

Hillgrove Resources

Encouraging First Results, Part Of A Bigger Story...



Wilson HTM
INVESTMENT GROUP

29 July 2010

\$0.28

BUY

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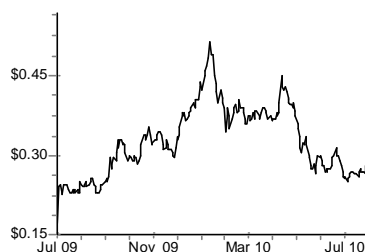
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Price Performance



Security/Capital Details

ASX Code	HGO
Market Cap	\$137 M
Issued Shares (dil)	488.0 M
Avg Mth T'over	37.13 M
12 Mth High – Low	\$0.52 - \$0.23

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	\$0.48
12 Mth Price Target	\$0.56

Recommendation

11 drill holes at Sumba have confirmed the presence of near surface mineralisation. Drilling activity will increase following the arrival of a second and larger rig, which has already mobilised to site. We anticipate increased news flow from Sumba in the December half, in particular we look for results from depth. Drilling at Birds Head is scheduled to commence towards the end of the year, drilling will look to confirm the potential porphyry mineralisation.

We are MARKETWEIGHT base metals and maintain our BUY recommendation on the stock, valuation and target price A\$0.48/share and A\$0.56/share respectively.

Key Points

Mineralisation confirmed, entering into a steady state of drilling

- Results from the first round of drilling (11 holes) at the company's Sumba prospect have returned encouraging results, encountering gold mineralisation over a large area. The Sumba and Birds Head prospects are HGO's two primary Indonesian exploration sites.
- Key results from the East vein at Sumba include; MADPH009 18.7m @ 0.81 g/t Au from 14m, MADPH011 13.9m @ 0.67 g/t Au from 14m and MADPH012 25m @ 0.91 g/t Au from 12m.
 - These intersections are complimented by higher-grade zones including MADPH009 1m @ 2.2 g/t Au from 30m and MADPH012 4.6m @ 1.9 g/t Au from 14m.
- Nine holes were drilled at the east vein and three holes at the west vein. Steep topography in conjunction with severe weather reduced the integrity of the drill pads at the west vein, limiting drilling to only two completed holes. This resulted in MADPH001 being abandoned before being fully tested. The west vein remains a primary focus and will be subject to renewed shallow testing in the coming half year.
- Drilling at the east vein has confirmed the presences of a 20m thick mineralised vein system, which is trending NW to SE. Exploration results also demonstrated the presence of crosscutting veins, these intersections are symptomatic of hydrothermal systems and have the potential to yield higher grade pods. However, we note that grades are generally <2 g/t Au.
- A second drill rig with a depth capacity of 250-350m is on site. The rig will test the step out potential of the deposit and the depth of the current intercepted veins. We anticipate drilling to commence imminently, with results to follow in the December half. The existing, smaller rig will be freed to test additional systems in the area, as well as complete in fill drilling on the east and west veins to confirm grade continuity.

