

Stock Focus

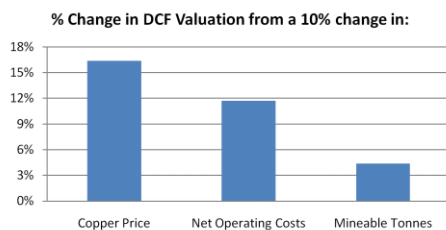
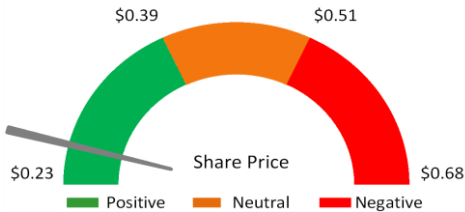
Hillgrove Resources (HGO)



EVANS & PARTNERS

NEARING PRODUCTION

RECOMMENDATION : POSITIVE



Trading Data

Last Price	\$0.27
12 month range	\$0.21 - \$0.36
Market cap.	\$210m
Free Float	\$206m (100%)
Avg. daily volume	3.0m
Avg. daily value	\$0.9m
12m return (historical)	0.0%

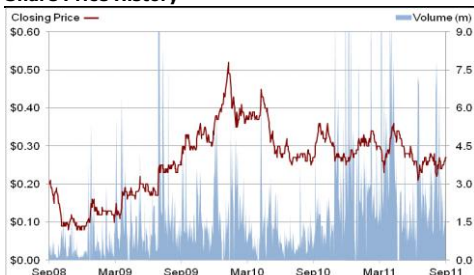
Earnings Forecasts

Yr to Jan	11A	12E	13E	14E
NPAT pre ab (\$m)	(14)	(5)	21	42
EBITDA (\$m)	(23)	(5)	50	86
EPS (¢)	(1.8)	(0.7)	2.7	5.5
EPS Gth (%)	N/A	N/A	N/A	105.6
PER (x)	Na	Na	10.0	4.9
Production (kt)	0	2	17	20
Cost (\$ lb)	0.00	1.90	1.92	1.48
DPS (¢)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%
NetDebt/EBITDA (x)				

Valuation (DCF - \$ps)

0.45

Share Price History



Kanmantoo remains on schedule for practical completion by 1 November, and also within budget. In addition, Hillgrove is reporting excellent near mine exploration results which are hoped to further extend the Kanmantoo mine life. Progress at the highly prospective Bird's Head project in West Papua is stymied by red tape, but exploration continues at Sumba. We retain our POSITIVE recommendation.

- Kanmantoo construction is 80% complete, and on schedule for ore commissioning during October and first concentrate shipment planned for late November/early December. Sulphide ore is currently being stockpiled. Cost to complete the construction is currently estimated at AUD120-125m vs. FID estimate of AUD 121.2m.
- Hillgrove has reported excellent near mine exploration results at Kanmantoo from the 48 holes drilled to July 31, with every hole returning visible chalcopyrite. The results suggest a re-optimised mine plan undertaken next year should result in an extension of the current mine life.
- Whilst exploration at Bird's Head has been stymied due to delays in awarding drilling permits, Hillgrove is making steady progress at Sumba. Within the Sumba project area, at the southern project (Masu), 800m strike length of significant gold mineralisation has been delineated. A 3,300 line km aeromagnetic and radiometric survey over the bulk of the Sumba IUP was also completed during the quarter.
- Hillgrove remains in a strong position, with AUD55.3m cash on hand, and undrawn debt facilities of AUD 18m.

Key milestones over the 16 months to 31 January 2013 include:

- First concentrate October 2011
- Practical Completion and Plant Handover 1 November 2011
- Operational ramp-up to full production 4-6 months
- Bank Completion Test satisfied Mid 2012
- First distribution from Kanmantoo to Hillgrove satisfaction of Bank Completion Test
- Material moved 10 mbcmt (30 Mt) approx.
- Oxide ore stockpiled 1.4 Mt approx.
- Tonnes milled 3.0 Mt approx.
- Strip Ratio 6.5:1 approx
- Ore grade (approx.)
 - Cu, % 0.80%
 - Au, g/t 0.20g/t
 - Ag, g/t 3.5g/t
- Metal recoveries (approx.)
 - Cu, % 85-90%
 - Au, g/t 60-65%
 - Ag, g/t 60-65%
- Payable metal produced (approx.)
 - Cu 19,000 tonnes
 - Au 10,000 oz
 - Ag 180,000 oz

