

Hillgrove Resources

A picture emerging



Wilson HTM
INVESTMENT GROUP

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\$0.26

BUY

Keith Williams

03 9640 3802

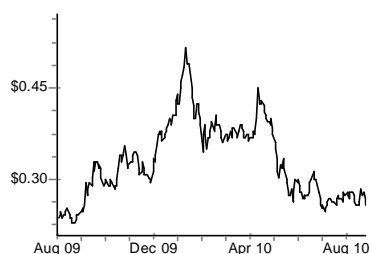
keith.williams@wilsonhtm.com.au

James Brennan-Chong

03 9640 3893

james.brennan-

Price Performance



Security/Capital Details

ASX Code	HGO
Market Cap	\$127 M
Issued Shares (dil)	488.0 M
Avg Mth T'over	37.13 M
12 Mth High – Low	\$0.52 - \$0.24

Key Data/Ratios – FY 2010

EBITDA / Sales	-684.4%
EBIT / Sales	-710.5%
Debt / Equity	1.5%
Interest Cover	-0.7 x
ROE	-12.9%
EPS Growth	-208.5%
DCF	\$0.46
12 Mth Price Target	\$0.55

Recommendation

Further results from Hillgrove's Masu prospect in Indonesia are adding colour to this prospective region. Although still at an early stage, the results continue to confirm the presence of near surface shallow dipping veins, which host high-grade zones.

A larger rig is on site testing the prospect at depth. Results from depth will greatly improve the definition and demonstrate potential of the mineralised system as well as potentially adding material value to the deposit.

We maintain our BUY recommendation with no changes to our valuation or target prices, which are A\$0.46/share and A\$0.55/share respectively.

