

Hillgrove Resources (HGO)

COMPANY REPORT

RECOMMENDATIONS

Rating	BUY ▲
Risk	High
Price Target	\$0.39
Share Price	\$0.20

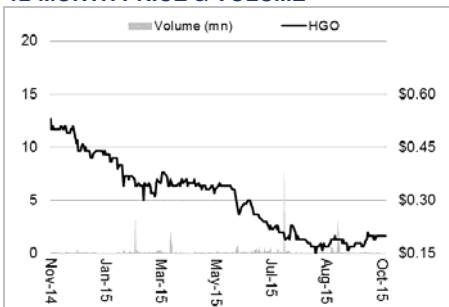
SNAPSHOT

Monthly Turnover	\$0.2mn
Market Cap	\$37mn
Shares Issued	188.1mn
52-Week High	\$0.54
52-Week Low	\$0.15
Sector	Materials

BUSINESS DESCRIPTION

Hillgrove Resources Limited (HGO) is an Australian mining company focusing on the operation of the Kanmantoo Copper Mine in South Australia.

12-MONTH PRICE & VOLUME



RESEARCH ANALYST

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Disclosure

The author owns no shares in HGO.

A step closer to greater consistency

- Physical costs under control:** Copper production for the September quarter was \$4,157/t at a cash cost of US\$2.18/lb. Production was 8% lower than we forecast, while mining and processing costs were broadly in line (the lower copper tonnes delivered a higher than US\$/lb cost than we forecast). The positive was that the dollars going out the door are no longer volatile and while they will be elevated during the period of the cut back they are now more predictable. Mining costs are now below \$11.00/bcm and processing costs are in the range of \$5.60-5.80/t. Corporate costs are also a focus and a saving of >40% is being targeted by mid-2016.
- Production guidance range lowered:** FY15 guidance is now 17,500-18,500t of copper down from 17,500-20,500t (we had been forecasting 18,512t of copper in conc.). The new guidance is related to a review of the mine plan, geology and work being done on optimising the NPV of the project. The plan now has less metal in the upper zones and more metal in the central part of the orebody. Management now appear to have a better understanding of the mineralisation having reconciled historical mine performance and reserves. The area with a degree of uncertainty is the stockpile grade which underperformed during the quarter and led to lower production. To offset the impact of stockpile treatment the company will now do smaller batches and spread them over a greater period.
- Earnings, valuation and target price revised down:** Our NLAT forecast for FY15 has increased from -\$5.7m to -\$8.7m primarily as a result of lower prices during the quarter and changes to the cost profile. Our NPV is \$0.81ps and has been downgraded from \$0.89ps following our review of our foreign exchange and commodity price forecast. Our target price which is based on ~50% of our project NPV has been downgraded from \$0.42ps to \$0.39ps. Our BUY rating is maintained.

INVESTMENT SUMMARY

Year End: 31 December		2013 (A)	2014 (A)	2015 (E)	2016 (E)	2017 (E)
Revenue	\$mn	116	140	144	155	167
EBITDA	\$mn	12.4	36.6	24.9	22.1	48.0
EBIT	\$mn	-14.9	7.4	-54.2	-13.2	11.3
Reported Profit	\$mn	4.8	1.5	-48.4	-10.2	7.8
Adjusted Profit	\$mn	-3.2	2.6	-8.4	-10.2	7.8
EPS (Reported)	¢	0.4	0.1	-25.7	-5.4	4.2
EPS (Adjusted)	¢	-0.3	0.2	-4.5	-5.4	4.2
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Reported)	x	43.6	154.5	N/A	N/A	4.7
PER (Adjusted)	x	N/A	89.1	N/A	N/A	4.7
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial summary

Hillgrove Resources (HGO)

Code: HGO
Analyst: Warren Edney
Date: 30-Oct-15
Share Price (\$A): \$0.20
Market Cap (\$m): \$36.7
Enterprise Value (\$m) \$45.9
Year End: 31 Dec (previously Jan 31)