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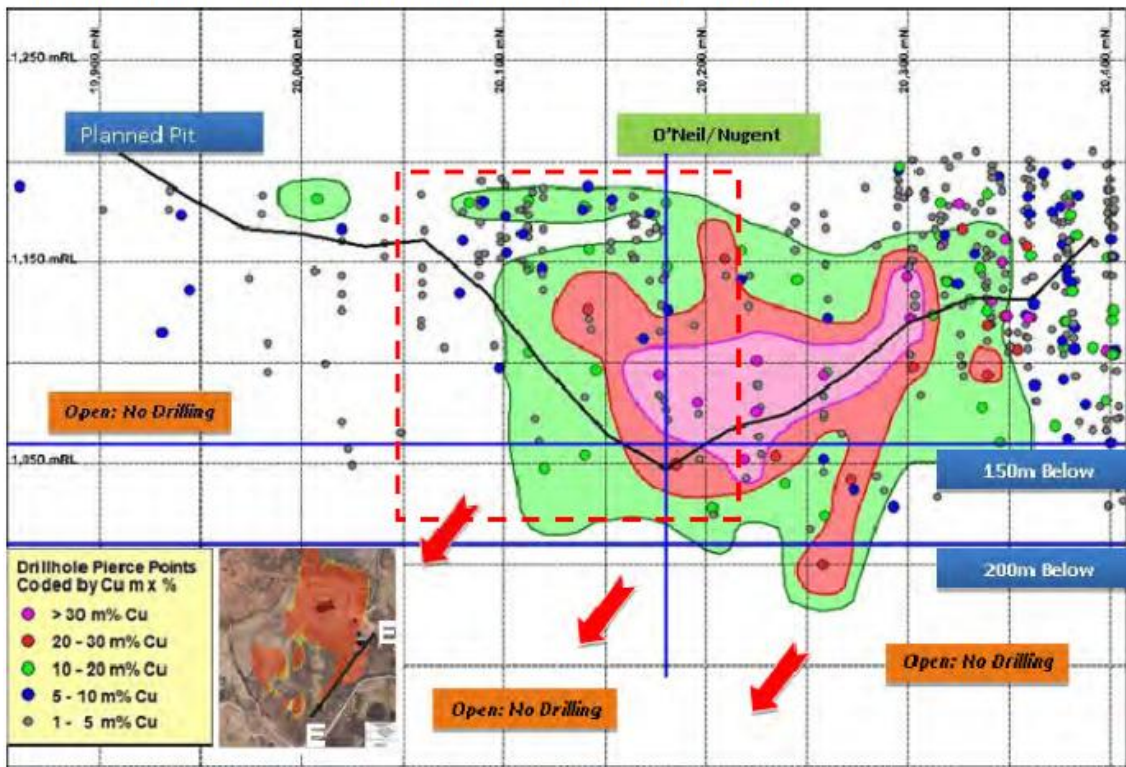
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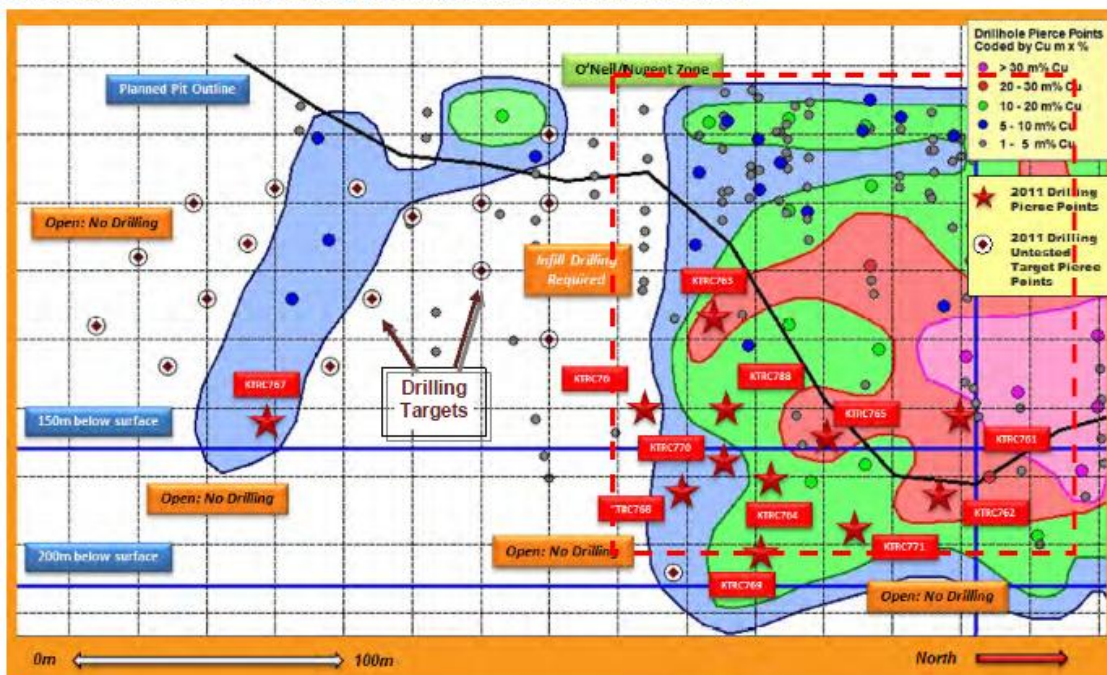
FURTHER DETAILS

