MA Moelis Australia

Initiation of coverage – Hillgrove Resources Ltd (ASX: HGO)

Initiate with Buy rating and 12-month price target of $0.08/share

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MA Moelis Australia

Hillgrove Resources Ltd (ASX:HGO)

Commencing coverage at Buy with $0.08 price target

Investment Thesis

We initiate coverage of Hillgrove Resources Ltd (ASX: HGO)

- Hillgrove Resources Limited is an Australian listed copper producer
- Its flagship asset is the Kanmantoo underground mine in South Australia. Following its recent restart of idled assets, the mine will produce approximately 11-12kt Cu annually
- Although current inventory is sufficient to outline a mine life of approximately 4 years, we see considerable potential for further exploration upside to either incrementally or more substantially increase overall tenor
- With significant drilling completed since the decision to restart and limited prior scope for underground exploration, we anticipate a positive resource and reserve update within the December quarter

Copper

- Medium term investment fundamentals for copper remain supportive, with sluggish global copper supply growth (hindered by underinvestment, increasing stakeholder complexities, declining head grades and insufficient new discoveries) up against an increasing pace of demand growth
- Annual copper demand is projected to grow from 25 million tonnes today to approximately 50 million tonnes by 2035 as energy transition efforts continue to gain momentum

We initiate coverage with a $0.08 target price and a Buy rating

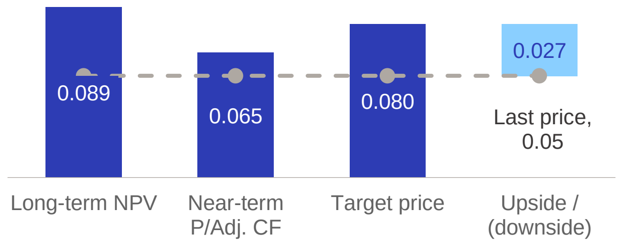
- Our price target is derived using a 50:50 blend of NPV and P/Adj. CF on a multiple of 2.5x. This is in line with our existing coverage group
- The lack of any significant financial obligations, expectations of operational delivery and valuation upside suggest risk/reward asymmetry
- HGO is clearly exposed to the copper price fluctuations, although downside is somewhat mitigated with ~10kt copper hedged at an average price of A$14,209/t (~A$6.40/lb Cu). Conversely, the simplicity and location of the asset provides unique benefits which support operating costs (AISC) of less than A$4.30/lb. This translates into EBITDA margins of ~50% (FY25/26)
- To the upside, while the company has a modest mine life on current inventory, every additional year of mining that could be uncovered through either discovery or improving economics (which move the cut off grade) could yield 0.5-1c/share incremental valuation ($10-20m) given the fully permitted and operating facility

Valuation Snapshot

Share price target			
NPV value per share	50%	A$/share	0.089
P/Adj. CF value per share	50%	A$/share	0.065
12 month target price		**A$/share**	**0.080**
HGO-ASX	(last close price)	A$/share	0.053
Potential return			51%

NPV valuation		
Hillgrove pre-tax	$m	176
Exploration	$m	20
Tax	$m	-
Corporate and Admin	$m	(17)
Net cash (debt)	$m	7
Total	**$m**	**186**
No of shares	m	2,096
NPV value per share	**$m**	**0.089**
Upside (downside) to last price	%	68%

P /Adj. CF valuation		
NTM operating cashflow	$m	68
NTM sustaining capital	$m	(24)
NTM Adj. CF	$m	44
Target multiple		2.5x
Value	**$m**	**109**
Exploration	$m	20
Net cash (debt)	$m	7
Total	**$m**	**137**
No of shares	m	2,096
Valuation per share	**$**	**0.065**
Upside (downside) to last price	%	23%



Source: FactSet, MA Research

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Company Introduction

MA

Kanmantoo back online, searching for extensions…

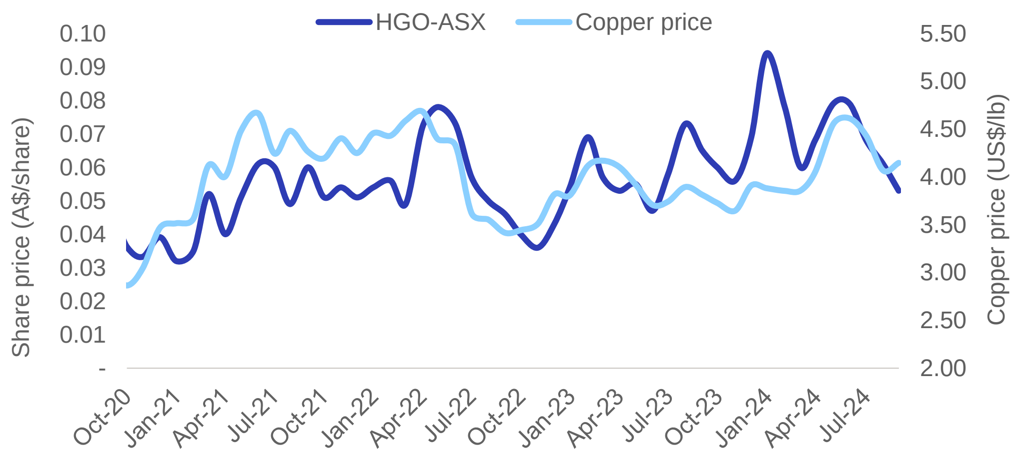
A new breath of life for the company…

Company Background

- Hillgrove Resources (ASX: HGO) is an Australian-listed mining company headquartered in South Australia
- With a current market cap of approximately $100m, the company sits among local base metal peers A1M, AIS (not covered), AMI (not covered) and 29M (not covered)
- The company's sole asset is the Kanmantoo underground mine in the Adelaide Hills situated right off the arterial M1 freeway (which connects Adelaide and Melbourne) approximately 45km southeast of the state's capital (as the crow flies)
- Initially built and commissioned in 2011, the project was operated for approximately 9 years as an open pit, producing approximately 130kt Cu and 55koz Au in concentrate from a conventional open pit, 'crush, grind, float' processing pathway
- Following a period of cessation and extensive underground exploration, the mine is expected to produce 11.5kt Cu in CY25, the first full year following its successful restart
- Kanmantoo presently has sufficient inventory to support an initial 4-year mine life, which underpins our pre-tax NPV (11%) of A$176m
- With over 60,000m of drilling completed since the last resource update, we expect to see mineral inventory grow with an expected MROR update towards the end of CY25. As a result, we forecast an additional year of mine life which takes the base case for the operation into CY29
- The stock is acutely leveraged to both copper price and further exploration upside given the extensive infrastructure installed
- Recently, the company has also refreshed management, engaging Mr Bob Fulker as its new Managing Director. Mr Fulker has previously undertaken senior executive roles for Evolution Mining and Oz Minerals