Rating: Buy
Price Target: \$0.39
Upside/(Downside): 100%
Valuation: \$0.81
Risk: High

EARNINGS RATIOS	Jan-14A	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E
Reported NPAT	1.5	3.8	(48.4)	(10.2)	7.8	48.5
Attributable NPAT	2.6	10.1	(8.4)	(10.2)	7.8	48.5
EPS (cps)	1.8	6.8	-4.5	-5.4	4.2	25.8
EPS Growth	-	288%	-	-	-	518%
P/E (x)	11.1	2.9	-	-	4.7	0.8
CFPS (cps)	20.8	26.9	-7.5	13.3	23.7	44.6
CFPS Growth (%)	108%	29%	-128%	-277%	78%	89%
P/CF (x)	0.9	0.7	-2.6	1.5	0.8	0.4
DPS (cps)	0	0	0	0	0	0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EVEBITDA (x)	1.3	0.8	1.8	2.1	1.0	0.5

KEY ASSUMPTIONS	Jan-14A	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E
Exchange Rate (A\$/US\$)	1.0050	0.9083	0.7817	0.6975	0.7100	0.7200
Copper Price (US\$/lb)	3.32	3.13	2.70	2.17	2.15	2.68
Copper Price (A\$/t)	7,288	7,590	7,611	6,844	6,688	8,192
Gold Price (US\$/oz)	1,416	1,267	1,206	1,175	1,200	1,200
Silver Price (US\$/oz)	24.19	19.39	16.55	16.30	17.30	18.20

PRODUCTION	Jan-14A	Dec-14A	Dec-15A	Dec-16A	Dec-17A	Dec-18A
Copper production (kt)	17.2	20.7	18.0	20.0	22.3	22.9
Payable copper (kt)	16.6	20.0	17.4	19.4	21.6	22.2
Payable gold (koz)	6.0	6.8	5.7	6.0	6.4	6.4
Payable silver (koz)	119.6	118.7	104.4	121.7	143.2	143.2
Payable Copper equivalent (kt)	18.1	21.5	18.9	21.3	23.7	23.9

CASH COSTS	Jan-14A	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E
C1 Cash Costs (US\$/lb)	2.46	1.97	2.15	1.90	1.45	1.02
C1 Cash Costs (A\$/lb)	2.44	2.17	2.75	2.73	2.04	1.42
Totals costs (US\$/lb)	3.30	2.75	2.88	2.51	2.09	1.68

PROFIT & LOSS (\$m)	Jan-14A	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E
11mths						
Sales Revenue	139.2	166.8	144.2	155.2	167.1	196.0
Other Income	0.3	0.1	0.0	0.0	0.0	0.0
Total Revenue	139.5	166.9	144.2	155.2	167.1	196.0
Operating Costs	97.1	109.5	116.2	131.6	117.7	92.8
Corporate/Other	5.8	(0.3)	2.9	1.0	1.0	1.0
Exploration/Write-Offs	-	-	0.3	0.5	0.5	0.5
EBITDA	36.6	57.7	24.9	22.1	48.0	101.7
Depreciation & Amortisation	29.2	35.9	34.3	35.3	36.7	35.4
EBIT	7.4	21.8	(9.4)	(13.2)	11.3	66.3
Net Interest	(5.5)	(3.6)	(2.7)	(1.4)	(0.1)	3.0
Pre Tax Profit	2.3	5.9	(56.9)	(14.6)	11.2	69.3
Income Tax Expense/(Benefit)	0.8	(2.1)	(8.5)	(4.4)	3.4	20.8
Reported NPAT	1.5	3.8	(48.4)	(10.2)	7.8	48.5
Significant Items (After Tax)	1.1	6.3	40.0	-	-	-
Attributable NPAT	2.6	10.1	(8.4)	(10.2)	7.8	48.5

