

## RECOMMENDATIONS

Rating	<b>Buy ▲</b>
Risk	High
Price Target	<b>\$0.32</b>
Share Price	\$0.11

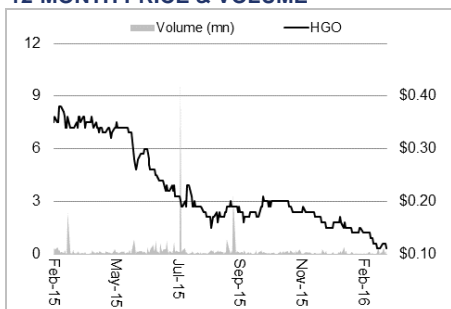
## SNAPSHOT

Monthly Turnover	\$0.2mn
Market Cap	\$21mn
Shares Issued	188.1mn
52-Week High	\$0.39
52-Week Low	\$0.11
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

### Costs decline in AUD and USD terms

- Positive earnings surprise:** HGO reported an underlying loss for CY15 of \$14.5m which was \$3m better than expected. The statutory loss of \$127m was much greater than our \$57m due to additional impairments booked during the half. Impairments rose from \$40m after tax in the first half to \$113m for the full year. The fall in the copper price and a review of stockpile grades led to an impairment at Kanmantoo of \$81.6 after tax; the balance of the impairments were related to exploration, the bulk of which was a write down of Indonesian properties now that HGO is concentrating solely on Kanmantoo.
- 2015 not bad, guidance wider in 2016** – Performance in mining and processing was better than guidance in 2015 however lower grades and recoveries saw the mine miss the targeted copper production (17.3kt vs bottom of guidance at 17.5kt). The big positive was that the constant focus on costs and marginally higher gold production (6,790oz) saw the costs come in the middle of guidance at \$2.11/lb rather than above. The company's guidance for FY16 is 16.5-18.5kt of copper and 11-13.5koz of gold, with cash costs US\$1.75-2.05/lb (at AUD 75c), a benefit of higher gold credits and cost management.
- D&A and costs lower** – The impairment booked against Kanmantoo decreased the carrying value of asset to \$145m which has in turn decreased the expected depreciation going forward. Based on the company's cost guidance and the guidance on the amount of pre-stripping \$20m and deferred mining of \$11m, we have adjusted our earnings estimates and valuation. Our NLAT for CY16 has reduced to \$7.2m and our CY17-19 earnings have increased by \$1m to \$5m over the three years. We will review these forecasts again in March/April following the release of the Annual Report and Quarterly report. Based on cost guidance our assumptions appear to be conservative however we would like to see evidence of the operating performance as the year progresses. The company appears to be well positioned to make it through the next 12 months after which the switch from mining more ore than waste will make a dramatic difference to the cash flow.
- Valuation and target price:** Our valuation of \$0.70ps has fallen from \$0.76ps due to our adjustment of the pre-strip cash out-flow, and rolling the valuation forward. Our target price which is based on the valuation has therefore fallen to \$0.32ps from \$0.36ps. Our BUY recommendation is maintained but a rise in the copper price will be needed for the shares to be re-rated.

## INVESTMENT SUMMARY

Year End: 31 December		2014 (A)	2015 (A)	2016 (E)	2017 (E)	2018 (E)
Revenue	\$mn	140	140	141	153	189
EBITDA	\$mn	36.6	18.8	19.5	38.3	95.4
EBIT	\$mn	8.4	-4.1	-2.1	3.9	25.6
Reported Profit	\$mn	3.8	-127.4	-7.2	4.4	46.7
Adjusted Profit	\$mn	16.0	-14.5	-7.2	4.4	46.7
EPS (Reported)	¢	0.3	-67.7	-3.9	2.3	24.8
EPS (Adjusted)	¢	1.3	-7.7	-3.9	2.3	24.8
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Reported)	x	34.4	N/A	N/A	4.7	0.4
PER (Adjusted)	x	8.2	N/A	N/A	4.7	0.4
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)

<b>Code:</b>	HGO
<b>Analyst:</b>	Warren Edney
<b>Date:</b>	26-Feb-16
<b>Share Price (\$A):</b>	\$0.11
<b>Market Cap (\$m):</b>	\$20.7
<b>Enterprise Value (\$m)</b>	\$33.5
<b>Year End:</b>	31 Dec (previously Jan 31)