…With a copper asset in a tier 1 location

Despite shuttering production previously, HGO has tracked the copper price



Source: Company announcements, FactSet, MA Research

History and Background

A legacy company with a legacy asset

The asset has a long history…

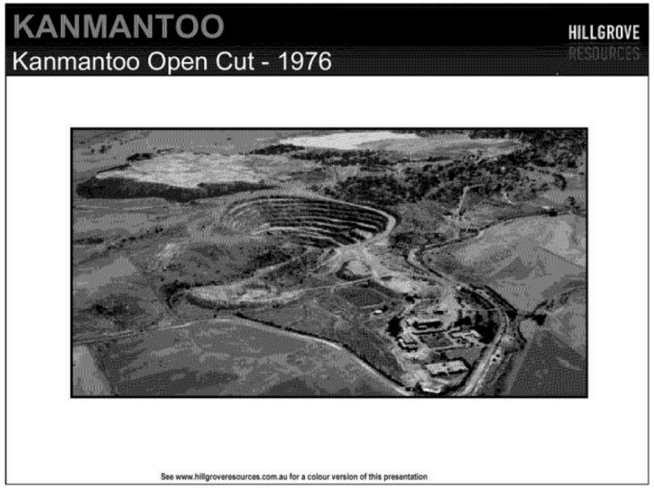
Company background

- Hillgrove Resources was refloated from administration to the ASX in late 2003
- Early on, documents outline that the company was seeking exposure to base and precious metals and had interests in coal bed methane in the Gunnedah basin, which would later see the sale of a stake in Eastern Star Gas for $172m

Project History

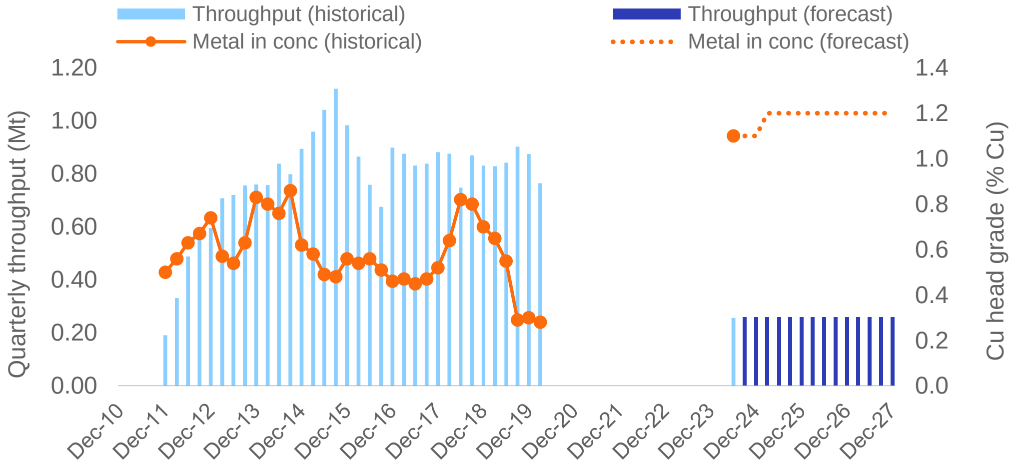
- HGO held interests in Kanmantoo via the consolidation of tenements as early as 2003-2004
- The mine is located in an area that has a long history of exploration and mining. Mining at Kanmantoo began in 1846 and continued to 1874, when a collapse in world copper prices forced the mine into closure
- Intermittent prospecting continued in the area until the late 1960s when exploration by a joint venture between North Broken Hill Ltd and Broken Hill South Ltd (now BHP) led to the discovery of the main deposit at Kanmantoo
- The project was subsequently mined from 1971-1976, when again, low copper prices forced the project into closure
- Hillgrove redeveloped the asset and restarted operations in 2011 before it again ceased production in 2020 due to the depletion of the open pit resource
- During its brief production period, the project delivered a total of ~137kt copper, achieving a record output of ~23kt in 2018, despite operational disruptions at the processing facility
- Following a final investment decision in mid-2023, mining recommenced, with the first shipment of concentrate from the new underground mine in June 2024
- This iteration of the Kanmantoo operation is the beneficiary of not only an uplift in copper price, but also significant drilling which has been conducted since 2020 which shows that the mineralisation extends at depth

With first large-scale mining from 1971-1976



This iteration will focus on lower throughput, at a higher feed grade

Historic and forecast production and feed grade



Source: Company announcements

Kanmantoo Project

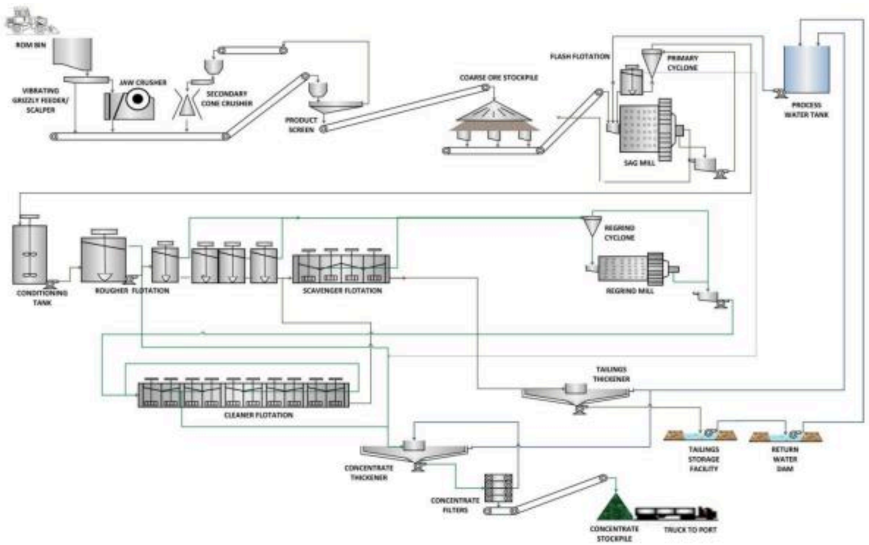
Asset background

Recent restart of legacy asset

- Following its initial life as an open pit mine, the Kanmantoo operation has recently restarted, now exploiting copper and gold ore from underground mining
- Underground mining will use traditional blind uphold and bench stoping methods, mined with a standard fleet of jumbos, production drilling rigs 20t class loaders and 45-60 tonne dump trucks
- The processing facility previously operated at a run rate of 3-3.2mtpa (and at a peak of 4.1 mtpa in 2015), with the plant designed to capitalise on lower ore grades supplied by the open pit
- A two-stage crushing process provides coarse ore to the comminution circuit delivering a primary grind size (P80) of approximately 212µm
- Metallurgy is well understood, given the large data set of historic processing and consistent orebody. Recoveries are expected to be ~92% for copper and 55% for gold. Both metals will report to a single concentrate
- Concentrate is secured to life-of-mine partner Freepoint Commodities LLC and typically grades 22-26% Cu, 1.5-3.0g/t Au and 30-60g/t Ag
- The product is trucked in containers to Port Adelaide where it is shipped approximately monthly
- The existing tailings storage facility (TSF) is permitted for an additional 7mt capacity, which would adequately cover the mineral inventory currently identified at the project. Extensions beyond this are technically possible but not currently permitted
- Power to site is supplied by state grid, with reticulation from the plant (pre-existing) extended to the portal for underground operations and ventilation
- Given the proximity to Adelaide, the workforce is largely residential

