

Hillgrove Resources (HGO)

Further De-Risking - Approval For Debt Drawdown



Wilson HTM
INVESTMENT GROUP

27 June 2011

\$0.23

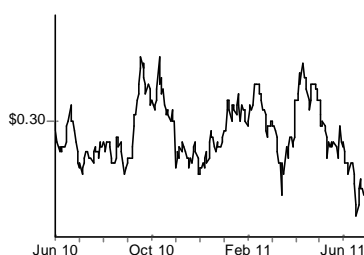
BUY

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Price Performance



Security/Capital Details

ASX Code	HGO
Market Cap	\$190 M
Issued Shares (dil)	824.0 M
Avg Mth T'over	39.81 M
12 Mth High – Low	\$0.36 - \$0.21

Key Data/Ratios – FY 2011

EBITDA / Sales	-682.7%
EBIT / Sales	-696.2%
Debt / Equity	0.0%
Interest Cover	-3.7 x
ROE	-8.1%
EPS Growth	11.3%
DCF	\$0.52
12 Mth Price Target	\$0.62

Important Disclosure

Wilson HTM Corporate Finance Ltd acted as Joint Lead Manager and Underwriter for the placement announced by Hillgrove Resources Limited in October 2010 and earned fees for acting in this capacity.

Recommendation

Hillgrove has passed a further milestone in its quest to become an Australian copper producer from November 2011. Today the company has announced that its banks have approved first drawdown against the A\$30m project finance facility. Risk associated with the Kanmantoo copper project continues to reduce. Last week at the AGM, the company again confirmed the Kanmantoo project as on time and within budget, with project construction CAPEX risk now largely confined to labour hours. Today financing risk has been reduced. Hillgrove is in our view poised for out performance once risk appetite returns. BUY – target \$0.62/share.

Key Points

- Hillgrove negotiated a \$30m project debt facility with Macquarie Bank and Barclays Bank PLC late 2010. Today, the company has announced that its banks have agreed that conditions precedent for the first drawdown against the facility have been met.
- Several items of work have been completed by Hillgrove and third parties as part of meeting the banks' requirements, including:
 - Complete review of the life of mine plan and new pit optimisation. This is expected to result in slightly higher than previous head grade in the early years. We understand the head grade in year one is likely to be close to 1.0% copper. This will be 0.23% higher than our forecast of 0.77% copper, and could see positive production surprise and future upgrade to earnings.
 - New mine plan and optimisation results built into the financial model.
 - Model inputs, project status, budget and schedule reviewed by Independent Technical Expert (AMC Consultants) appointed by the banks.
 - Independent audit of the financial model.
- Today's news follows on from last week's confirmation at the company's AGM in Adelaide that the Kanmantoo project remains on time for first copper production in November, and remains on track for completion within the \$121.3m budget (including \$10m contingency) established at FID.
- The next major milestone in approximately two months time will be delivery of power to the site. Power is being supplied from the S.A. grid and hence provides insulation against future increases in fuel costs. The availability of grid power results in a cash cost sensitivity of approximately US\$0.01/lb per +/-US\$0.10/litre diesel.
- Connection and supply of water from the Mt Barker treatment facility is expected shortly after the connection of power. Availability of power and water from early September is expected to see pre-commissioning of the plant commence 7th Sep. Full commissioning is expected to commence 5th Oct with first ore expected to be delivered to the mill on 1st November. On this basis, first revenue from the sale of concentrate is expected late November. The off-take agreement with JP Morgan Metals and Concentrates provides for early partial payment for concentrate sales.

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 %
2010a	55.6	-16.0	-1.9	-83.0	-11.9	-1.0	-22.3	0.0	0.0	0
2011e	-14.2	-14.2	-1.7	11.3	-13.4	-5.0	-4.6	0.0	0.0	0
2012e	-3.5	-3.5	-0.4	75.6	-54.8	-0.4	-59.0	0.0	0.0	0
2013e	56.9	56.9	6.9	1,742.9	3.3	10.1	2.3	0.0	0.0	

Equities Research – Hillgrove Resources

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Hillgrove Resources (HGO : \$0.23)

PRODUCTION

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Copper In Conc - (kt)	0	0	0	2	18
Gold In Conc - (koz)	0	0	0	1	8
Silver In Conc (koz)	0	0	0	22	170
C1 Cash Cost - (US\$/lb)	0.00	0.00	0.00	2.25	1.85

PRICES

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Gold (US\$/oz spot)	871	994	1250	1612	1990
Silver (US\$/oz spot)	14.58	15.02	21.61	39.68	49.32
Copper (US\$/lb)	2.99	2.46	3.52	4.72	5.12
AUDUSD (USD)	0.84	0.82	0.93	1.04	1.02

INVESTMENT & VALUATION FUNDAMENTALS

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
EPS Before Abs (c)	-1.1	-1.9	-1.7	-0.4	6.9
EPS Growth (%)	N/A	-83.0%	11.3%	75.6%	1,742.9
PER (x)	-12.3	-11.9	-13.4	-54.8	3.3
CFPS (c)	-1.1	-1.0	-5.0	-0.4	10.1
P/CF (x)	-11.5	-22.3	-4.6	-59.0	2.3
EV/EBITDA (x)	-15.4	-6.3	-3.3	-34.5	1.0
DPS (c)	2.0	0.0	0.0	0.0	0.0
Yield (%)	15.3%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%