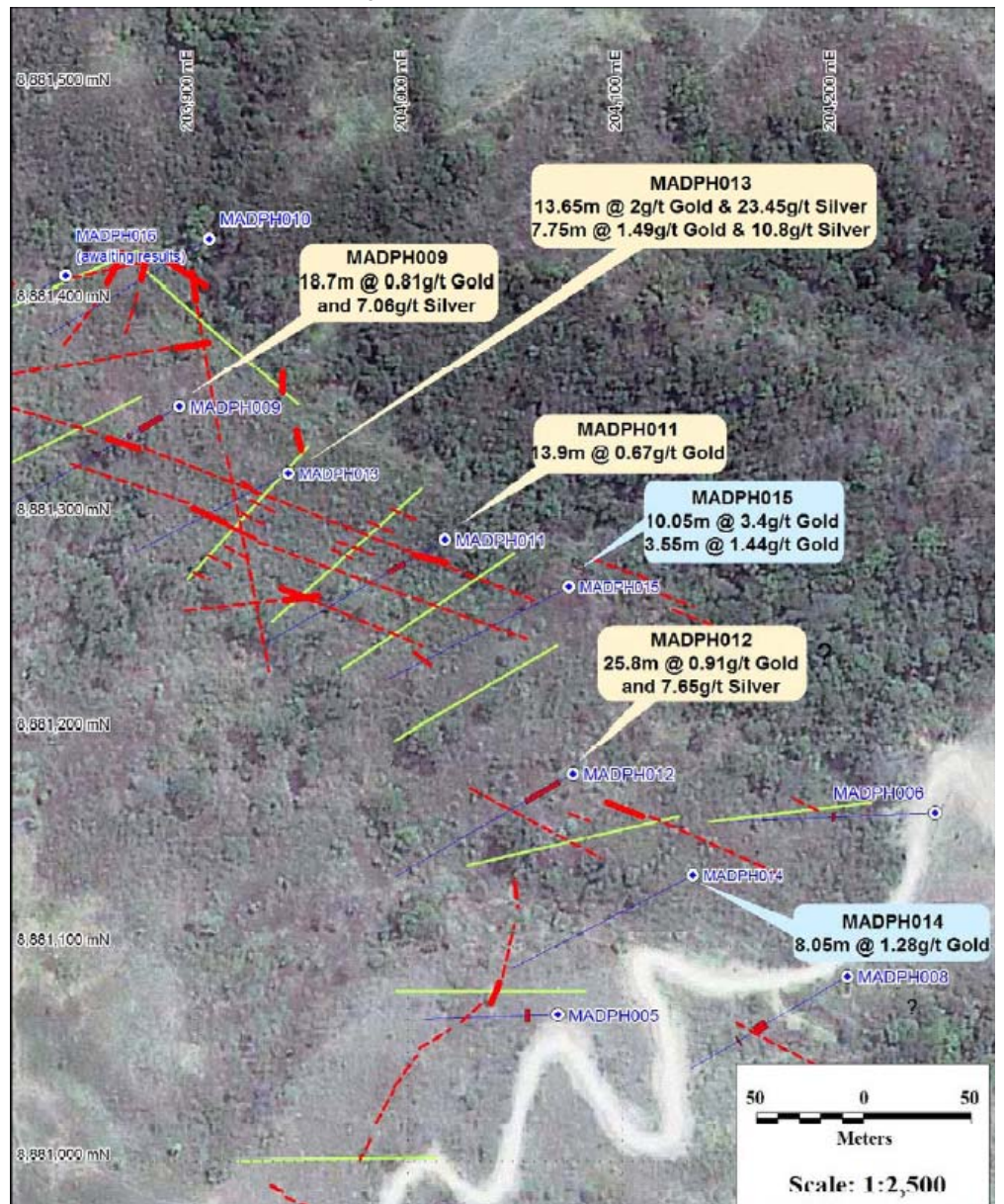
Key Points

- The latest two holes from the Eastern Vein at the Masu prospect follow on from the last set of results released on 2 August.
 - The key result was MADPH015 10m @ 3.4 g/t Au, 5.38 g/t Ag from 23m, including 3.25m @ 8.92 g/t Au, 6.67 g/t Ag from 24m
- The deposit remains open along the 300m strike and down dip. The latest results continue to intercept high-grade zones at the intersection of cross cutting veins.
- The larger drilling rig, which has a capacity to test beyond 150m, is on site and drilling. The rig is testing for grade continuity at depth.
- Successful results from depth are the key to unlocking the value of the deposit. We expect results from depth during the December quarter.
- The smaller rig is now at the Western Vein. Drilling is expected to slow until late September, as local workers celebrate Ramadan.

Year to Jan	NPAT (Rep) \$M	NPAT (PSig) \$M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2009a	11.3	-4.6	-1.1	-120.8	-12.3	-1.1	-11.5	2.0	15.3	0
2010e	55.6	-16.0	-3.3	-208.5	-8.0	-1.7	-14.9	0.0	0.0	0
2011e	2.8	-2.0	-0.4	87.2	-61.9	-5.6	-4.6	0.0	0.0	0
2012e	16.5	16.5	3.4	904.8	7.7	5.7	4.5	0.0	0.0	0



Eastern Zone of Masu Project



Source: HGO

Shallow drilling to 150m, has defined near surface mineralisation, which is open in both direction and at depth. Narrow high-grade intercepts from within the larger breccia, continue to demonstrate the presence of a series of rich pods at the intersection of cross cutting veins.

Hillgrove Resources (HGO : \$0.26)

PRODUCTION

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
Copper - (kt)	0	0	0	0	8
Gold - (koz)	0	0	0	0	3
Silver - PH (koz)	0	0	0	0	60
C1 Cash Cost - (US\$/lb)	0.00	0.00	0.00	0.00	1.36

PRICES

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
Gold (US\$/oz spot)	719	871	994	1268	1465
Silver (US\$/oz spot)	13.72	14.58	15.02	18.84	22.33
Copper (US\$/lb)	3.29	2.99	2.46	3.08	3.54
AUDUSD (USD)	0.85	0.84	0.82	0.87	0.83
Gold (US\$/oz spot)	719	871	994	1268	1465

INVESTMENT & VALUATION FUNDAMENTALS

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
EPS Before Abs (c)	-0.5	-1.1	-3.3	-0.4	3.4
EPS Growth (%)	N/A	-120.8%	-208.5%	87.2%	904.8%
PER (x)	-47.9	-12.3	-8.0	-61.9	7.7
CFPS (c)	-0.7	-1.1	-1.7	-5.6	5.7
P/CF (x)	-33.3	-11.5	-14.9	-4.6	4.5
EV/EBITDA (x)	-83.4	-15.4	0.1	-18.8	3.2
DPS (c)	0.0	2.0	0.0	0.0	0.0
Yield (%)	0.0%	15.3%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

DCF VALUATION

@ 11.1% 10%

Yr Ending Jan	A\$m	A\$ps	A\$m	A\$ps
Kanmantoo - Open Cut	110.2	0.23	115.8	0.24
Corporate Items	-18.8	-0.04	-19.4	-0.04
Interests In Other Entities	3.7	0.01	3.67	0.01
Exploration/Development	19.3	0.04	19.2	0.04
Franking Credits	37.4	0.08	38.5	0.08
Net (Debt)/Cash	68.9	0.14	68.9	0.14
Additional Capital - Dilution	4.1	0.01	4.2	0.01
Total Valuation	224.7	0.46	230.9	0.47

PROFITABILITY RATIOS

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
EBIT / Sales (%)			-710.5%		31.2%
ROA (%)	N/A	-6.8%	-9.5%	-4.7%	13.1%
ROE (%)	N/A	-6.6%	-12.9%	-1.3%	9.4%
ROFE (%)	N/A	-7.4%	-13.0%	-6.4%	14.8%