Kanmantoo is a fully operational +3mtpa Cu processing facility

With a traditional crush, grind, float and filter flowsheet



Source: Company reports

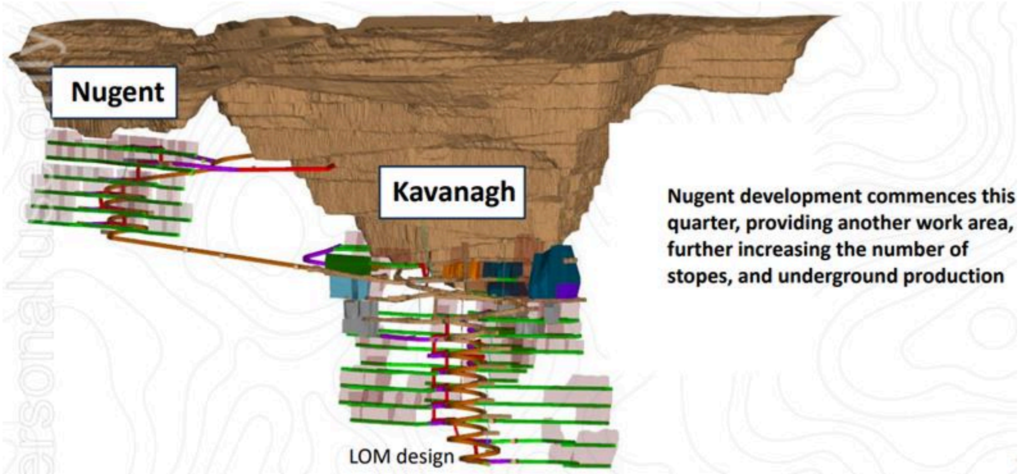
Key Production Assumptions

Re-start completed with early results demonstrating upside

Mining underway, progressing to steady state

- The processing plant at Kanmantoo will be operated well below its capacity at ~1mtpa (approx. 40%). This does have unit cost implications but is designed to match an optimal underground mining run rate and suggests there is abundant capacity for any additional ore sources
- Bulk mining (stoping) commenced in January 2024 with the first shipment of concentrate loaded out on 5 June 2024
- The June quarterly report outlined the first disclosure to express production and costs in a manner expected of a producer. The release showed incremental monthly improvement of rising throughput and grade as well as corresponding lower AISC to deliver a quarterly output of 2.6kt Cu (in conc) at A$3.46/lb Cu
- Moving forward, we expect to see normalization around the reporting of sustaining vs growth capital, although the obligation to publish the 5B cashflow statement ensures full transparency
- Conservatively, our assumptions expect a broad continuation of the June month exit rates, at just over one million tonnes throughput annually, along with a slight uplift in unit costs due to prior capital activities subsequently classed as operating
- The assumptions outlined in the table opposite consider consensus commodity prices, which at the time of writing are broadly in line with spot

Underground mining will exploit the Kavanagh and Nugent extensions



Net mine cashflow builds over the life of the existing 4-year outlook

		June month^ Actual (run rate)	Base case FY24*	FY25*	FY26*	FY27*
Ore milled	kt	1,080.0	776.0	1,040.0	1,040.0	1,040.0
Head grade	% Cu	1.22	1.10	1.20	1.20	1.20
Recovery	%	91.4	91.9	92.0	92.0	92.0
Copper produced	kt Cu	12.3	8.6	11.5	11.5	11.5
Mining cost	A$/t milled	33.6	36.8	38.0	38.0	38.0
Processing cost	A$/t milled	17.6	21.2	22.0	22.0	22.0
G&A	A$/t milled	4.8	5.0	5.0	5.0	5.0
Sustaining capital	A$m	^	19.1	24.0	22.0	12.0
AISC equivalent	A$/t Cu	3.26	4.73	4.34	4.26	3.88
Non-Sustaining capital	A$m	^	13.4	8.0	5.0	-
Net mine cashflow	A$m	^	22.3	49.8	54.2	76.1

Source: Company announcements, MA Research estimates. Notes: ^Assumes June 2024 run rate grossed up to 12 months, capital considered pre-production. *31 December year end

Near Mine Exploration Upside

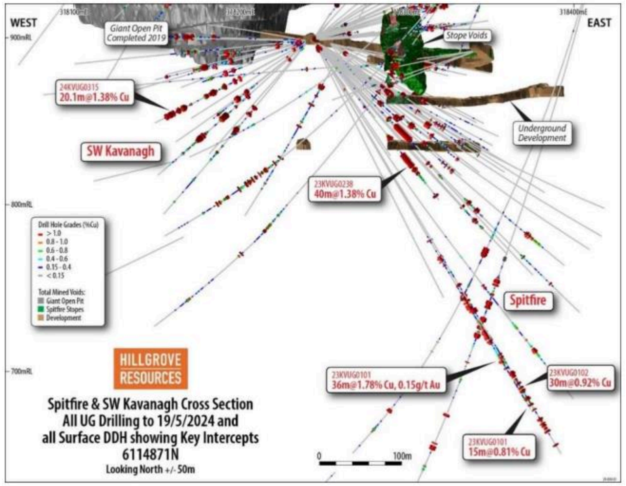
Significant exploration potential across the tenure

Despite modest activity, additional mineralisation has already been found

- Additional drilling within the mining lease has returned run-of-mine grade mineralisation. This material is not yet included in the existing resource and therefore presents potential for mine life extension (following drilling to confirm continuity, tenor and appropriate commercial outcomes). While these zones may appear small, the pre-existing investment and sunk capital in both the plant and underground development may allow low-cost, high-return extraction. These zones include:
  - Spitfire mineralisation has been intersected within 100m from existing planned development
    - 45.4m @ 1.19% Cu, 0.12 g/t Au from 428.5m downhole including:
      - 5.4m @ 2.13 % Cu, 0.11 g/t Au from 428.5m downhole, and
      - 23.9m @ 1.53 % Cu, 0.12 g/t Au from 444m downhole, including:
      - 6.6m @2.31% Cu, 0.23 g/t Au from 460.4m downhole
  - Drilling beneath the Emily Star open pit has demonstrated additional mineralisation at depth
    - 71.7m @ 0.89% Cu including:
      - 9.7m @ 1.29% Cu, 0.14 g/t Au from 135.6m downhole
      - 4.0m @ 2.9% Cu, 0.61 g/t Au from 159.3m downhole
      - 20.2m @ 1.7% Cu, 0.69 g/t Au from 178.8m downhole
    - 68.8m @ 0.9% Cu including:
      - 4.8m @ 1.39% Cu, 0.09 g/t Au from 169.5m downhole
      - 35.1m @1.29% Cu, 0.08 g/t Au from 192.2m downhole
- These areas of known mineralisation (along with others) underpin the existing Exploration Target (JORC 2012) for the mine lease at Kanmantoo of 60-100mt of mineralised material at 0.9-1.2% Cu and 0.1-0.2g/t Au down to a maximum depth of 600m