DCF VALUATION @ 11.1% 10.0%

Yr Ending Jan	A\$m	A\$ps	A\$m	A\$ps
Kanmantoo - Open Cut	362.2	0.44	379.9	0.46
Corporate Items	-19.4	-0.02	-20.0	-0.02
Interests In Other Entities	3.7	0.00	3.67	0.00
Exploration/Development	19.3	0.02	19.2	0.02
Cash collateralised bond	7.5	0.01	7.5	0.01
Franking Credits	38.5	0.05	40.6	0.05
Hedge Book	-16.0	-0.02	-16.1	-0.02
Net (Debt)/Cash	24.3	0.03	24.3	0.03
Additional Capital - Dilution	6.6	0.01	6.7	0.01
Total Valuation	426.7	0.52	445.6	0.54

PROFITABILITY RATIOS

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
EBIT / Sales (%)	-710.5%	-696.2%	-680.4%	41.4%	
ROA (%)	N/A	-9.5%	-20.4%	-2.9%	32.6%
ROE (%)	N/A	-12.9%	-8.1%	-1.9%	26.2%
ROFE (%)	N/A	-13.0%	-42.8%	-4.5%	48.0%

INTERIMS (\$m)

Half Yr	Jul 09	Jan 10	Jul 10	Jan 11	Jul 11
Yr Ending Jan	1H A	2H A	1H A	2H E	1H E
Sales Revenue	0.0	1.4	1.4	1.7	0.0
EBIT	-4.9	-5.3	-7.4	-14.7	-3.0
Net Profit	54.0	1.6	-2.7	-11.5	-1.1
EPS	-1.3	-0.9	-0.3	-1.4	-0.1

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

BALANCE SHEET (\$m)

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Cash	7.7	130.4	117.4	53.7	127.6
Total Assets	140.9	211.1	253.6	299.8	376.3
Debt	44.0	2.5	0.0	43.5	41.0
Total Liabilities	56.6	47.3	68.8	112.3	131.1
Total Shareholders Equity	83.7	163.5	184.5	187.3	245.0
Total Funds Employed	120.5	35.9	67.4	177.4	158.6

LIQUIDITY & LEVERAGE RATIOS

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Debt / Equity (%)	52.6%	1.5%	0.0%	23.2%	16.7%
Gearing (%) ¹	34.3%	1.5%	0.0%	18.8%	14.3%
Interest Cover (x)	-4.7	-0.8	-18.6	2.7	-219.8
Debt / CashFlow (x)	-9.0	-0.3	0.0	-13.6	0.5
(Debt+CNotes)/ CashFlow	-5.4	-0.1	0.0	-13.6	0.4

PROFIT & LOSS (\$m)

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Sales Revenue	0.0	1.4	3.2	0.8	195.3
EBITDA	-6.7	-9.8	-21.7	-5.2	99.7
Depn and Amortisation	0.2	0.4	0.4	0.3	18.8
EBIT	-6.9	-10.2	-22.1	-5.5	80.9
Net Interest Expense	1.5	12.2	1.2	-2.0	-0.4
Pre-tax Profit	-8.4	-22.4	-23.3	-3.5	81.3
Tax	-3.7	-6.4	-9.1	0.0	24.4
Tax rate (%)	44.5%	28.5%	39.2%	0.0%	30.0%
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	-4.6	-16.0	-14.2	-3.5	56.9
Abnormals	15.9	71.6	0.0	0.0	0.0
Reported Net Profit	11.3	55.6	-14.2	-3.5	56.9

CASHFLOW (\$m)

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Operating Cash Flow	-4.9	-8.5	-41.2	-3.2	83.5
Capital Expenditure	-2.5	-7.2	-43.6	-92.1	-2.4
Expln, Develop, Evaln	-12.6	-4.4	-8.4	-10.6	-5.4
Asset Sales/Acquisitions	-4.5	165.6	12.0	0.0	0.0
Other	1.0	0.0	-0.6	-7.5	0.0
Investing Cash Flow	-18.6	154.0	-40.5	-110.2	-7.8
Share Issues/(Buybacks)	42.6	32.8	83.9	6.2	0.8
Debt Drawdown (Repay)	-15.0	-47.3	-2.5	43.5	-2.5
Dividends Paid	0.0	-8.3	0.0	0.0	0.0
Other Fin. Flows	0.0	0.0	-12.7	0.0	0.0
Financing Cash Flow	27.6	-22.8	68.7	49.7	-1.7
Cash Increase (Decrease)	4.1	122.7	-13.0	-63.7	74.0

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
+/-10% US\$ Copper Price	0.0%	0.0%	0.0%	0.0%	22.6%
+/-10% US\$ Gold Price	0.0%	0.0%	0.0%	0.0%	1.6%
+/- 1c Movement US\$/A\$	0.0%	0.0%	0.0%	0.0%	2.2%
+/-10% US\$ Silver Price	0.0%	0.0%	0.0%	0.0%	0.8%

**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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