

Eureka Report

The Speculator by David Haselhurst

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PORTFOLIO POINT: We take a position in a cashed-up copper-gold hopeful and lock-in partial profits from Robust Resources, a stunningly successful punt that has soared in price to the extent of becoming about a third of the portfolio's value.

Twenty or 30-odd years ago, any strengthening in the world copper price was rarely sustained for long because the world's biggest copper mine would rapidly fill the supply gap.

That copper "mine", of course, lay under the streets of America and as coaxial cable replaced copper wiring redundant scrap would come out of the ground to put a ceiling over every upsurge in the copper market.

That doesn't appear to be such an important influence these days, with China's surging growth taking copper demand with it. Copper is now trading around nine-month highs with a further boost likely from this week's news that new housing sales in the US rose 11% in June.

Our punt this week is not yet in production but it is selling under its cash backing and its Kanmantoo copper-gold project, 60 kilometres from Adelaide, is likely to be up and running in early 2011.

Adelaide-based Hillgrove Resources Ltd (HGO) rose from a 12-month low of 7.2¢ a share to a recent high of 28¢ on the back of its 19.9% interest in Eastern Star Gas (ESG), the coal seam gas (CSG) explorer.

Then, on July 2, the company announced it had sold its holding in Eastern Star to Santos for \$171,986,050 cash, or \$1 a share. In the emerging frenzy for CSG assets over the past 12 months, Eastern Star Gas shares rose from a low of 19¢ to a recent high of \$1.25 following the sale of Hillgrove's stake to Santos.

The sale enabled Hillgrove to buy back and cancel \$US39 million in convertible bonds. Following that transaction, the company will book a profit of about \$94 million before tax for the half-year ending July 31. Tax payable is estimated at \$32 million after using up carried forward tax losses.

Hillgrove managing director David Archer confirmed after the completion of the Eastern Star Gas sale that Hillgrove now had a current cash backing of \$131 million, or 32¢ for each of Hillgrove's 413,027,311 shares. That is after the buy-back and cancellation of the bonds but before tax due on the transaction. "On top of that, we have the value of the Kanmantoo copper-gold project and \$14.5 million of property, plant and equipment ... with no immediate plans for the deployment of the cash outside our existing activities."

Hillgrove can look forward to a significant improvement in the Eastern Star Gas sale price if it is subject of a takeover in the next 18 months. Santos, or a third party acquiring more than 50% under such a bid at a price exceeding \$1 a share, will then be required to make an additional payment of: 100% of the excess over \$1 multiplied by 175,544,143 shares (the size of Hillgrove's former EGS parcel) if the control transaction is undertaken by Santos, or 50% of that excess if the transaction is undertaken by a third party.

Hillgrove's 100%-owned flagship Kanmantoo project hosts a resource of 32.2 million tonnes (2.3 MT measured, 22.5 MT indicated and 7.4 MT inferred) grading 0.9% copper and 0.20 grams/tonne gold, containing 292,200 tonnes of copper, 191,100 ounces of gold and 3.3 million ounces of silver. Production is due to start in the first quarter of 2011.

The company is seeking an incoming joint venture partner to provide the financing of the project, with Hillgrove to retain management. The cost to complete the mine development is \$99.4 million. Hillgrove also has interests in exploration projects in Queensland, South Australia and Indonesia, with particular focus on its Bird's Head Project (Hillgrove 80%) in West Papua. There it is targeting the discovery of epithermal gold and porphyry copper-gold deposits. We've bought 20,000 shares at 23.5¢.

David Haselhurst writes a monthly column for Money magazine.