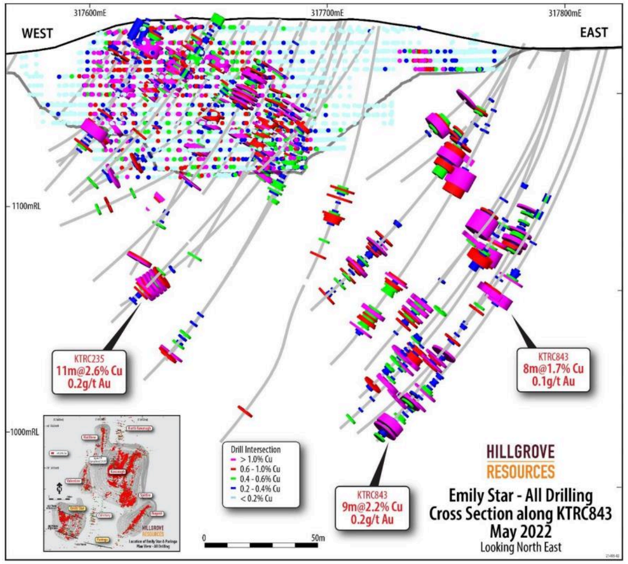
Mineralisation underground remains open beyond the current MRE at Spitfire

Section showing the Spitfire mineralised extensions at depth



…As does drilling beneath Emily Star

Cross section looking northeast



Source: Company announcements

Kanmantoo Deeps

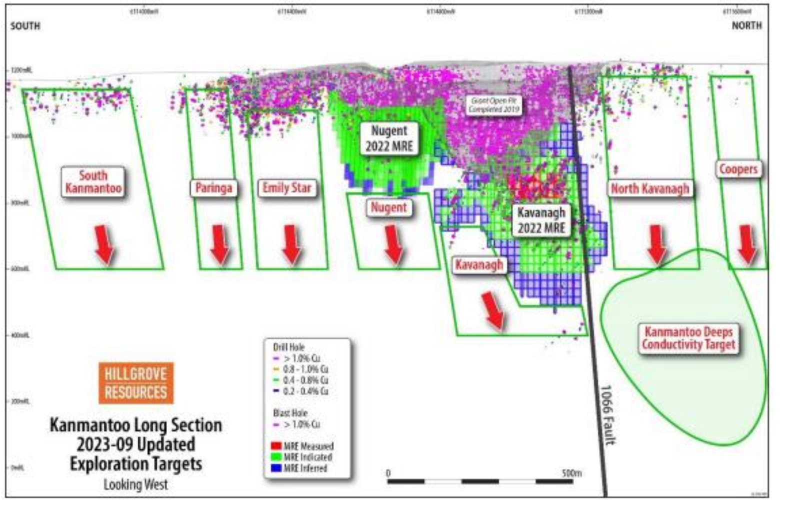
Potential for a bigger resource addition at depth

Potential to bolster mineral inventory

- Given the history of the project, very little exploration has taken place at significant depth. It is only recently that deep underground drilling and the potential for exploration from underground drill platforms has presented the opportunity for early-stage conceptual exploration
- Initial geophysical surveys have outlined targets well beyond the current mineralised envelope
- 3D magnetotellurics suggest a coincident gravity, magnetic and conductivity target approximately 400m along strike from the known mineralisation
- The response of these surveys is consistent with the chalcopyrite/pyrrhotite rich mineralisation observed elsewhere throughout the Kanmantoo project and indicated a target approximately 1.0km long
- Given the mine is now back in operation, there is likely to be an allocation of capital towards initial testing of this target

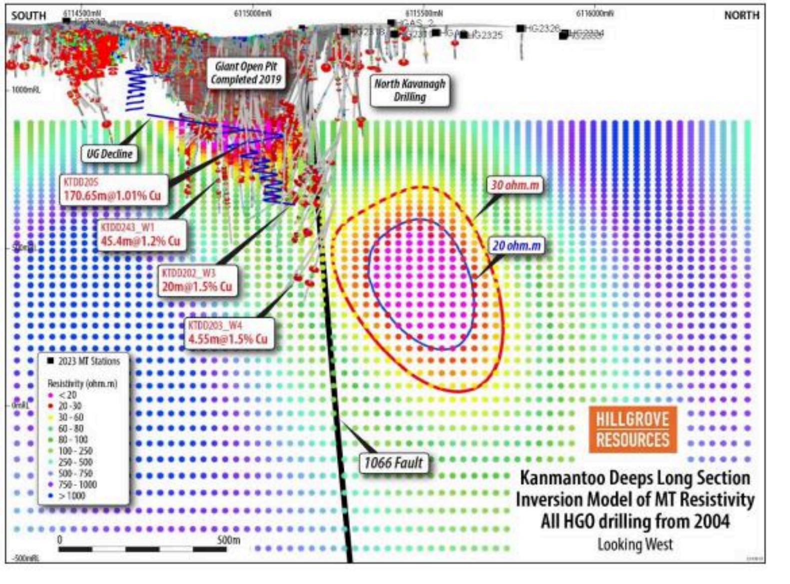
Most mineralisation at Kanmantoo remains open at depth