<b>Rating:</b>	Buy
<b>Price Target:</b>	\$0.32
<b>Upside/(Downside):</b>	195%
<b>Valuation:</b>	\$0.70
<b>Risk:</b>	High

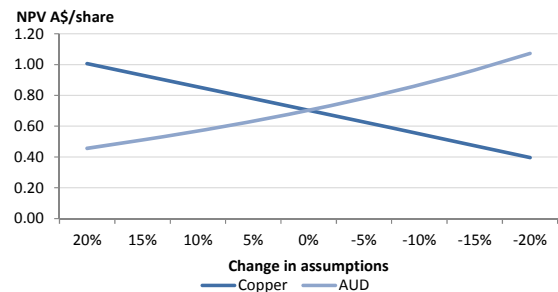
EARNINGS RATIOS	Dec-14A	Dec-15A	Dec-16E	Dec-17E	Dec-18E	Dec-19E
Reported NPAT	3.8	(127.4)	(7.2)	4.4	46.7	61.2
Attributable NPAT	16.0	(14.5)	(7.2)	4.4	46.7	61.2
EPS (cps)	10.8	-7.7	-3.9	2.3	24.8	32.5
EPS Growth	515%	-	-	-	967%	31%
P/E (x)	1.0	-	-	4.7	0.4	0.3
CFPS (cps)	26.8	-48.4	10.9	18.6	40.7	46.8
CFPS Growth (%)	29%	-280%	-123%	70%	119%	15%
P/CF (x)	0.4	-0.2	1.0	0.6	0.3	0.2
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)	0.6	1.8	1.7	0.9	0.4	0.3

### VALUATION SUMMARY

<b>NPV @ 9.64% WACC</b>	\$m	\$/sh
Kanmantoo	158	0.84
Corporate	(13)	(0.07)
Net Cash/(Debt)	(13)	(0.07)
Exploration/Other	-	-
<b>Total valuation</b>	<b>132</b>	<b>0.70</b>

Price / NPV 0.16 X

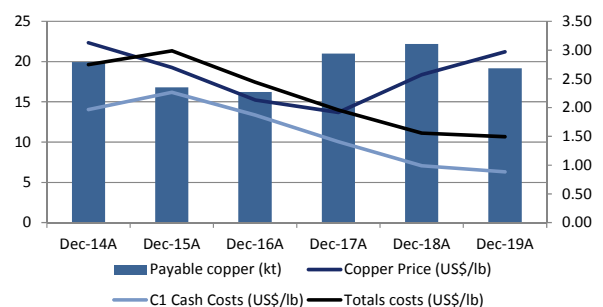
### VALUATION SENSITIVITY



### EARNINGS AND VALUATION SENSITIVITIES

	NPV	CY16	CY17	CY18
<b>Forecast</b>	<b>0.70</b>	<b>-7.2</b>	<b>4.4</b>	<b>46.7</b>
Copper +10% increase	0.15	2.7	5.3	12.2
Copper +US\$0.10/lb increase		1.3	2.8	4.8
Gold +10% increase	0.02	1.3	0.8	0.9
Gold +US\$100/oz increase		1.1	0.7	0.7
USD +10% increase	-0.13	-2.6	-4.3	-10.3
USD +1¢ increase		-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		
<b>Total</b>	<b>22.1</b>	<b>0.71</b>	<b>0.17</b>	<b>1.78</b>
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
<b>Total</b>	<b>31.3</b>	<b>0.77</b>	<b>0.19</b>	<b>1.99</b>

KEY ASSUMPTIONS	Dec-14A	Dec-15A	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	16.7	21.7	22.9	19.8
Payable copper (kt)	20.0	16.8	16.2	21.0	22.2	19.2
Payable gold (koz)	6.8	6.8	10.9	6.4	6.4	6.0
Payable silver (koz)	118.7	110.6	125.4	143.2	143.2	128.9
Payable Copper equivalent (kt)	21.5	19.2	19.3	23.3	24.0	20.6

