

RECOMMENDATIONS

Rating **BUY ▲**
Risk High
Price Target **\$0.36**
Share Price \$0.15

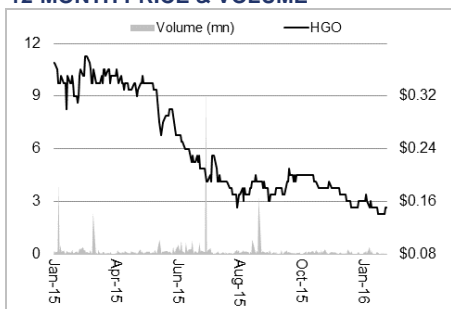
SNAPSHOT

Monthly Turnover \$0.2mn
Market Cap \$27mn
Shares Issued 188.1mn
52-Week High \$0.39
52-Week Low \$0.14
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.

Hillgrove Resources (HGO)

COMPANY REPORT – QUARTERLY REPORT

Bouncing along the bottom

- Mill feed & grade hit production:** Production for the December quarter was 3.9kt of copper in concentrate. This was 14% lower than we had forecast as the proportion of oxide/transitional feed relative to ROM was significantly higher, this in turn reduced the recoveries and increased the operating costs relative to our forecast. FY15 production was 17.3kt of copper in concentrate and below guidance of 17.5-18.5kt. The company noted that oxide and transitional ore stockpile grades were 32% lower than expected (0.64% vs 0.94%) leading to significantly lower output after processing through the CPS plant which has a constant tail.
- Costs lower than September quarter:** Direct operating costs per pound were US\$2.01lb versus our forecast of US\$1.89/lb for the December Quarter. The FY15 direct operating costs per pound were US\$2.11/lb which were within guidance of US\$2.00-2.25/lb. Revenue for the quarter was A\$31m which was lower than our \$36m forecast due to lower than forecast sales, in line with our miss on production.
- Earnings changes:** We have marked to market our copper price and currency forecasts and updated the production profile and costs. The result was an \$8.5m reduction in earnings and brings our FY15 forecast loss to \$17.8m, our earnings outlook improved for FY16 and the loss forecast has reduced by \$2.2m to -\$8.5m. Until the pit becomes less constrained, or mining rates increase, it appears that there will be more variability in grades and recoveries due to ore feed access. We expect an update to the outlook for CY16 after the company completes its review of production targets, taking into account lower stockpile grades, ore distribution in the pit and mining rates.
- Valuation and target price:** Our valuation of \$0.76ps and target price of \$0.36ps are unchanged. A change in the global growth outlook is needed for more confidence in our commodity price outlook to be achieved and the shares to be re-rated. In the meantime, a positive for HGO is that it has copper hedging over 16.5kt at an average price of A\$7,758/t or 22% above spot. BUY rating maintained.

INVESTMENT SUMMARY

Year End: 31 December		2013 (A)	2014 (A)	2015 (E)	2016 (E)	2017 (E)
Revenue	\$mn	116	140	138	154	156
EBITDA	\$mn	12.4	36.6	11.4	24.4	41.7
EBIT	\$mn	-14.9	7.4	-27.7	-10.3	5.6
Reported Profit	\$mn	4.8	1.5	-57.8	-8.5	3.5
Adjusted Profit	\$mn	-3.2	2.6	-17.8	-8.5	3.5
EPS (Reported)	¢	0.4	0.1	-30.7	-4.5	1.9
EPS (Adjusted)	¢	-0.3	0.2	-9.5	-4.5	1.9
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Reported)	x	33.5	118.8	N/A	N/A	8.1
PER (Adjusted)	x	N/A	68.6	N/A	N/A	8.1
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:	29-Jan-16
Share Price (\$A):	\$0.15
Market Cap (A\$m):	\$28.2
Enterprise Value (A\$m)	\$41.3
Year End:	31 Dec (previously Jan 31)

Rating:	Buy
Price Target:	\$0.36
Upside/(Downside):	137%
Valuation:	\$0.76
Risk:	High