Long section looking west showing existing drilling and workings. Note: scale



While Kanmantoo Deeps presents a compelling drill target

Long section looking west showing resistivity target. Note: scale



Source: Company announcements

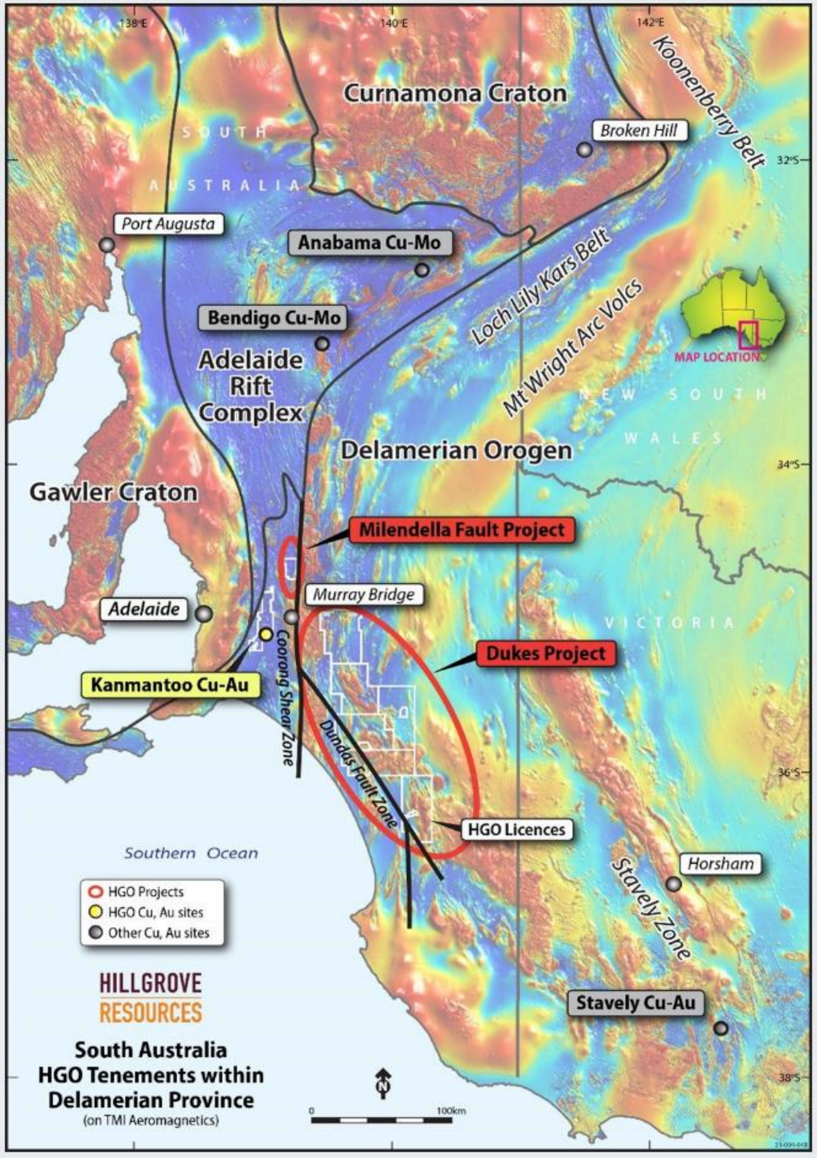
Regional Prospects

Significant landholding throughout South Australia

Beyond Kanmantoo, the company has numerous additional prospects

- HGO holds a significant tenement package throughout South Australia totalling in excess of 6000 sq km
- Although activity in the last few years has been limited (from an expenditure perspective), the ground hosts geology prospective for additional copper and gold deposits
  - Closest to the mine at Kanmantoo, Stella and North West Kanmantoo are priority targets within a 5km radius of the existing mine
  - The Milendella Fault Project is approximately 50km northeast of Kanmantoo and comprises 115sq km of tenure with historic workings and coincident IP, magnetic and geochemical anomalies
  - The Dukes Project consists of over 5000 sq km of tenements 50-200km southeast of Kanmantoo. This ground is thought prospective for copper, with initial confirmation of mineralisation in the Sherlock sub-basin and further pathfinder trace base metal and metamorphic geological signatures. The geology is comparable to the sedimentary hosted Winu (Rio Tinto) discovering the Paterson Province in WA

HGO's has extensive holdings in the eastern part of SA



Source: Company announcements

Optionality

Despite a short mine life, current standing sets up asymmetric investment opportunity

Exploring the options demonstrates more upside than downside

The restart of Kanmantoo utilising the pre-existing infrastructure has removed many of the legacy funding complications that other “new” projects contend with. As a result, with an unencumbered balance sheet, any incremental cashflow can fund further upside options:

- Changing prices and/or operating costs could enable the cut-off grade to be lowered, which would bring more of the existing inventory into the mine plan (albeit at slightly higher unit costs). The current resource outlines ~7mt @ 1.1% Cu at ~0.6% cut-off. At a 0.5% cut-off, the economic component could increase to ~9mt @ 0.9% Cu. Our base case assumes only ~4mt of ore is processed
  - **The addition of 2 years processing, at 0.9% Cu could add a further 1c (13%) to our valuation**
- A more significant addition to the resource through discovery (there is a significant amount of drilling which has not yet been incorporated), conversion of the Exploration Target or upgrade of Spitfire/Emily Star are all (in our view) possible
  - **The addition of 2 years processing at 1.1% (in line with current output) could add a further 2c to our base case valuation (25%)**
- While we assume ‘consensus’ copper prices, the medium-term outlook remains constructive. For illustration purposes, **realised copper prices of US$5.00/lb could derive ~2c (25%) upside on our base case valuation**
- Our base case valuation (0.08c/share) assumes mine life out to the end of December 2027, at which time HGO would enjoy a net cash position of ~$210m
- From a downside perspective, we consider the following possible scenarios
  - Operating costs 10% higher than our already conservative forecast: ~1c/share negative valuation impact
  - Copper price 10% lower than our base case: ~2c/share downgrade in valuation
  - **These two elements combined imply a valuation of ~5.0c/share – which is approximately where the stock is trading now**

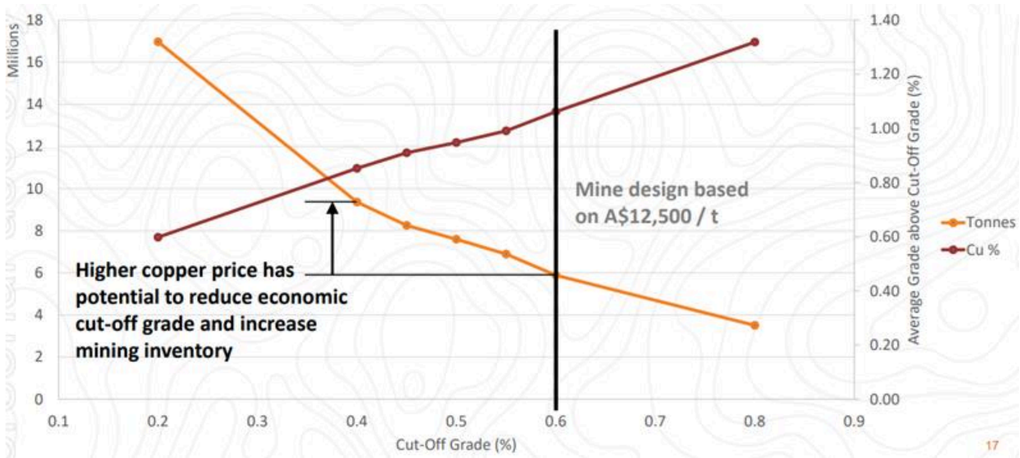
Under a range of scenarios, the current price suggests a floor

Potential upside/downside outcomes

	Base case Ac/share	Individual impact Ac/share	Cumulative impact Ac/share
Bull case			13.0
Copper @ US$5/lb		2.0	
2 year life extension - new discovery		2.0	
2 year life extension (lower cutoff)		1.0	
Base case	8.0		
Opex 10% higher		-1.0	
Copper price 10% lower		-2.0	
Bear case			5.0

