



## Stock Watch: Hillgrove Resources Limited (HGO)

Despite rallying strongly on the sale of its Eastern Star Gas stake earlier this year, Hillgrove has underperformed its resource sector counterparties over recent months, with progress on its Kanmantoo copper project in South Australia appearing to be overlooked by the market. We have a valuation of \$0.79 on the stock, comprised of \$0.57 for project and a minimal allocation for the exploration holdings, and \$0.22 for current cash position net of tax and corporate liabilities. Whilst several months ago, there were a number of companies trading at a fraction of valuation, this anomaly has largely been removed, with Hillgrove viewed as one of the last uncovered gems within the small caps resource space.

Earnings Forecasts				
Year to Dec	09E	10E	11E	12E
EBITDA (\$m)	-0.1	-15.1	31.8	64.6
EPS (¢)	-0.6	-2.9	3.9	8.4
EPS growth (%)	Na	Na	Na	117%
DPS (¢)	0.0	0.0	0.0	0.0
Yield (%)	Na	Na	Na	Na
Franking (%)	Na	Na	Na	Na
Net Debt/ EBITDA (x)	66	Na	3	66
Interest Cover (x)	Na	Na	Na	Na
Copper Prod (Kt)	0	0	8.28	16.56
Cost (/lb Cu)	0.00	0.00	1.44	1.46
Price		\$0.32		
Valuation (DCF - cps)		\$0.79		

### Details

Hillgrove came to our attention some time ago, as it historically traded at a discount to the value of its (previous) investment in Eastern Star Gas, with a greater discount than we traditionally expected for “holding companies” with such a premium asset. Since then, Hillgrove has successfully sold its stake in Eastern Star Gas to Santos, and enjoyed removal of the “holding company” discount as a result. The company is now looking at commencing production from its Kanmantoo copper project, in SA, late next year, and already has approximately 90 personnel on the ground in West Papua at its Birds Head gold project, with drilling set to commence here next quarter, weather permitting.

Hillgrove has acquired a top of the range second hand plant to service its Kanmantoo operation from Pillara for \$12m, with replacement cost of the order of \$57m (and without the bells and whistles this plant clearly has). An additional bonus is that with the acquisition came a large inventory of spares, which Hillgrove is expecting to on sell for several million dollars, reducing the cost substantially. The plant will be set up to produce at 2mtpa to produce 17kt of copper and 6-8k ounces of gold per annum, at an operating cost estimated at \$1.42/lb (net of gold credits). However, there is considerable upside from these parameters, with an optimization currently underway, with a potential higher grade underground operation, and also a potential plant expansion to 3mtpa (cost below \$2m). A combination of the plant expansion and potential underground feed from year 3 could see production doubled.

Due to Hillgrove previously being relatively tight with respect to cash-flow, this project was starved of exploration funds, with Hillgrove now in the process of setting up a more active exploration project, focused not only on further copper resources for Kanmantoo, but also resource definition for their silver lead zinc projects in Wheal Ellen and Éclair (located within trucking distance of Kanmantoo).

Beyond its SA project, Hillgrove has secured extensive exploration ground in West Papua, and in the short time it has held the tenements, has already assembled a fairly amazing ground crew of approximately 90 people. The project is early stage, but we view as very high gold/copper potential.

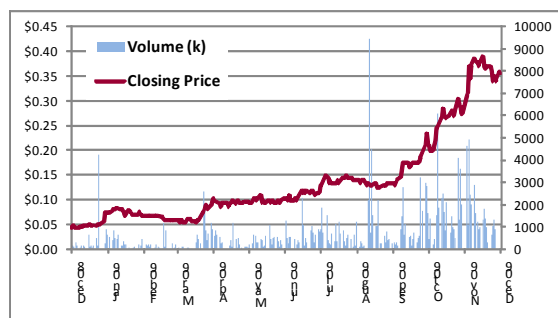
### Key factors to watch

☑ **Commissioning risk.** Kanmantoo is a relatively straight forward copper mine, with historic production and stock standard infrastructure. We do not view the commissioning risk as significant in this instance, but this can always result in some drain on working capital at the very least. However, we do see potential for dilution if Hillgrove sell down their equity in the project to fund its development (which is viewed as highly likely)



☐ **Commodity Prices.** The cost profile for Kanmantoo isn't particularly onerous, and given the purchase of a 2<sup>nd</sup> hand plant has significantly reduced capex requirements, we do not view the commodity price risk as high.