EARNINGS RATIOS	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E	Dec-19E
Reported NPAT	3.8	(57.8)	(8.5)	3.5	43.4	55.6
Attributable NPAT	10.1	(17.8)	(8.5)	3.5	43.4	55.6
EPS (cps)	6.8	-9.5	-4.5	1.9	23.1	29.6
EPS Growth	288%	-	-	-	1139%	28%
P/E (x)	2.2	-	-	8.1	0.7	0.5
CFPS (cps)	26.9	-12.6	13.9	21.1	41.6	46.2
CFPS Growth (%)	29%	-147%	-211%	51%	98%	11%
P/CF (x)	0.6	-1.2	1.1	0.7	0.4	0.3
DPS (cps)	0	0	0	0	0	0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	0.7	3.6	1.7	1.0	0.4	0.4

VALUATION SUMMARY

NPV @ 10.6% WACC	\$m	\$/sh
Kanmantoo	169	0.90
Corporate	(13)	(0.07)
Net Cash/(Debt)	(13)	(0.07)
Exploration/Other	-	-
Total valuation	143	0.76
Price / NPV	0.20 X	

KEY ASSUMPTIONS	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E	Dec-19E
Exchange Rate (A\$/US\$)	0.9083	0.7817	0.7000	0.7100	0.7200	0.7267
Copper Price (US\$/lb)	3.13	2.70	2.13	1.92	2.57	2.97
Copper Price (A\$/t)	7,590	7,611	6,716	5,949	7,880	9,011
Gold Price (US\$/oz)	1,267	1,206	1,138	1,175	1,200	1,200
Silver Price (US\$/oz)	19.39	16.55	15.20	16.00	17.00	17.50

PRODUCTION	Dec-14A	Dec-15A	Dec-16A	Dec-17A	Dec-18A	Dec-19A
Copper production (kt)	20.7	17.3	20.0	22.3	22.9	19.8
Payable copper (kt)	20.0	16.8	19.4	21.6	22.2	19.2
Payable gold (koz)	6.8	6.8	6.0	6.4	6.4	6.0
Payable silver (koz)	118.7	110.6	121.7	143.2	143.2	128.9
Payable Copper equivalent (kt)	21.5	19.2	21.3	23.9	24.0	20.7

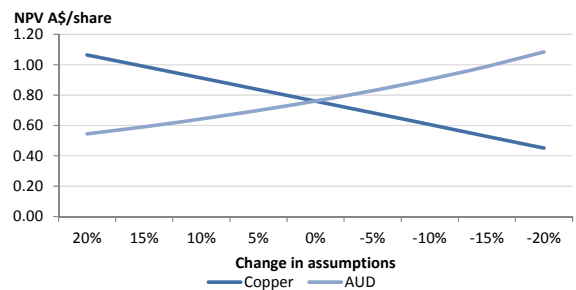
CASH COSTS	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E	Dec-19E
C1 Cash Costs (US\$/lb)	1.97	2.27	1.86	1.40	1.03	0.94
C1 Cash Costs (A\$/lb)	2.17	2.90	2.66	1.97	1.43	1.29
Totals costs (US\$/lb)	2.75	2.99	2.46	2.02	1.67	1.62

PROFIT & LOSS (A\$m)	11mths					
	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E	Dec-19E
Sales Revenue	166.8	137.7	153.9	156.2	188.8	185.5
Other Income	0.1	0.0	0.0	0.0	0.0	-
Total Revenue	166.9	137.7	153.9	156.2	188.8	185.5
Operating Costs	109.5	123.2	127.9	113.0	92.4	76.3
Corporate/Other	(0.3)	2.9	1.0	1.0	1.0	5.0
Exploration/Write-Offs	-	0.3	0.5	0.5	0.5	0.5
EBITDA	57.7	11.4	24.4	41.7	94.9	103.7
Depreciation & Amortisation	35.9	34.2	34.7	36.1	34.9	31.3
EBIT	21.8	(22.8)	(10.3)	5.6	60.0	72.4
Net Interest	(3.6)	(2.7)	(1.9)	(0.6)	2.0	7.0
Pre Tax Profit	5.9	(70.4)	(12.2)	5.0	62.0	79.4
Income Tax Expense/(Benefit)	(2.1)	(12.5)	(3.7)	1.5	18.6	23.8
Reported NPAT	3.8	(57.8)	(8.5)	3.5	43.4	55.6
Significant Items (After Tax)	6.3	40.0	-	-	-	-
Attributable NPAT	10.1	(17.8)	(8.5)	3.5	43.4	55.6