Improved operating efficiency would unlock additional inventory

Grade tonnage curve of the current Kanmantoo resource



Source: Company announcements, FactSet, MA Research Estimates

Valuation

We see significant upside to current trading levels

We utilise a consistent approach to our peer group

- In determining the valuation for HGO, we have built out production to December 2027 in line with existing disclosure. In addition,
  - We have assumed a modest uplift in operating costs from those outlined in the initial quarterly report (June 2024) following the restart. This should present a reasonably conservative position following the change of management and what we consider to be an increased focus on operational delivery
  - We expect FY25 to mark peak capital for the operation. With a short mine life, there is little requirement for significant ongoing capital investment. Clearly if mine life can be extended, we would expect a continuation of investment around FY25 levels
  - Given the significant quantum of available tax losses, we do not assume HGO would pay any cash tax under our base case scenario
  - We do not assume any mine life extension beyond the current stated tenure but do include $20m in exploration upside given the optionality of the existing mineral resource which is not consumed in over the next 3.5-4 years. We would expect to see some of this optionality materialise into our base case forecast with the advent of the next resource update (expected in October)
  - Our P/Adj. CF multiple of 2.5x is the lowest of our producing peer group and is reflective of the relatively short mine life (4 years)
  - Our discount rate (11%) is also elevated in comparison to peers to reflect the higher risk profile of HGO

We utilise a consistent NAV and P/Adj. CF multiple valuation approach

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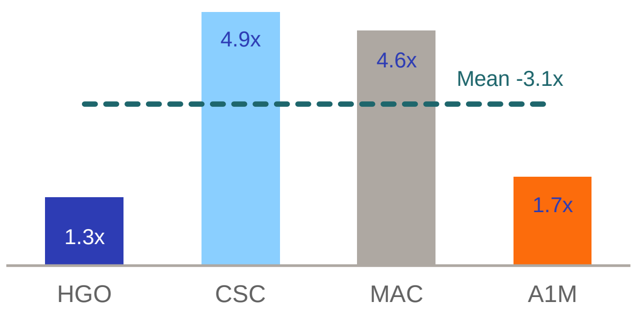
Source: FACTSET, MA Research Estimates

Peer analysis – Financial Comparables

Domestic investors have a growing suite of options

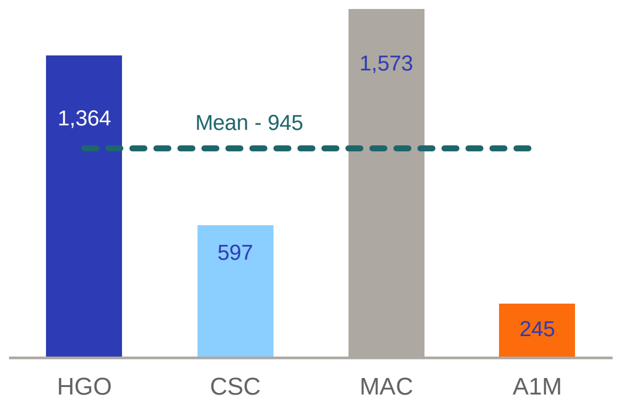
EV/EBITDA reflects mine life…

EV / FY25 EBIDTA (x)



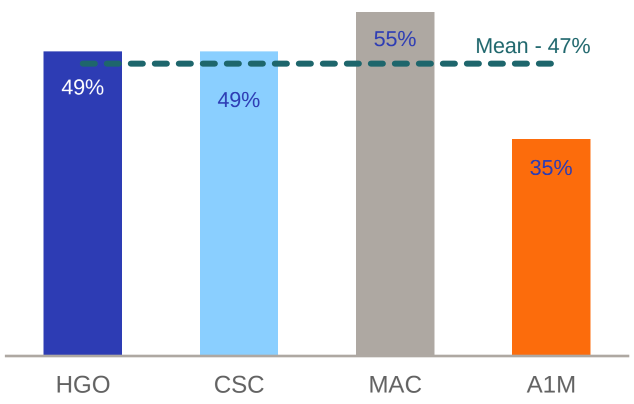
…CSC and A1M screen best on EV/resource…

EV / Resource ($/t Cu)



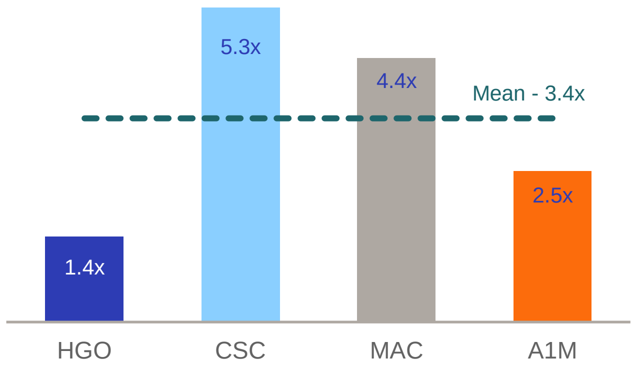
…While HGO's margins are competitive with peers

FY25 EBITDA Margin (%)



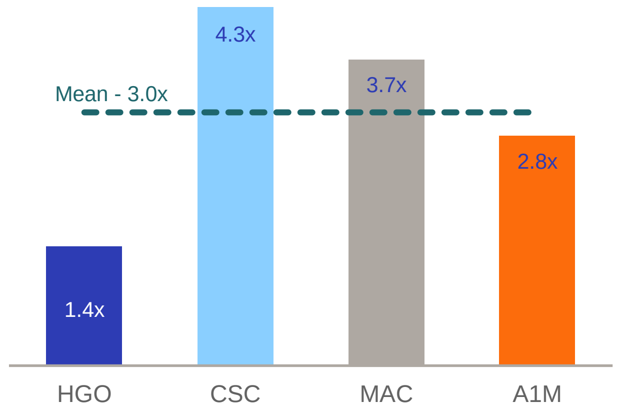
HGO holds significant operating cash potential...

P / FY25 Op Cf (x)



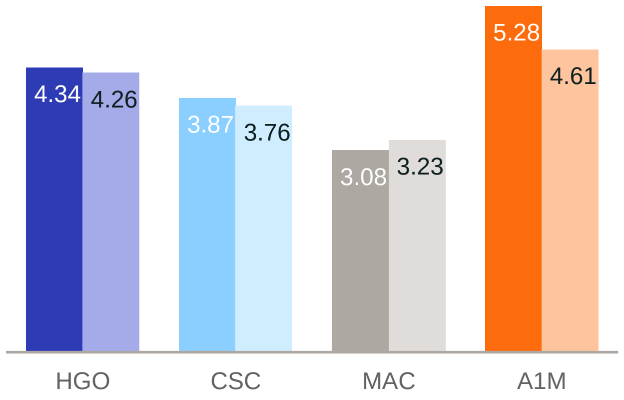
…As well as earnings potential…

Price/ FY25 Earnings (x)



…Driven by competitive costs

AISC (A$/lb), left bar = FY25, right bar = FY26



Source: FACTSET, MA Research estimates, FY25e financials
Note: 31 December year end for HGO, CSC and MAC

