



31 August 2011

\$0.27

BUY

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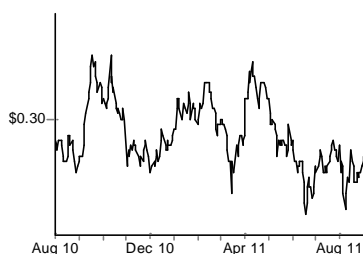
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Price Performance



Security/Capital Details

ASX Code	HGO
Market Cap	\$218 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 2012

EBITDA / Sales	-724.1%
EBIT / Sales	-773.0%
Debt / Equity	13.7%
Interest Cover	-5.6 x
ROE	-2.3%
EPS Growth	71.0%
DCF	\$0.51
12 Mth Price Target	\$0.60

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

We continue to remain positive on HGO with a BUY recommendation with successful commissioning remaining the last key hurdle to first production in early December. Construction of the Kanmantoo plant is 80% complete, and activities remain on schedule for commissioning in October. HGO has made minor revisions to the initial production phase over the first 16 months to January 2013, the valuation impact of this is minor. Final capital costs are expected to come in close to budget at A\$120-125m, compared to the initial estimate of A\$121.1m. Valuation and target price are \$0.51/sh (-\$0.01) and \$0.60/sh (-\$0.02) respectively.

Key Points

- Construction activities at **Kanmantoo** are 80% complete. Development remains on schedule for commissioning in October with the first concentrate shipment expected in early December.
- Kanmantoo capital costs are expected to come in close to budget at A\$120-125m, compared to the initial estimate of A\$121.1m. There was a previous expectation for a minor capital cost over run. However, confirmation that capital cost is close to budget is a significant positive and highlights the successful cost management practices at Kanmantoo.
- HGO has made minor adjustments to the mine plan for the first 16 months to January 2013, including a higher strip ratio of 6.5:1 v 5.1:1 LOM. We forecast production and cash costs in the January 2013 year of 17.4kt Cu @ US\$1.85/lb. Payable production in the 16 months to January 2013 is estimated at 19kt Cu, 10koz Au and 180koz Ag.
- Exploration drilling at Kanmantoo has yielded positive results and has exceeded our near term expectations. 48 holes were drilled to July 31 and key results include;
 - 18m @ 1.29% Cu from 135m and
 - 14m @ 1.54% Cu from 75m.
- The strength of the results has allowed HGO to plan for the commencement of a re-optimisation of the mine plan, with the expectation of adding additional reserves to support a longer mine life.
- We look to an updated reserve and resource statement following additional drilling to increase our confidence in extending the mine life potential. However, we are comforted by HGO's suggestion that the potential size of the additional reserve increment could potentially support an increase in throughput from 2.4mtpa to 3.5mtpa.
- We anticipate an updated reserve and resource statement in early-mid 2012.
- At **Birds Head**, HGO continues to wait for the Izin Pinjam Paki permit before commencing drilling. The site remains at drill ready status. At **Sumba Island**, trenching and soil sampling continue to return significant gold mineralisation. Scout drilling is expected to recommence in the January quarter 2012.
- Cash at 31 July was A\$55.3m, with undrawn debt facilities of A\$18m. Remaining capital to complete the Kanmantoo development is A\$20m.

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 %
2011a	-14.5	-14.5	-1.8	9.3	-15.1	-5.0	-5.3	0.0	0.0	0
2012e	-4.2	-4.2	-0.5	71.0	-52.0	-0.1	-189.3	0.0	0.0	0
2013e	49.7	49.7	6.0	1,282.4	4.4	9.4	2.8	0.0	0.0	
2014e	62.3	62.3	7.6	25.4	3.5	10.6	2.5	0.0	0.0	



Kanmantoo production and cost schedule – WHTM forecast

Year end Jan		FY12	FY13	FY14	FY15	FY16	FY17
Throughput	Mt	0.45	2.55	2.70	2.70	2.70	2.70
Copper grade	%	0.80	0.80	0.84	0.84	0.84	0.84
Gold grade	g/t	0.20	0.20	0.17	0.17	0.17	0.17
Silver grade	g/t	3.5	3.50	3.10	3.10	3.10	3.10
Copper recovery	%	0.70	0.85	0.97	0.97	0.97	0.97
Gold recovery	%	0.30	0.67	0.73	0.73	0.73	0.73
Silver Recovery	%	0.40	0.74	0.84	0.84	0.84	0.84
Contained Copper	kt	2.5	17.4	22.0	22.0	22.0	22.0
Contained Gold	koz	0.9	10.9	10.7	10.7	10.7	10.7
Contained Silver	koz	20	213	226	226	226	226
C1 Cash Cost	US\$/lb	2.91	1.85	1.45	1.51	1.51	1.44