### CASH COSTS

C1 Cash Costs (US\$/lb)	1.97	2.27	1.87	1.41	0.99	0.88
C1 Cash Costs (A\$/lb)	2.17	2.90	2.67	1.98	1.37	1.22
Totals costs (US\$/lb)	2.75	2.99	2.45	1.96	1.56	1.49

### PROFIT & LOSS (\$m)

	11mths					
	Dec-14A	Dec-15A	Dec-16E	Dec-17E	Dec-18E	Dec-19E
Sales Revenue	166.8	139.5	140.6	152.6	188.8	185.0
Other Income	0.4	0.2	0.0	0.0	0.0	-
<b>Total Revenue</b>	<b>167.2</b>	<b>139.7</b>	<b>140.6</b>	<b>152.6</b>	<b>188.8</b>	<b>185.0</b>
Operating Costs	109.5	115.8	117.6	110.8	89.9	73.0
Corporate/Other	2.2	5.1	3.0	3.0	3.0	3.0
Exploration/Write-Offs	-	-	0.5	0.5	0.5	0.5
<b>EBITDA</b>	<b>55.5</b>	<b>18.8</b>	<b>19.5</b>	<b>38.3</b>	<b>95.4</b>	<b>108.4</b>
Depreciation & Amortisation	35.8	36.4	27.8	30.6	29.8	26.9
<b>EBIT</b>	<b>19.7</b>	<b>(17.6)</b>	<b>(8.3)</b>	<b>7.7</b>	<b>65.6</b>	<b>81.5</b>
Net Interest	(2.5)	(2.4)	(2.0)	(1.4)	1.1	5.9
Pre Tax Profit	5.9	(135.4)	(10.4)	6.3	66.7	87.4
Income Tax Expense/(Benefit)	(2.1)	(8.0)	(3.1)	1.9	20.0	26.2
<b>Reported NPAT</b>	<b>3.8</b>	<b>(127.4)</b>	<b>(7.2)</b>	<b>4.4</b>	<b>46.7</b>	<b>61.2</b>
Significant Items (After Tax)	(12.2)	(112.9)	-	-	-	-
<b>Attributable NPAT</b>	<b>16.0</b>	<b>(14.5)</b>	<b>(7.2)</b>	<b>4.4</b>	<b>46.7</b>	<b>61.2</b>

CASH FLOW (\$m)	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E	Dec-19E
<b>Operating Cash Flow</b>	<b>44.2</b>	<b>10.8</b>	<b>17.6</b>	<b>37.0</b>	<b>96.6</b>	<b>93.1</b>
Capital Expenditure	(29.8)	(21.6)	(22.5)	(5.0)	(5.0)	(5.0)
Exploration & Evaluation	(0.3)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Other	0.2	0.7	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(30.0)</b>	<b>(21.9)</b>	<b>(23.5)</b>	<b>(6.0)</b>	<b>(6.0)</b>	<b>(6.0)</b>
<b>Financing Cash Flow</b>	<b>(21.9)</b>	<b>8.4</b>	<b>(8.0)</b>	<b>(22.9)</b>	<b>(8.9)</b>	<b>-</b>

BALANCE SHEET (\$m)	Dec-14A	Dec-15E	Dec-16E	Dec-17E	Dec-18E	Dec-19E
Cash	8.9	6.1	(7.8)	0.3	82.0	169.1
PPE + Development + Exploratic	211.4	145.6	140.3	114.7	89.9	68.0
<b>Total Assets</b>	<b>304.0</b>	<b>198.0</b>	<b>179.3</b>	<b>162.3</b>	<b>219.7</b>	<b>285.4</b>
Borrowings	19.0	18.9	10.9	(11.9)	(20.8)	(20.8)
<b>Total Liabilities</b>	<b>63.8</b>	<b>62.1</b>	<b>53.9</b>	<b>31.1</b>	<b>22.2</b>	<b>22.2</b>
<b>Total Shareholder Equity</b>	<b>240.3</b>	<b>136.0</b>	<b>125.2</b>	<b>131.1</b>	<b>197.4</b>	<b>263.1</b>
Gearing - ND/ND+E	4%	9%	13%	-10%	-109%	-259%
EBITDA/ Net Interest	(22.2)	(7.8)	(9.6)	(26.9)	87.5	18.5
EBIT/ Net Interest	(7.9)	7.3	4.1	(5.4)	60.2	13.9

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