INTERIMS (\$m)

Half Yr	Jul 08	Jan 09	Jul 09	Jan 10	Jul 10
Yr Ending Jan	1H A	2H A	1H A	2H E	1H E
Sales Revenue	0.0	0.0	0.0	1.4	0.0
EBIT	-2.1	-4.8	-4.9	-5.3	-2.9
Net Profit	-2.2	13.5	54.0	1.6	-0.7
EPS	-0.5	-0.6	-1.7	-1.6	-0.2

1. Gearing = (Debt + CNotes) / (Debt + Cnotes + Equity)

BALANCE SHEET (\$m)

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
Cash	3.4	7.7	130.4	69.7	16.3
Total Assets	74.2	140.9	211.1	237.7	211.6
Debt	15.0	44.0	2.5	52.5	2.5
Total Liabilities	19.0	56.6	47.3	73.9	23.9
Total Shareholders Equity	55.2	83.7	163.5	163.4	187.3
Total Funds Employed	66.9	120.5	35.9	146.6	173.8

LIQUIDITY & LEVERAGE RATIOS

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
Debt / Equity (%)	27.2%	52.6%	1.5%	32.1%	1.3%
Gearing (%) ¹	21.4%	34.3%	1.5%	24.3%	1.3%
Interest Cover (x)	-1.2	-4.7	-0.8	1.5	-28.5
Debt / CashFlow (x)	-5.9	-9.0	-0.3	-1.9	0.1
(Debt+CNotes)/ CashFlow	-6.5	-5.4	-0.1	-1.9	0.1

PROFIT & LOSS (\$m)

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
Sales Revenue	0.0	0.0	1.4	0.0	76.0
EBITDA	-1.2	-6.7	-9.8	-5.8	35.2
Depn and Amortisation	0.0	0.2	0.4	0.0	11.5
EBIT	-1.3	-6.9	-10.2	-5.8	23.7
Net Interest Expense	1.1	1.5	12.2	-3.8	-0.8
Pre-tax Profit	-2.4	-8.4	-22.4	-2.0	24.6
Tax	-0.6	-3.7	-6.4	0.0	8.1
Tax rate (%)	24.8%	44.5%	28.5%	0.0%	32.9%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	-1.8	-4.6	-16.0	-2.0	16.5
Abnormals	-0.2	15.9	71.6	4.9	0.0
Reported Net Profit	-2.0	11.3	55.6	2.8	16.5

CASHFLOW (\$m)

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
Operating Cash Flow	-2.5	-4.9	-8.5	-27.5	28.0
Capital Expenditure	-2.6	-2.5	-7.2	-68.3	-38.7
Expln, Develop, Evaln	-3.3	-12.6	-4.4	-10.3	0.0
Asset Sales/Acquisitions	-8.0	-4.5	165.6	7.0	0.0
Other	0.3	1.0	0.0	0.0	0.0
Investing Cash Flow	-13.6	-18.6	154.0	-71.6	-38.7
Share Issues/(Buybacks)	0.6	42.6	32.8	-2.9	7.4
Debt Drawdown (Repay)	12.0	-15.0	-47.3	50.0	-50.0
Dividends Paid	0.0	0.0	-8.3	0.0	0.0
Other Fin. Flows	0.0	0.0	0.0	-8.7	0.0
Financing Cash Flow	12.6	27.6	-22.8	38.4	-42.6
Cash Increase (Decrease)	-3.6	4.1	122.7	-60.7	-53.3

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
+/-10% US\$ Copper Price	0.0%	0.0%	0.0%	28.9%	24.4%
+/-10% US\$ Gold Price	0.0%	0.0%	0.0%	2.3%	1.8%
+/- 1c Movement US\$/A\$	0.0%	0.0%	0.0%	3.7%	3.2%
+/-10% US\$ Silver Price	0.0%	0.0%	0.0%	0.6%	0.4%



Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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BRISBANE
Ph: 07 3212 1333
Fax: 07 3212 1399

SYDNEY
Ph: 02 8247 6600
Fax: 02 8247 6601

MELBOURNE
Ph: 03 9640 3888
Fax: 03 9640 3800

GOLD COAST
Ph: 07 5509 5500
Fax: 07 5509 5599

DALBY
Ph: 07 4660 8000
Fax: 07 4660 4169

HERVEY BAY
Ph: 07 4197 1600
Fax: 07 4197 1699

TOWNSVILLE
Ph: 07 4725 5787
Fax: 07 4725 5104

GEELONG
Ph: 03 5225 1500
Fax: 03 5225 1599

Our web site: www.wilsonhtm.com.au