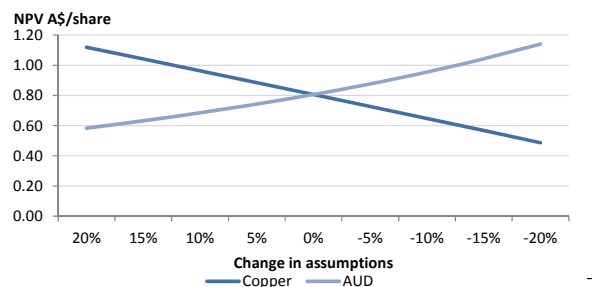
CASH FLOW (\$m)	Jan-14A	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E
Operating Cash Flow	11.0	44.2	17.9	20.8	48.0	104.8
Capital Expenditure	(19.0)	(29.8)	(21.0)	(11.4)	(5.0)	(5.0)
Exploration & Evaluation	(3.8)	(0.3)	(0.9)	(1.0)	(1.0)	(1.0)
Other	0.5	0.2	0.2	0.0	0.0	0.0
Investing Cash Flow	(22.2)	(30.0)	(21.6)	(12.4)	(6.0)	(6.0)
Financing Cash Flow	0.3	(21.9)	8.4	(8.0)	(22.9)	(8.9)

BALANCE SHEET (\$m)	Jan-14A	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E
Cash	16.5	8.9	14.5	14.9	34.0	123.9
PPE + Development + Exploratic	225.7	211.4	190.6	166.7	135.0	104.6
Total Assets	322.2	304.0	263.2	240.2	228.1	288.1
Borrowings	41.7	19.0	17.8	9.8	(13.1)	(22.0)
Total Liabilities	93.7	63.8	58.4	50.3	27.4	18.5
Total Shareholder Equity	228.5	240.3	234.6	189.8	200.6	269.5
Gearing - ND/ND+E	10%	4%	1%	-3%	-31%	-118%
EBITDA/ Net Interest	(6.7)	(16.0)	(9.2)	(15.8)	(476.6)	33.9
EBIT/ Net Interest	(1.4)	(6.1)	3.5	9.5	(112.3)	22.1

VALUATION

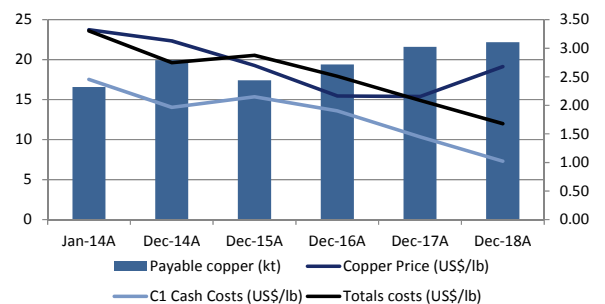
NPV @ 10.6% WACC	\$m	\$/sh
Kanmantoo	174	0.92
Corporate	(13)	(0.07)
Net Cash/(Debt)	(9)	(0.05)
Exploration/Other	-	-
Net Asset Value (100%)	152	0.81
Price / NPV	0.24 X	

VALUATION SENSITIVITY



Forecast	NPV	CY15	CY16	CY17	CY18
Forecast	0.81	-48.4	-10.2	7.8	48.5
Copper +10% increase	0.16	0.7	4.3	6.4	12.8
Copper +US\$0.10/lb increase	-	0.2	2.0	2.9	4.8
Gold +10% increase	0.02	0.2	0.7	0.8	0.8
Gold +US\$100/oz increase	-	0.1	0.6	0.7	0.7
USD +10% increase	-0.12	0.2	-2.9	-4.9	-10.9
USD +1¢ increase	-	0.0	-0.4	-0.7	-1.5