Exploration at Kanmantoo ramped up significantly in late May. The initial program consisted of 7,500m RC drilling in and around the current planned open pits. The long sections below show the progress brought by first drilling. Drilling at Emily Star yielded similar results (with a total of 48 holes drilled to the end of July), which prompted expansion of the initial program to 10,500m, with an additional RC rig brought on site.

O'Neil/Nugent Zone - Long Section (Looking West) BEFORE 2011 RC Drilling



O'Neil/Nugent Zone - Long Section (Looking West) AFTER 2011 RC Drilling



Source: Hillgrove



FINANCIAL SUMMARY

Hillgrove Resources HGO Recommendation: Positive Share Price \$0.27
As at: 05/09/11 DCF Valuation \$0.45

Year end	Jan	2010A	2011A	2012F	2013F	2014F
INCOME STATEMENT						
Total Revenue	\$m	98.2	9.0	25.0	169.2	203.2
Operating Costs	\$m	-0.9	-1.7	-19.1	-92.3	-87.8
Royalty	\$m	0.0	0.0	-1.3	-10.5	-12.7
Exploration W/off	\$m	-1.9	-2.7	-3.2	-2.8	-2.8
Total Op. Costs	\$m	-2.8	-4.4	-16.0	-105.7	-103.3
D&A	\$m	-0.1	0.0	-2.1	-16.7	-20.3
Interest Exp.	\$m	-14.7	-0.4	-1.0	-1.5	-0.8
Corporate	\$m	-7.3	-7.4	-13.7	-13.8	-13.9
Other	\$m	4.5	-20.1	0.0	0.0	0.0
Total Costs	\$m	-20.4	-32.3	-32.9	-137.6	-138.4
Pre+Tax Profit	\$m	77.8	-23.3	-7.9	31.5	64.8
Tax Provision	\$m	-22.2	9.1	2.8	-11.0	-22.7
Net Profit	\$m	55.6	-14.2	-5.1	20.5	42.1
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Attrib Net Profit	\$m	52.4	-14.2	-5.1	20.5	42.1
Abnormal	\$m	0.0	0.0	0.0	0.0	0.0
Reported profit	\$m	52.4	-14.2	-5.1	20.5	42.1

CASH FLOW						
Operating Cashflow	\$m	-8.4	-40.7	6.1	46.2	71.4
-Capex	\$m	-7.2	-41.8	-111.4	-2.2	-2.2
-Exploration	\$m	-4.4	-8.7	-12.9	-11.1	-11.1
Free Cashflow	\$m	-20.1	-91.2	-118.2	32.9	58.0
-dividends	\$m	-8.3	0.0	0.0	0.0	0.0
+Equity Raised	\$m	32.8	73.7	0.0	0.0	0.0
+Debt Drawdown	\$m	-47.3	-2.5	47.0	-35.0	0.0
-Other (incl asset sales)	\$m	165.1	7.8	1.6	0.0	0.0
Net Change in Cash	\$m	122.3	-12.2	-69.5	-2.1	58.0
Cash at End Period	\$m	130.0	117.8	48.3	46.1	104.2

BALANCE SHEET						
Cash	\$m	130.4	117.8	48.3	46.1	104.2
Total Assets	\$m	211.1	253.5	283.8	275.6	323.9
Total Debt	\$m	2.5	0.0	47.0	12.0	12.0
Total Liabilities	\$m	47.3	68.6	115.4	80.4	80.4
Shareholders Equity	\$m	163.8	184.9	168.5	195.2	243.5