☐ **Upside.** Plenty of upside potential here! At Kanmantoo, there is potential for a future plant expansion, mine life extension, and potential addition of a silver lead zinc stream (or sale of that asset to a 3<sup>rd</sup> party such as Terramin). We have minimal value imputed for the Birds Head exploration assets, with considerable further upside potential here also.



## Cathy Moises

1 December 2009

[cmoises@evansandpartners.com.au](mailto:cmoises@evansandpartners.com.au)

M: 0418 335 328

### GENERAL RESEARCH DISCLAIMER, WARNING & DISCLOSURES

This document is provided by Evans and Partners ABN 85 125 338 785, holder of AFSL 318075.

The information is **general advice only** and does not take into consideration an investor's objectives, financial situation or needs. Before acting on the advice, investors should consider the appropriateness of the advice, having regard to the investor's objectives, financial situation and needs. If the advice relates to a financial product that is the subject of a [Product Disclosure Statement](#) (e.g. unlisted managed funds) investors should obtain the PDS and consider it before making any [decision](#) about whether to [acquire](#) the product.

The material contained in this document is for information purposes only and does not constitute an offer, solicitation or recommendation with respect to the purchase or sale of securities. It should not be regarded by recipients as a substitute for the exercise of their own judgment.

Any opinions and/or recommendations expressed in this material are subject to change without notice and Evans and Partners is not under any obligation to update or keep current the information contained herein. References made to third parties are based on information believed to be reliable but are not guaranteed as being accurate.

This document is provided to the recipient only and is not to be distributed to third parties without the prior consent of Evans and Partners.

### EVANS AND PARTNERS DISCLOSURE OF INTERESTS

Evans and Partners and its respective officers and associates may have an interest in the securities or derivatives of any entities referred to in this material.

### EVANS AND PARTNERS CORPORATE RELATIONSHIP DISCLOSURE

ALD: Evans and Partners managed or co-managed a public offering of securities of the company or its affiliates in the past 12 months.

BHP: A director of Evans and Partners Pty Ltd Advisory Board is a director of BHP Billiton Ltd.

BOQ, BOQPA, BOQPB, BOQPC: A director of Evans and Partners Pty Ltd Advisory Board is a director of Bank of Queensland.

BZAH: Evans and Partners have arranged, managed or co-managed a public offering of the company or its affiliates in the past 12 months.

BZBHA: Evans and Partners have arranged, managed or co-managed a public offering of the company or its affiliates in the past 12 months.

FGL: A director of Evans and Partners Pty Ltd Advisory Board is a director of Fosters Group Ltd.

HSP: A director of Evans and Partners Pty Ltd is a director of Healthscope Ltd.

LLC: A director of Evans and Partners Pty Ltd Advisory Board is a director of Lend Lease Corporation Ltd.

PBP: Evans and Partners managed or co-managed a public offering of securities of the company or its affiliates in the past 12 months.

SAR: Evans and Partners managed or co-managed a public offering of securities of the company or its affiliates in the past 12 months.

TOX: Evans and Partners managed or co-managed a public offering of securities of the company or its affiliates in the past 12 months.

### RESEARCH ANALYST CERTIFICATION

I, Cathy Moises, hereby certify that all the views expressed in this report accurately reflect my personal views about the subject investment theme and/or company securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

### RESEARCH ANALYST DISCLOSURE OF INTEREST

### DISCLAIMER

Except for any liability which cannot be excluded, Evans and Partners, its directors, employees and agents accept no liability or responsibility whatsoever for any loss or damage of any kind, direct or indirect, arising out of the use of all or any part of this material. All information is correct at the time of publication; additional information may be available upon request.