Source: Wilson HTM

- We have made minor adjustments to our mining and production assumptions for the period to January 2013. This follows minor mine plan refinements that reflect an increased stripping ratio. The forecast stripping ratio to January 2013 is 6.5:1.

Kanmantoo construction site



Source: HGO

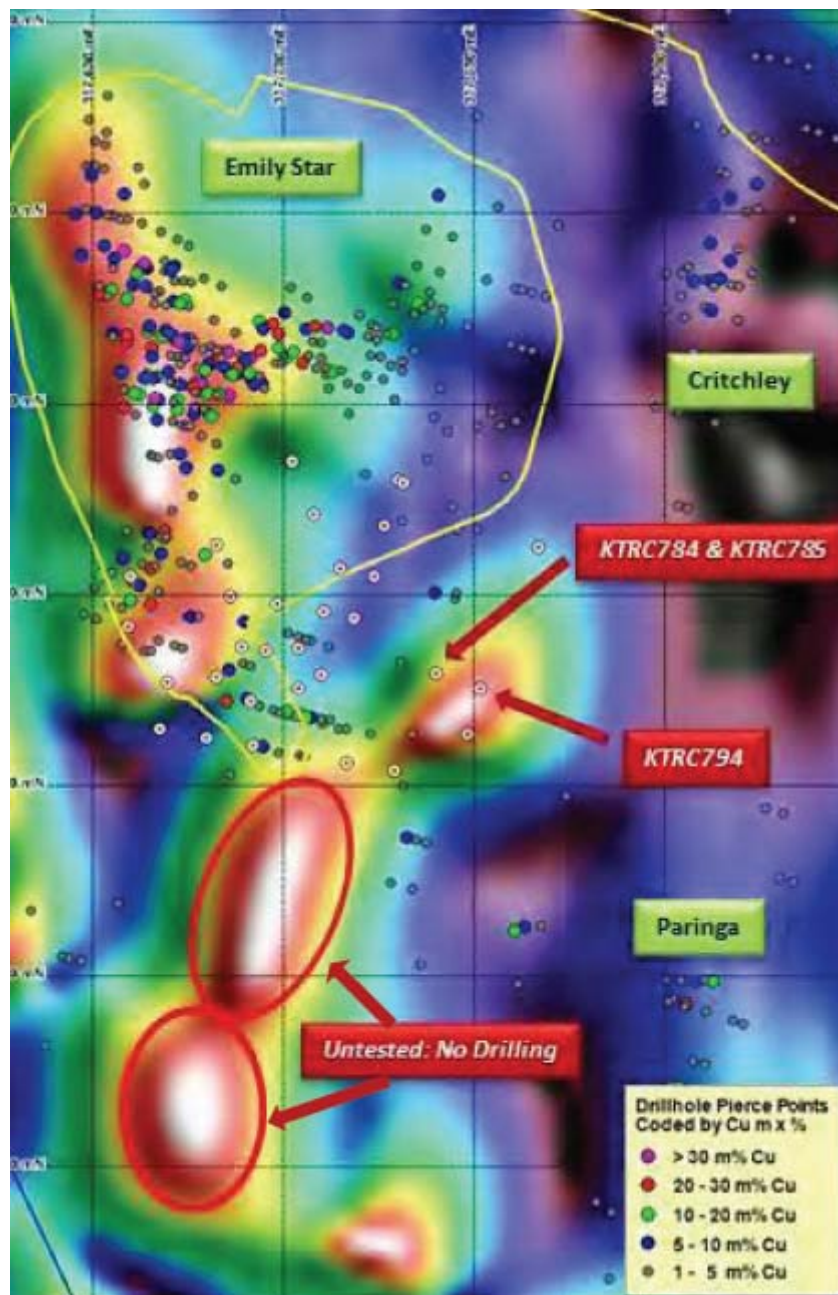
- The construction of the Kanmantoo processing plant and associated infrastructure is on time and on budget. Commissioning remains on schedule for October, with the build team Abesque Engineering Limited expecting to hand over the completed plant by 1 November 2011.
- Key build items remaining include;
 - Piping and cabling
 - Crushed ore stockpile cover
 - Cladding of various buildings
 - Running of conveyor belts
 - Storage facilities
 - Dry and wet ore commissioning
- Outstanding support infrastructure includes; the complete energisation of the Kanmantoo site and water treatment facilities from Mount Barker. The water



pipeline connecting Kanmantoo to Mount Barker has been completed.