CASH FLOW (A\$m)	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E	Dec-19E
Operating Cash Flow	44.2	4.3	22.7	41.2	97.0	94.6
Capital Expenditure	(29.8)	(17.8)	(11.4)	(5.0)	(5.0)	(5.0)
Exploration & Evaluation	(0.3)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)
Other	0.2	0.2	0.0	0.0	0.0	0.0
Investing Cash Flow	(30.0)	(18.4)	(12.4)	(6.0)	(6.0)	(6.0)
Financing Cash Flow	(21.9)	8.4	(8.0)	(22.9)	(8.9)	-

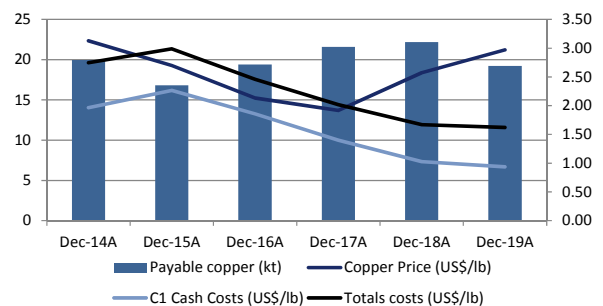
BALANCE SHEET (A\$m)	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E	Dec-19E
Cash	8.9	4.1	6.4	18.8	100.9	189.5
PPE + Development + Exploratic	211.4	190.6	167.2	136.1	106.2	80.0
Total Assets	304.0	252.8	232.3	214.0	266.7	329.6
Borrowings	19.0	17.8	9.8	(13.1)	(22.0)	(22.0)
Total Liabilities	63.8	58.4	50.3	27.4	18.5	18.5
Total Shareholder Equity	240.3	234.6	181.9	186.5	248.1	310.9
Gearing - ND/ND+E	4%	5%	2%	-21%	-98%	-213%
EBITDA/ Net Interest	(16.0)	(4.2)	(12.8)	(69.7)	46.9	14.8
EBIT/ Net Interest	(6.1)	8.4	5.4	(9.4)	29.6	10.3

VALUATION SENSITIVITY



Forecast	NPV	CY15	CY16	CY17	CY18	CY19
Copper +10% increase	0.15	-0.1	4.2	5.6	12.3	
Copper +US\$0.10/lb increase		0.0	2.0	2.9	4.8	
Gold +10% increase	0.02	0.0	0.7	0.8	0.8	
Gold +US\$100/oz increase		0.0	0.6	0.7	0.7	
USD +10% increase	-0.12	1.3	-3.0	-4.5	-10.3	
USD +1¢ increase		0.2	-0.4	-0.6	-1.4	

