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Right location and hot copper price put Hillgrove on top

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Opinion & Analysis - GARIMPEIRO

NOT all new copper developments are found in far-off places. **Hillgrove Resources**' **Kanmantoo** copper project is a case in point, being all of 55 kilometres south-east of Adelaide in the Mount Lofty Ranges.

In these days of critical shortages in mining skills and rising development costs, it would be hard to find a more user-friendly location.

Match the location with a copper price that continues to defy the Chicken Littles out there and it's little wonder that Hillgrove is showing signs of breaking out of its 20¢-25¢ trading range over the past five months or so.

The stock on Friday edged 0.5¢ higher to 26.5¢ as the market took account of a number of developments, most noticeably a pre-feasibility study into the development of **Kanmantoo**.

Initial capital costs of $98.3 million are a fair deal higher than might have been the case 12 months ago, but **Kanmantoo** comes out looking nice and robust anyway.

Robust all right, as capital expenditure would be recouped in the second year of operation. As you would expect, leverage to the copper price is extreme.

At a copper price of $US2.50 a pound (it's now $US3.44 a pound), the project has a net present value of $134 million. At $US3 a pound, the NPV rises to $216 million.

Valuations like those stack up nicely against Hillgrove's (fully diluted) market capitalisation of about $58 million.

That is particularly so when it's remembered that Hillgrove is also plugged into the coal seam gas valuation boom through its stake in the operator of the Gunnedah project in NSW, Eastern Star Gas (140 million shares trading at 19¢ each and 25 million options).

The trick to rectifying Hillgrove's implied undervaluation will be to get **Kanmantoo** into production. Hillgrove is on the job, with the board approving an immediate move into a six- to nine-month full feasibility study at a cost of $5 million.

While **Kanmantoo** will be a "new" development, the orebody has been around since the 1840s. It got its most serious work over in the 1970s by a consortium of fabled Collins House miners - North Broken Hill, South Broken Hill and EZ Industries - which produced 4.1 million tonnes grading 0.9 per cent copper before low copper prices brought things to an end in 1976.

Hillgrove picked up the property in 2003 and has successfully upgraded the resource base, which now stands at 28 million tonnes at 0.94 per cent copper and 0.2 grams of gold a tonne (262,000 tonnes of contained copper and 177,000 ounces of gold).

The pre-feasibility study looked at an operation of 2 million tonnes a year that would produce up to 19,000 tonnes of copper-in-concentrates and 6000 ounces of gold.

The current resource suggests a mine life of at least 61/2 years, with possible extensions from continuing exploration.

On that score, Hillgrove reported last Thursday that it had intersected high-grade zones of copper mineralisation that sit outside the latest resource estimate.

SLEEPY Eromanga Hydrocarbons is not so sleepy any more. Some smart money is backing the idea that new director Philip Galloway will come up with a game-changing deal before long.

Galloway has been doing resource deals for 20 years. Up until June last year, he was based in London as vice-president of development for BHP Billiton's aluminium division, with global responsibility for new projects.

Before that he was an investment banker with CS First Boston, where he was involved in privatising Victoria's electricity industry, and with CRA in Australia and South-East Asia.

Galloway is looking to capitalise on the demand in India for commodities to fuel its supercharged growth. He has strong connections there, and a taste of the kinds of deals that could come Eromanga's way has been served up in an interesting South African iron ore play.

Eromanga has teamed up with Indian-owned Osho in a bid to access 50 million tonnes of haematite (55 per cent iron) stockpiled as a by-product by a vanadium operation.

It doesn't matter if that particular deal falls through, as Galloway's contact book will ensure a procession of new opportunities will come through the front door, one of which will eventually stick. The stock last traded at 11¢.

URANIUM continues its relentless advance. In the past six months alone, it is up by one-third to $US56 a pound ($A73.85).

It's no surprise, then, that junior explorers for the radioactive stuff have been enjoying the best of times. Most of them, anyway.

One junior that has been overlooked is the $5 million May float, Aura Energy. The 20¢ shares from the float traded at 15¢ on Friday.

That's surprising on a number of counts. The company has one of the most technically competent management teams around.

It also has no less than 20 exploration targets in Western Australia, split between the calcrete-style and the sandstone-hosted type.

The group's maiden exploration drilling is under way at the Wondinong (calcrete-hosted) prospect near Mount Magnet. It's an old WMC discovery from the 1970s that got passed over when WMC found the 50,000-tonne Yeelirrie deposit.

WA is not friendly to uranium exploration, but the politics of it all are not seen as a long-term barrier, given the rise and rise of global greenhouse concerns.

Aura's management team also has the experience and connections to pick up some decent non-WA uranium properties in time.