- Several key operational hires were finalised during the quarter. This includes; processing manager, metallurgical superintendent, electrical superintendent and production superintendent. Several key hires remain outstanding, including process operator and supervisory roles. A number of these new hires are from major mining companies such as BHP Billiton and Oz Minerals.
- We anticipate relatively high retention rates at Kanmantoo given its close proximity to Adelaide, ~60km to the east. We see Kanmantoo's proximity to Adelaide as also supportive of reduced cost pressures relative to fly-in fly-out operations.

Kanmantoo exploration – Drillholes over magnetic map



Source: HGO

- 48 holes were drilled around the Kanmantoo pit and satellite deposits, with all holes intersecting visible chalcopyrite. This drilling includes reserve conversion drilling. Drilling is on going and HGO anticipates delivering an updated reserve and resource statement in early to mid 2012.
- Importantly, the above magnetic map suggests up to three further magnetic



anomalies, that could potentially host further copper mineralisation akin to that of the Emily Star satellite pit.

- The reported drill results include;
 - 18m @ 1.29% Cu from 135m and
 - 14m @ 1.54% Cu from 75m.
- The strength of the results has allowed HGO to plan for the commencement of a re-optimisation of the mine plan, with the expectation of adding additional reserves to support a longer mine life.
- Moreover, HGO is looking to develop a pipeline of exploration targets, best illustrated by the above magnetic illustration, which could ultimately support the expansion of the Kanmantoo plant from 2.4mtpa to 3.5mtpa should sufficient reserves be defined.

Hillgrove Resources (HGO : \$0.27)

PRODUCTION

Yr Ending Jan	2010a	2011a	2012e	2013e	2014e
Copper In Conc - (kt)	0	0	3	17	22
Gold In Conc - (koz)	0	0	1	11	11
Silver In Conc (koz)	0	0	20	213	226
C1 Cash Cost - (US\$/lb)	0.00	0.00	2.91	1.87	1.35

PRICES

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
Gold (US\$/oz spot)	871	994	1250	1598	1892
Silver (US\$/oz spot)	14.58	15.02	21.65	37.75	46.23
Copper (US\$/lb)	2.99	2.46	3.51	4.41	4.86
AUDUSD (USD)	0.84	0.82	0.93	1.04	1.02

INVESTMENT & VALUATION FUNDAMENTALS

Yr Ending Jan	2010A	2011A	2012E	2013E	2014E
EPS Before Abs (c)	-1.9	-1.8	-0.5	6.0	7.6
EPS Growth (%)	N/A	9.3%	71.0%	1,282.4	25.4%
PER (x)	-13.7	-15.1	-52.0	4.4	3.5
CFPS (c)	-1.0	-5.0	-0.1	9.4	10.6
P/CF (x)	-25.7	-5.3	-189.3	2.8	2.5
EV/EBITDA (x)	-9.2	-4.6	-29.5	1.5	0.4
DPS (c)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%		

DCF VALUATION

Yr Ending Jan	@ 11.1%		@ 10%	
	A\$m	A\$ps	A\$m	A\$ps
Kanmantoo - Open Cut	332.8	0.40	350.1	0.42
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	37.1	0.04	39.1	0.05
Hedge Book	-11.7	-0.01	-11.8	-0.01
Net (Debt)/Cash	43.0	0.05	43.0	0.05
Additional Capital - Dilution	6.6	0.01	6.7	0.01
Total Valuation	418.8	0.51	437.4	0.53

PROFITABILITY RATIOS

Yr Ending Jan	2010A	2011A	2012E	2013E	2014E
EBIT / Sales (%)	-710.5%	-706.5%	-773.0%	36.7%	39.4%
ROA (%)	N/A	-20.7%	-3.9%	29.3%	36.6%
ROE (%)	N/A	-8.3%	-2.3%	23.4%	23.3%
ROFE (%)	N/A	-43.4%	-6.2%	44.0%	60.6%

