

**COMPANY** Hillgrove Res Ltd| HGO | \$0.35/share

**RECOMMENDATION** Buy | High Risk | \$0.45/share target

**EVENT** Initiation Report | A bird in the hand...

#### KEY POINT

- Restart of the historic Kanmantoo project in Adelaide Hills is fully funded and on track for first copper concentrate production in Nov 2011, but could come in earlier.
- We see 1<sup>st</sup> phase of its diamond drill campaign for Indonesian gold & copper exploration provides leveraged upside exposure, with **potential to be company maker**.
- Our conservative \$0.45/share price target is based on 75% of Kanmantoo's base operation, and Indonesian exploration conservatively valued at forecast expenditure.
- Near term derisking milestones for Kanmantoo are port facility access, by end April; and bank approval of re-optimised mine plan based on Ore Reserve, by May.

**FY12F (January year end) METRICS** P/NAV 0.77x

**LINK TO AUSTOCK INITIATION REPORT** [HGO A bird in the hand, but could be more in the Indo bush 11042011](#)

**SENT TO CLIENTS** Yes

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### Sth Aust copper cashflow + free option to Indonesian exploration

#### ...with Kanmantoo copper cashflow coming soon

We have confidence Kanmantoo project will meet critical specifications. Development has been drawn out; although sufficient quality controls have been integrated to mitigate remaining construction risk. Situation has changed since last open pit production: credible new management team, better commodity prices, cost base & new processing plant setup.

We expect concentrate production from the existing open pit over a 10yr life, with extension potential for near mine targets. Year 1 is expected to be cashflow positive, with value uplift potential for expansion in year 3 (excl. from our estimates).

We expect 21ktpa copper, and 8% precious metal revenue, with the cost base advantaged by proximity to Adelaide.

#### ...but could be more in the Indonesian bush

We see Indonesian exploration could follow a similar path to existing high quality copper gold projects nearby. Scout drilling by previous explorers (BHP & Normandy) and HGO, adds confidence there is considerable untested potential. A reinvestigation of work to date and refined targetting for epithermal mineralisation (primarily focussed on high sulphidation), which could lead to identification and discovery of a large scale porphyry copper gold deposit.

HGO is diamond drilling up to 650m depth. We expect projects to be fast-tracked & additional fund allocation for any good intersections; first results expected:

- Late Apr qtr: 1200m first pass program at Sumba.
- Late Jul qtr: 5000m drill program at Bird's Head.

#### INVESTMENT OVERVIEW

- We initiate on a Buy recommendation and \$0.45/share price target; we expect to increase this in the next two months for upcoming derisking milestones.
- For project development risk we only value 75% of Kanmantoo project cashflows. We value Kanmantoo project at \$263m, and HGO at \$0.45/share. Factoring in 100% Kanmantoo, we value HGO at \$0.55/share; we see derisking milestones achievable in 12 months. Indonesian exploration effectively comes at nil optionality cost to a prospective investor, but we see significant uplift potential for a discovery.

Should you have any queries, please do not hesitate to contact me on +612 9233 9603.

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**Recommendation Criteria**

**Investment View**

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
> 20 %	20 % - 5%	< 5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

**Risk Rating**

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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