
Cash + S/Term Deposits	8.9	16.8	17.8	36.5
Other current assets	39.4	36.6	40.1	49.6
Current Assets	48.2	53.5	57.9	86.1
Property, Plant & Equip.	211.4	211.3	197.9	198.8
Exploration & Develop.	31.3	32.1	32.6	33.0
Other Non-current Assets	13.1	22.9	14.4	21.1
Payables	29.7	19.8	21.7	26.9
Short Term debt	18.4	17.7	0.0	0.0
Long Term Debt	0.7	0.0	0.0	0.0
Other Liabilities	15.0	35.8	28.2	37.7
Net Assets	240.3	246.4	252.8	274.5
Shareholders Funds	206.9	206.9	206.9	206.9
Reserves	2.5	2.5	2.5	2.5
Retained Earnings	30.9	37.1	43.5	65.2
Total Equity	240.3	246.4	252.8	274.5

Ratios & Multiples	2014a	2015e	2016e	2017e
EBITDA Margin	24%	21%	19%	27%
EV/EBITDA	1.6x	1.7x	1.1x	0.3x
Op. Cashflow/Share	\$0.30	\$0.21	\$0.19	\$0.30
P/CF	1.2x	1.7x	1.9x	1.2x
EPS	\$0.03	\$0.04	\$0.04	\$0.15
EPS Growth	1446%	47%	4%	238%
PER	12.7x	8.6x	8.3x	2.5x
Dividend Per Share	\$0.000	\$0.000	\$0.000	\$0.000
Dividend Yield	0%	0%	0%	0%
ROE	2%	3%	3%	8%
ROIC	1%	6%	6%	19%
Debt/Equity	0%	0%	0%	0%
Net Interest Cover	1.3x	nm	nm	nm
Book Value/share	\$1.63	\$1.67	\$1.71	\$1.86
Price/Book Value	0.2x	0.2x	0.2x	0.2x

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Target Price / Valuation Methodology:

Hillgrove Resources Limited - HGO

Our target price is derived from a sum of the parts net asset valuation comprising NPV8% of operating assets net of corporate and other adjustments.

Risks to achieving Target Price / Valuation:

Hillgrove Resources Limited - HGO

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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Global Stock Ratings (as of 02/26/15)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	573	58.00%	33.86%
Hold	326	33.00%	16.87%
Sell	40	4.05%	2.50%
Speculative Buy	49	4.96%	57.14%
	988*	100.0%	

*Total includes stocks that are Under Review

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

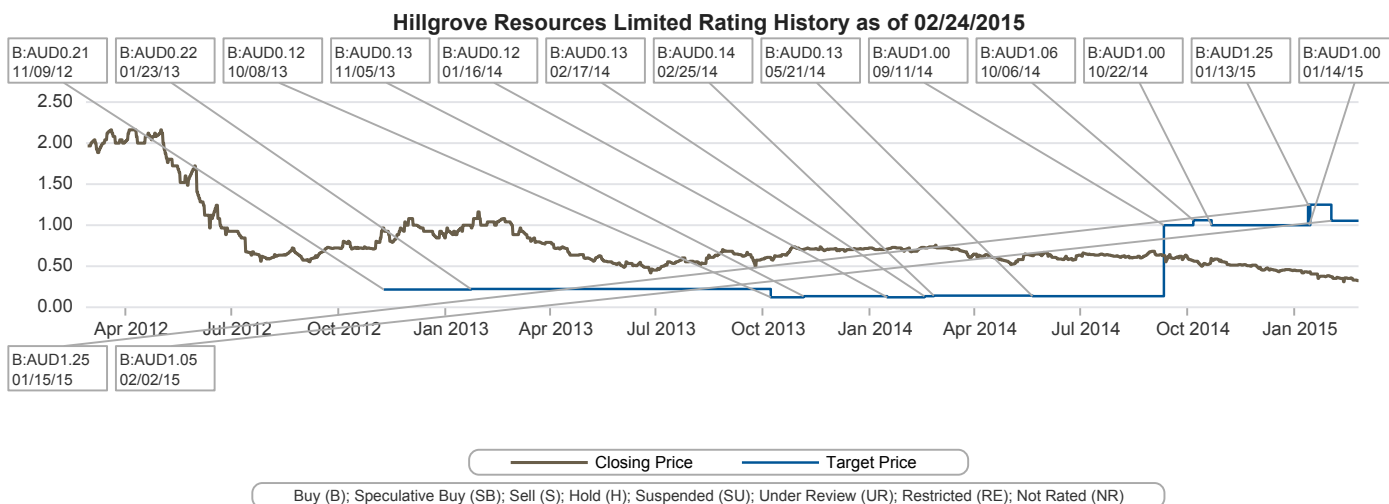
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