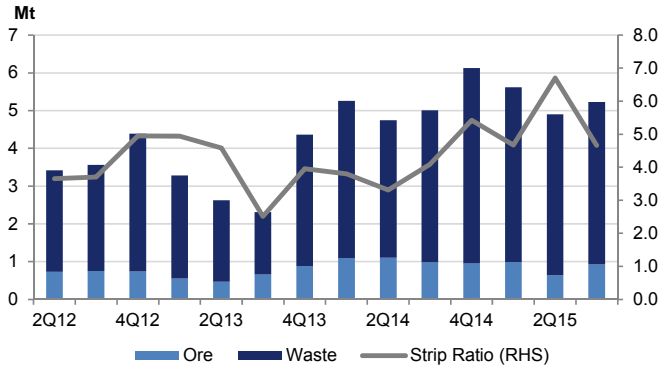
PRODUCTION AND COSTS



RESERVES AND RESOURCES

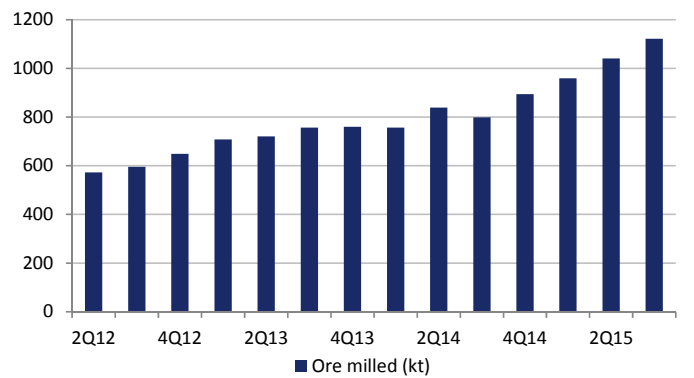
Reserves	kt	%Cu	g/t Au	g/t Ag
P&P	20.7	0.73	0.18	1.90
Stockpiles	1.4	0.46	-	-
Total	22.1	0.71	0.17	1.78
Resources	kt	%Cu	g/t Au	g/t Ag
Measured	4.0	0.73	0.07	1.28
Indicated	22.3	0.81	0.22	2.16
Inferred	5.0	0.67	0.13	1.79
Total	31.3	0.77	0.19	1.99

FIG.1: MATERIAL MOVEMENT



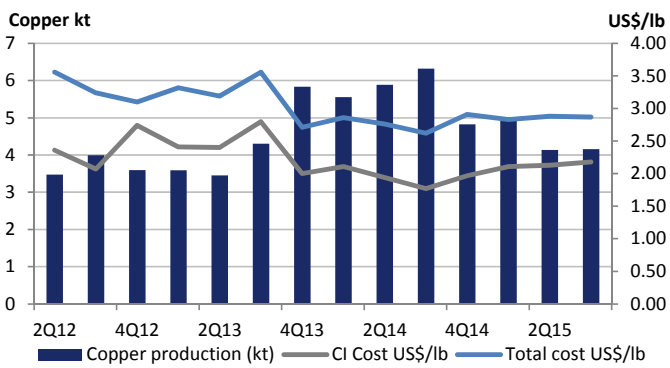
Source: HGO, Baillieu Holst

FIG.2: ORE MILLED



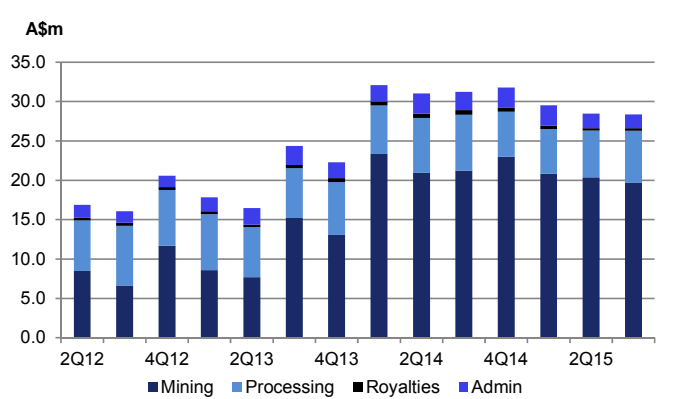
Source: HGO

FIG.3: PRODUCTION AND COSTS



Source: HGO, Baillieu Holst

FIG.4: COST BREAKDOWN



Source: HGO, Baillieu Holst

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Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of $\pm 10-15$ percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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