Production						
Kanmantoo						
Ore Milled (kt)	(kt)	-	-	300	2,400	2,400
Head Grade - Cu(%)	(g/t)	0.0%	0.0%	0.8%	0.8%	0.9%
Recovery - Cu (%)	(%)	0.0%	0.0%	87.0%	87.0%	92.0%
Production - Cu(kt)	(kt)	-	-	2	17	20
Profit and Loss Cash Cost						
Cash Cost	(\$US/t)				39	37
Cash Cost	(\$US/lb)				1.91	1.44
Total Cost	(\$US/lb)				2.25	1.77

RESOURCES	T (m)	Zn %	Cu %	Pb %	Au (G/t)
Kanmantoo	32.2	0.00%	0.90%		0.2
Attributable share	32.2	0.00%	0.90%	0.00%	0.2

Year end	Jan	2010A	2011A	2012F	2013F	2014F
VALUATION METRICS						
PER	x	2.1	Na	Na	10.0	4.9
Dividend Yield	%	7.5	0.0	0.0	0.0	0.0
P/FCF	x	Na	Na	Na	Na	Na
ROA	%	25%	-6%	-2%	7%	13%
ROE	%	32%	-8%	-3%	11%	17%
Net Debt to Equity	%	0%	0%	0%	0%	0%
Debt to Assets	%	0%	0%	0%	0%	0%

Directors	
Chairman	The Hon. Dean Craig Brown
Interim Managing Director	Mr Drew Simonsen
Non Executive Director	Mr John Quirke
Non Executive Director	Mr John Gooding
Non Executive Director	Mr Ronald Belz
Non Executive Director	Mr Edwin Zemancheff

Substantial Shareholders	Shares (m)	%
JPM Metals and Concentrates LLC	54.0	7.0%

Valuation Summary	BASE CASE	
	\$AM	A\$/share
Operations		
Hedge	-16	-0.02
Kanmantoo	394	0.51
Exploration	20	0.03
Sub Total	398	0.52
Investments	4	0.01
Financial		
Cash	48	0.06
Total Borrowings	-47	-0.06
Corporate/Other	-55	-0.07
Total Financial	-54	-0.07
Total Valuation	348	0.45

Assumptions						
Copper	(US\$/lb)	2.37	3.20	4.15	4.15	4.12
Average Exchange Rate	(US\$/A\$)	0.74	1.03	1.00	0.99	0.97
Gold Price	(A\$/oz)	1115	1148	1820	1844	1905
Silver Price	(US\$/t)	31390	18	41	41	41

RESERVES (Contained Metal)	T (m)	Zn %	Cu %	Pb %	Ag (G/t)	Au (G/t)
Attributable share	14.8	0.0	0.9	0.0	3.1	0.2



RESEARCH RECOMMENDATION DEFINITIONS

Positive	Stock is expected to outperform the S&P/ASX 200 over the coming 24 months
Neutral	Stock expected to perform in line with the S&P/ASX 200 over the coming 24 months
Negative	Stock is expected to underperform the S&P/ASX 200 over the coming 24 months
Speculative	Stock has limited history from which to derive a fundamental investment view or its prospects are highly dependent on event risk, <i>eg.</i> Successful exploration, scientific breakthrough, high commodity prices, regulatory change, etc.
Suspended	Stock is temporarily suspended due to compliance with applicable regulatory and/or Evans & Partners policies in circumstances where Evans & Partners is acting in an advisory capacity.
Not Rated	Stock is not included in our investment research universe.

Research Criteria Definitions

Recommendations are primarily determined with reference to how a stock ranks relative to the S&P/ASX 200 on the following criteria:

Valuation	Rolling 12 month prospective multiples (composite of Price-to-Earnings Ratio, Dividend Yield and EV/EBITDA), or long-term NPV for resource stocks.
Earnings Outlook	Forecast 2 year EPS growth.
Earnings Momentum	Percentage change in the current consensus EPS estimate for the stock (rolling 1 year forward basis) over the consensus EPS estimate for the stock 3 months ago.
Shareholder Returns	Composite of forecast ROE (rolling 1 year forward basis) and the percentage change in ROE over 2 years.
Debt Servicing Capacity	Rolling 12 month EBIT Interest Cover ratio.
Cyclical Risk	Qualitative assessment of the 2 year outlook for a stock/industry's profit cycle.
Industry Quality	Qualitative assessment of an industry's growth/returns potential and company specific management capability.
Financial Transparency	If we don't understand it, we won't recommend it.

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