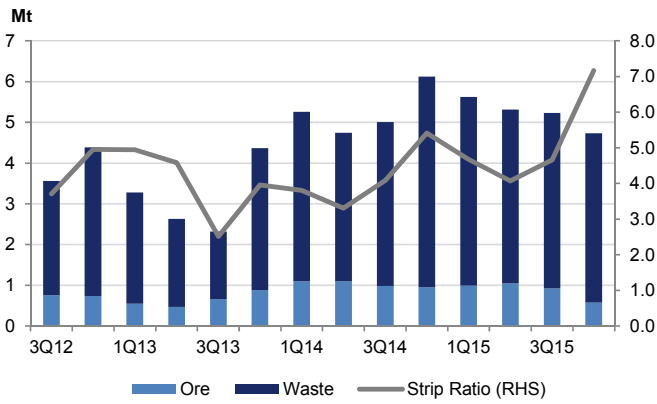
PRODUCTION AND COSTS



RESERVES AND RESOURCES

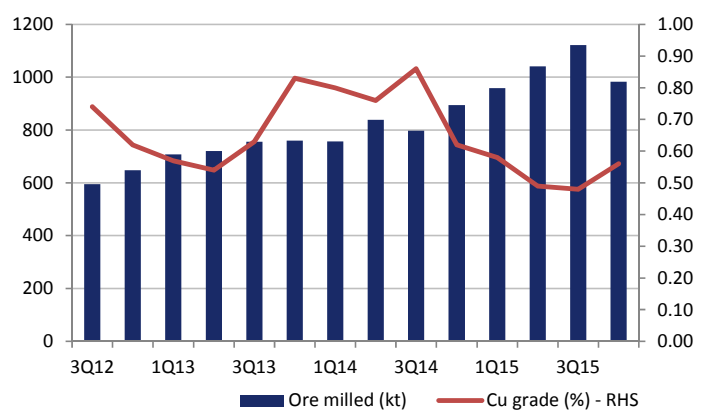
Reserves	kt	%Cu	g/t Au	g/t Ag
P&P	20.7	0.73	0.18	1.90
Stockpiles	1.4	0.46		
Total	22.1	0.71	0.17	1.78
Resources	kt	%Cu	g/t Au	g/t Ag
Measured	4.0	0.73	0.07	1.28
Indicated	22.3	0.81	0.22	2.16
Inferred	5.0	0.67	0.13	1.79
Total	31.3	0.77	0.19	1.99

FIG.1: MATERIAL MOVEMENT



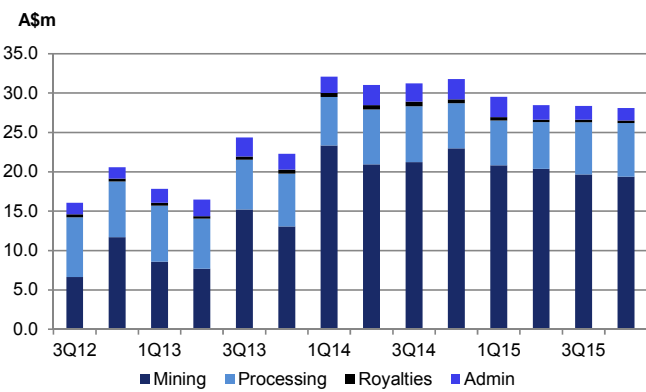
Source: HGO

FIG.2: ORE MILLED & GRADE



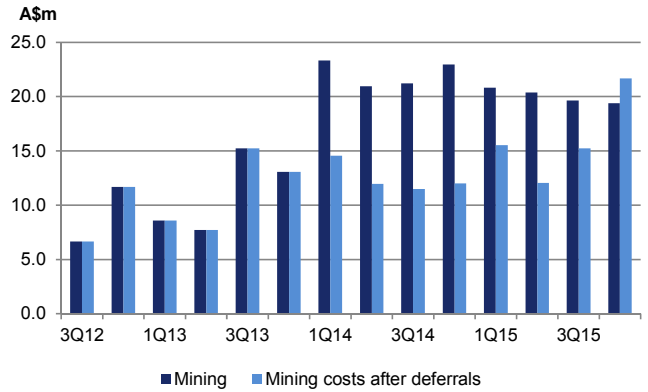
Source: HGO

FIG.3: SITE COSTS



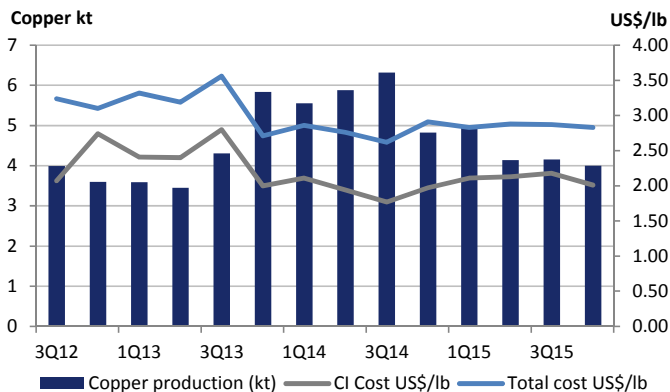
Source: HGO

FIG.4: MINING COSTS



Source: HGO

FIG.5: COPPER PRODUCTION & COSTS



Source: HGO

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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 ± 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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