Valuation sensitivities

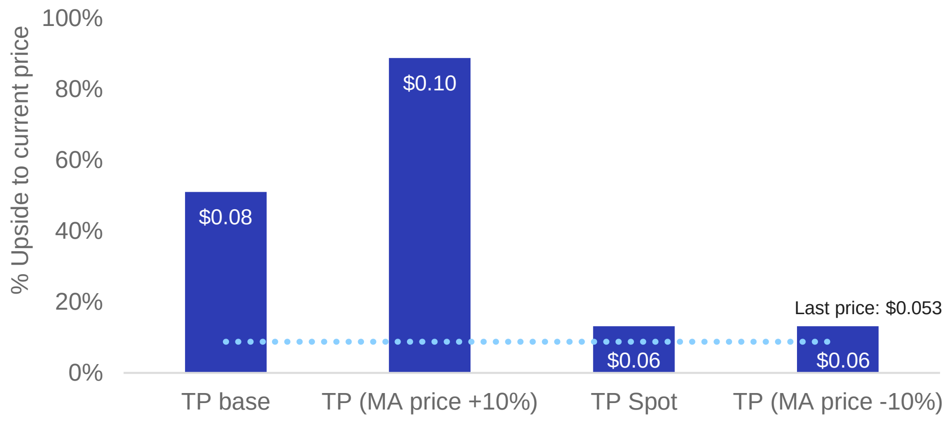
We employ sensitivity analysis to HGO and copper peers in our coverage universe

Valuation snapshot

- Spot prices are currently below our medium-term forecasts. However, HGO, with a shorter mine life compared to its copper peers under our coverage, is less sensitive to the gap between current spot prices and our long-term projections, while A1M, MAC and CSC are more impacted given the 10+ year mine lives
- Furthermore, HGO's competitive C1 costs position the company to benefit from upside in copper prices, while hedging offers some downside protection (as illustrated in the chart opposite)

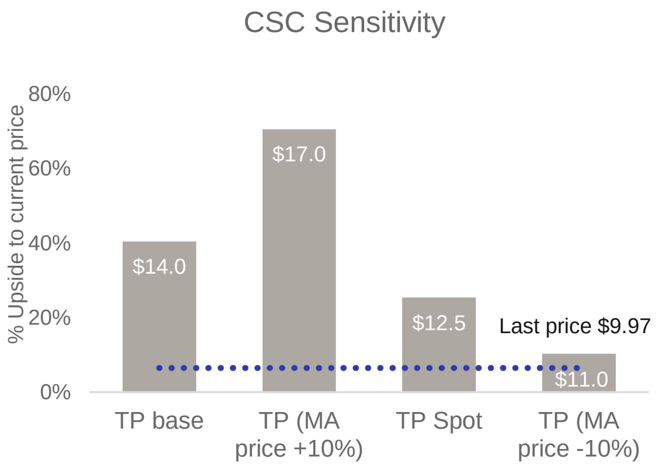
Valuation sensitivity to HGO target price

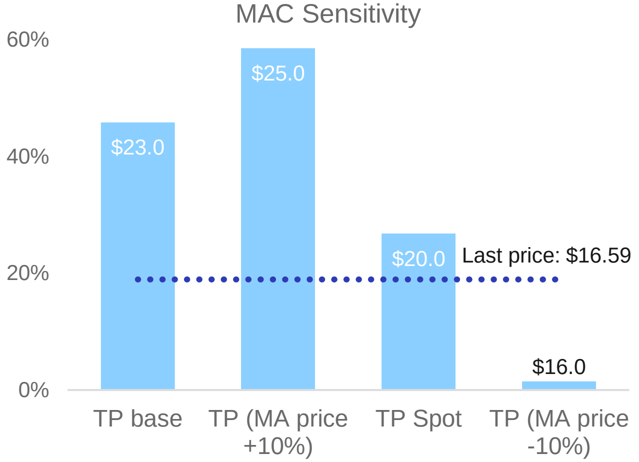
Sensitivity to price target under various copper price scenarios

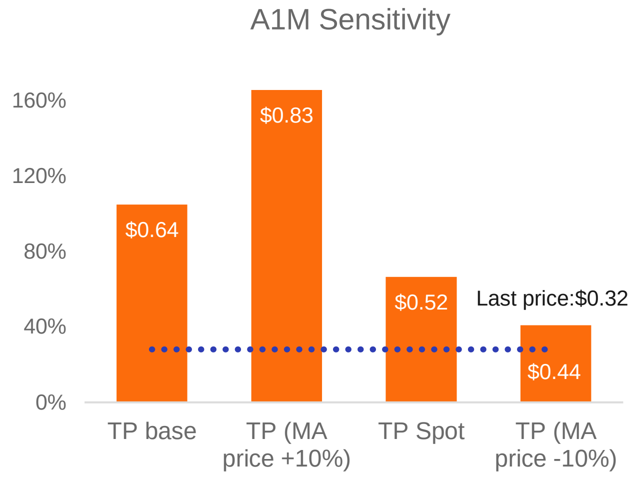


Valuation sensitivity to target price of MA copper coverage

Sensitivity to price target under various copper price scenarios







Source: Company announcements, FactSet, MA Research Estimates

02

Copper the consensus metal

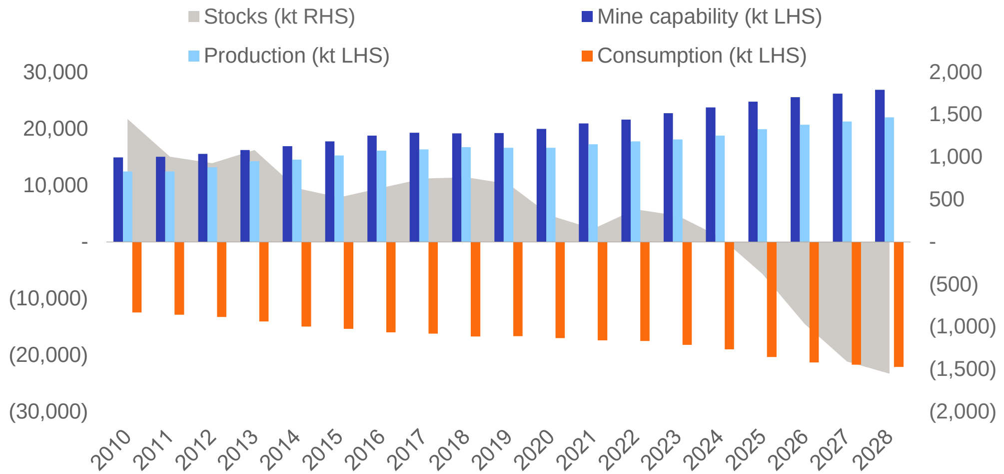
Everybody's favourite commodity short on supply with growing demand