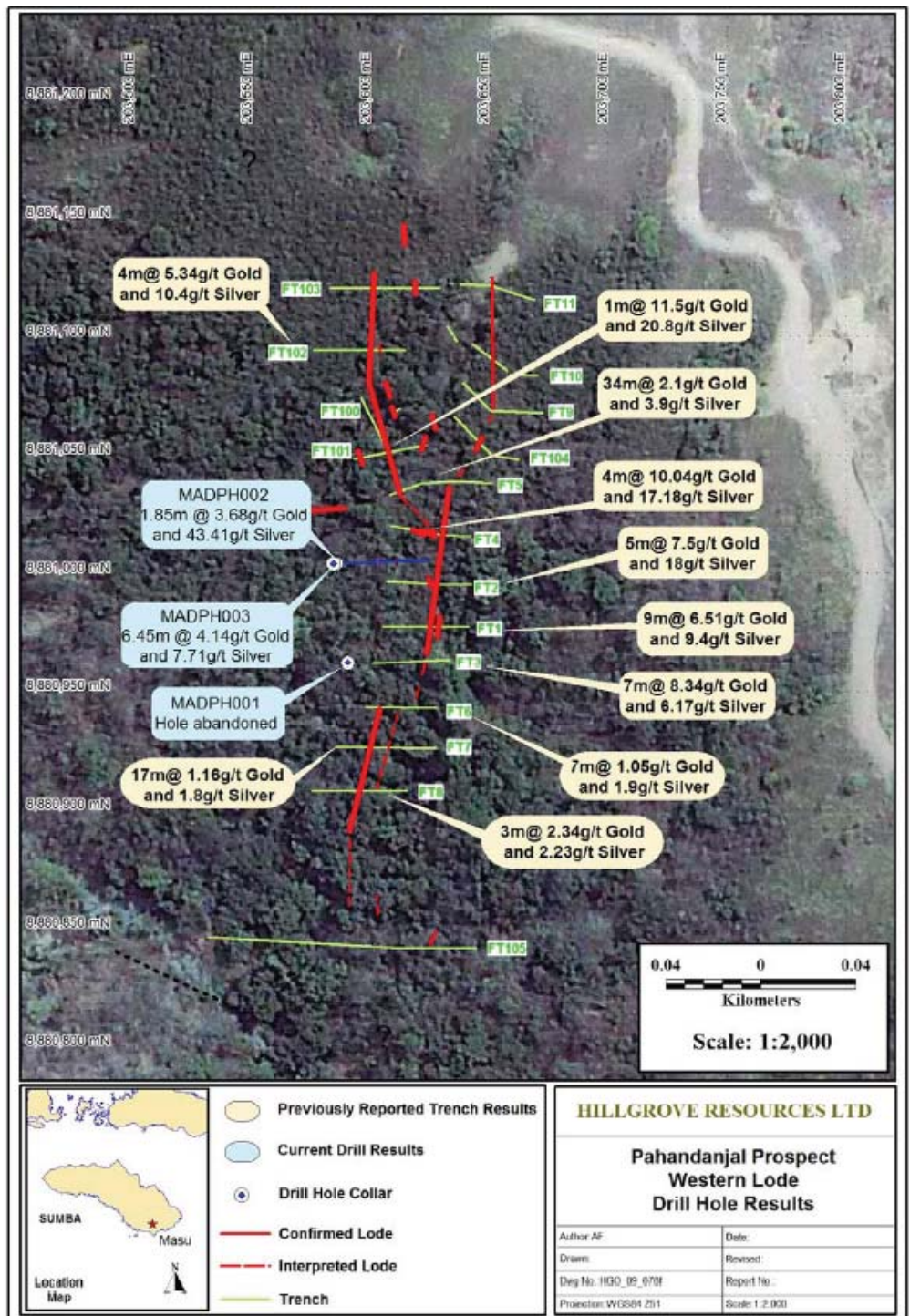
Birds Head drilling to commence towards the end of the half

- Helicopter surveys and trenching are on going and the company has advised that land access issues prior to drilling have been resolved. We anticipate drilling and associated results towards the end of the calendar year.

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	-8.6	-1.7	-16.1	0.0	0.0	0
2011e	5.9	-1.9	-0.4	88.4	-73.7	-5.9	-4.8	0.0	0.0	0
2012e	16.6	16.6	3.4	997.4	8.2	5.8	4.9	0.0	0.0	0



West vein drill and trenching map



Source: HGO

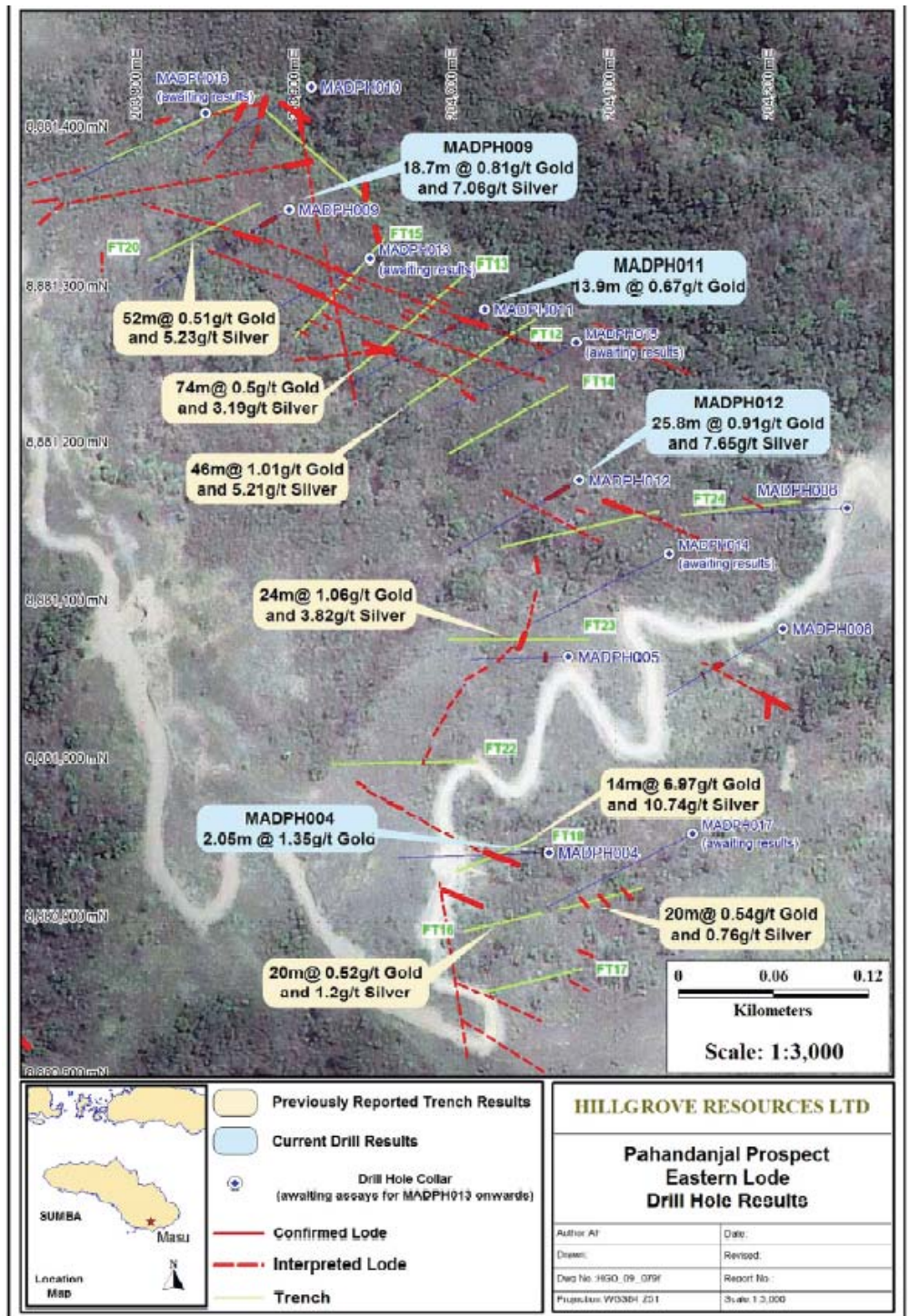
Drilling at the western vein was limited to only 3 holes, of which only two were completed. Unseasonably heavy rain reduced the integrity of the already steep terrain, leading to drill pads being compromised and ultimately abandoned prematurely.