INTERIMS (\$m)

Half Yr	Jul 10	Jan 11	Jul 11	Jan 12	Jul 12
Yr Ending Jan	1H A	2H A	1H E	2H E	1H E
Sales Revenue	1.4	1.7	0.0	0.9	90.6
EBIT	-7.4	-15.1	-4.7	-2.5	34.1
Net Profit	-2.7	-11.8	-2.3	-1.9	24.0
EPS	-0.3	-1.4	-0.3	-0.2	2.9

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

BALANCE SHEET (\$m)

Yr Ending Jan	2010A	2011A	2012E	2013E	2014E
Cash	130.4	117.1	44.0	111.5	186.0
Total Assets	211.1	253.2	280.8	350.1	402.4
Debt	2.5	0.0	25.5	23.0	13.0
Total Liabilities	47.3	68.8	94.3	113.1	103.1
Total Shareholders Equity	163.5	184.2	186.2	236.7	299.0
Total Funds Employed	35.9	67.4	168.0	148.5	126.4

LIQUIDITY & LEVERAGE RATIOS

Yr Ending Jan	2010A	2011A	2012E	2013E	2014E
Debt / Equity (%)	1.5%	0.0%	13.7%	9.7%	4.4%
Gearing (%) ¹	1.5%	0.0%	12.0%	8.8%	4.2%
Interest Cover (x)	-0.8	-18.9	2.4	-56.4	-16.3
Debt / CashFlow (x)	-0.3	0.0	-21.6	0.3	0.1
(Debt+CNotes)/ CashFlow	-0.1	0.0	-6.8	0.3	0.1

PROFIT & LOSS (\$m)

Yr Ending Jan	2010A	2011A	2012E	2013E	2014E
Sales Revenue	1.4	3.2	0.9	189.9	211.3
EBITDA	-9.8	-22.0	-6.8	89.3	107.9
Depn and Amortisation	0.4	0.4	0.5	19.5	24.7
EBIT	-10.2	-22.4	-7.2	69.8	83.3
Net Interest Expense	12.2	1.2	-3.1	-1.2	-5.1
Pre-tax Profit	-22.4	-23.6	-4.2	71.0	88.4
Tax	-6.4	-9.1	0.0	21.3	26.1
Tax rate (%)	28.5%	38.7%	0.0%	30.0%	29.5%
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	-16.0	-14.5	-4.2	49.7	62.3
Abnormals	71.6	0.0	0.0	0.0	0.0
Reported Net Profit	55.6	-14.5	-4.2	49.7	62.3

CASHFLOW (\$m)

Yr Ending Jan	2010A	2011A	2012E	2013E	2014E
Operating Cash Flow	-8.5	-41.5	-1.2	77.0	87.0
Capital Expenditure	-7.2	-44.2	-96.3	-2.4	-2.5
Expln, Develop, Evaln	-4.4	-8.4	-10.6	-5.4	0.0
Asset Sales/Acquisitions	165.6	12.0	0.0	0.0	0.0
Other	0.0	-0.6	3.3	0.0	0.0
Investing Cash Flow	154.0	-41.1	-103.6	-7.8	-2.5
Share Issues/(Buybacks)	32.8	83.9	6.2	0.8	0.0
Debt Drawdown (Repay)	-47.3	-2.5	25.5	-2.5	-10.0
Dividends Paid	-8.3	0.0	0.0	0.0	0.0
Other Fin. Flows	0.0	-12.7	0.0	0.0	0.0
Financing Cash Flow	-22.8	68.7	31.7	-1.7	-10.0
Cash Increase (Decrease)	122.7	-13.9	-73.1	67.5	74.5

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending Jan	2009A	2010A	2011E	2012E	2013E
+/-10% US\$ Copper Price	0.0%	0.0%	0.0%	0.0%	24.1%
+/-10% US\$ Gold Price	0.0%	0.0%	0.0%	0.0%	2.4%
+/- 1c Movement US\$/A\$	0.0%	0.0%	0.0%	0.0%	2.5%
+/-10% US\$ Silver Price	0.0%	0.0%	0.0%	0.0%	1.0%



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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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.

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