Initial results from MADPH002 and MADPH003, which were drilled from the same location, intersected high-grade mineralisation with values up to 6.3 g/t Au. Trench sampling suggests that the west vein should carry higher gold values than the east vein.

The limited drilling results will be followed up in the coming half.



East vein drill and trenching map



Source: HGO

Drilling at the east vein has confirmed the presence of a 20m thick vein system with grades up to 2.24 g/t Au. However, grades so far have been typically <2 g/t Au.

Testing of the direction of the vein resulted in two holes failing to intercept the vein. HGO are confident that the direction of the vein has now been largely confirmed to be trending north west – south east.

Hillgrove Resources (HGO : \$0.28)

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

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%	88.4%	997.4%
PER (x)	-47.9	-12.3	-8.6	-73.7	8.2
CFPS (c)	-0.7	-1.1	-1.7	-5.9	5.8
P/CF (x)	-33.3	-11.5	-16.1	-4.8	4.9
EV/EBITDA (x)	-83.4	-15.4	-0.9	-20.0	3.4
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

Yr Ending Jan	@	11.1 %	10 %	
	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	38.2	0.08	39.3	0.08
Net (Debt)/Cash	76.6	0.16	76.6	0.16
Additional Capital - Dilution	4.1	0.01	4.2	0.01
Total Valuation	233.2	0.48	239.4	0.49

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%	-1.1%	9.3%
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	7.0
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	72.7	19.5
Total Assets	74.2	140.9	211.1	240.7	214.7
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	166.4	190.5
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%	31.5%	1.3%
Gearing (%) ¹	21.4%	34.3%	1.5%	23.9%	1.3%
Interest Cover (x)	-1.2	-4.7	-0.8	1.5	-23.4
Debt / CashFlow (x)	-5.9	-9.0	-0.3	-1.8	0.1
(Debt+CNotes)/ CashFlow	-6.5	-5.4	-0.1	-1.8	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	-4.0	-1.0
Pre-tax Profit	-2.4	-8.4	-22.4	-1.9	24.7
Tax	-0.6	-3.7	-6.4	0.0	8.1
Tax rate (%)	24.8%	44.5%	28.5%	0.0%	32.7%
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	-1.9	16.6
Abnormals	-0.2	15.9	71.6	7.7	0.0
Reported Net Profit	-2.0	11.3	55.6	5.9	16.6

CASHFLOW (\$m)

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
Operating Cash Flow	-2.5	-4.9	-8.5	-28.6	28.1
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	11.0	0.0
Other	0.3	1.0	0.0	0.0	0.0
Investing Cash Flow	-13.6	-18.6	154.0	-67.6	-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	-57.7	-53.2

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending Jan	2008A	2009A	2010E	2011E	2012E
+/-10% US\$ Copper Price	0.0%	0.0%	0.0%	0.0%	28.7%
+/-10% US\$ Gold Price	0.0%	0.0%	0.0%	0.0%	2.2%
+/- 1c Movement US\$/A\$	0.0%	0.0%	0.0%	0.0%	3.6%
+/-10% US\$ Silver Price	0.0%	0.0%	0.0%	0.0%	0.5%



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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