The most fundamental metal

- Copper's unique properties of high electrical and heat conductivity set it apart from the other common elements on the periodic table
- Long the hallmark consumable of developed economies (as opposed to steel and coal for developing economies), copper is expected to continue its demand growth trajectory with additional metal a fundamental requirement for decarbonisation given the expected reliance on energy storage and transmission as a replacement for traditional fossil fuels:
  - Of the current estimated demand of 26.6mt (2023), Wood Mackenzie expect demand for copper directly used in electric vehicles (EV) and energy storage to more than treble from its current ~2.2mt to 6.7mt within 10 years
  - Following published guidance for 2024 from a range of significant international producers (Anglo American, First Quantum), the copper market is expected to at best remain balanced in 2024, before trending to a sustained (*at least theoretically*) deficit for 2025 and beyond
- Obviously while the market can remain in surplus (resulting in ever lower prices), the inverse is impossible with necessary reductions to demand (either through a slower rate of growth and/or substitution) or increases in supply required. In the case of copper, a reduction in demand would likely arise if the pace of decarbonisation and/or global growth slows, while an increase in supply will require higher prices to incentivise investment in new projects or greater margin on existing brownfield options
- The underlying demand growth for copper (ex EV/storage) is expected to grow as a function of global industrial production (IP), which remains reliant on growth in China as a primary mechanism of consumption. Copper, like many other commodities, is therefore also exposed to ongoing efforts to maintain economic momentum in the middle kingdom
- Copper discoveries continue to disappoint, forcing a reliance on mature assets to provide metal, which in turn require higher prices to remain profitable. As a result, operating costs have continued to trend higher over the last 20 years as a function of declining grades
- Meaningful new supply likely from:
  - Chile and Peru: major incumbent producers; and
  - Democratic Republic of Congo, Mongolia, Indonesia

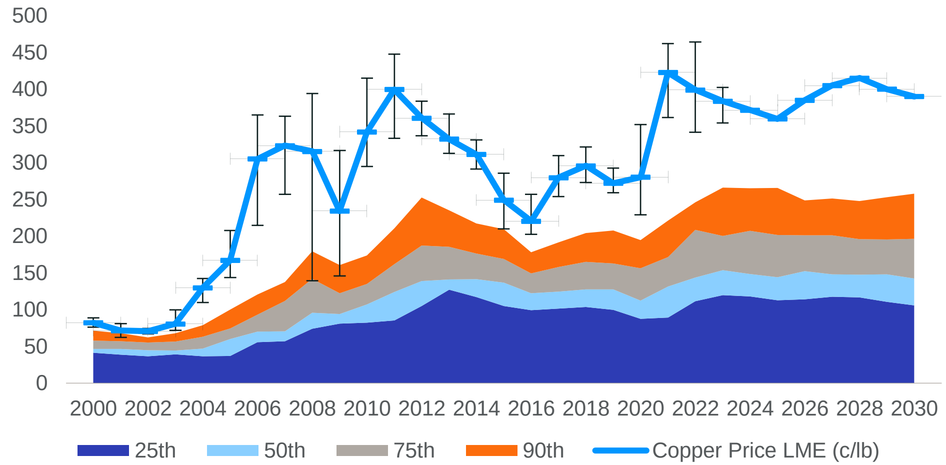
Without new mines, supply is set to decline, while demand continues to grow

Copper supply and demand balance



Declining grades lead to increasing costs

C1 Direct Cash Costs (c/lb Paid Cu)



Source: S&P Global (top), Wood Mackenzie (bottom)

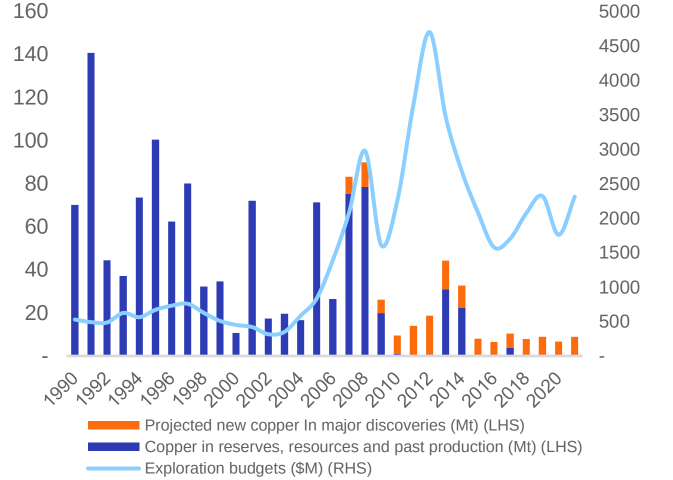
Near-term surpluses give way to long term deficits

MA

Aging legacy deposits + lack of exploration success x growing demand = future deficit + higher prices

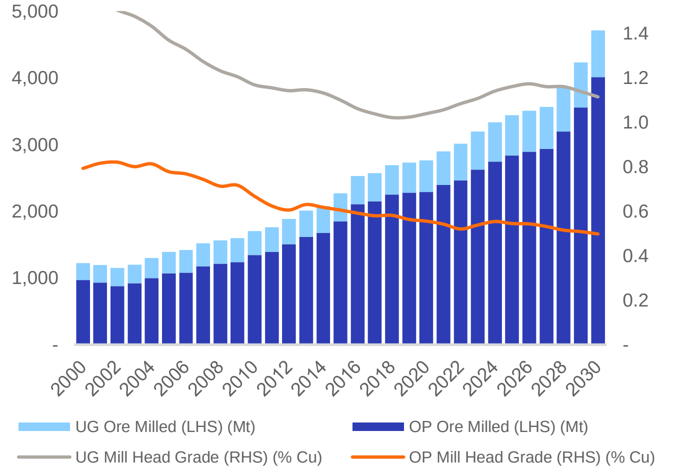
We're not finding enough new copper deposits…

Contained metal in major copper discoveries (Mt)



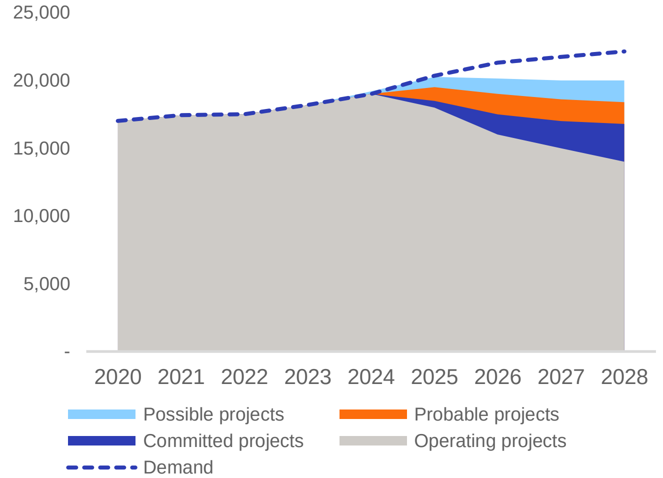
…leading to a heavier reliance on existing assets…

Average grades and throughput offsetting lack of new projects



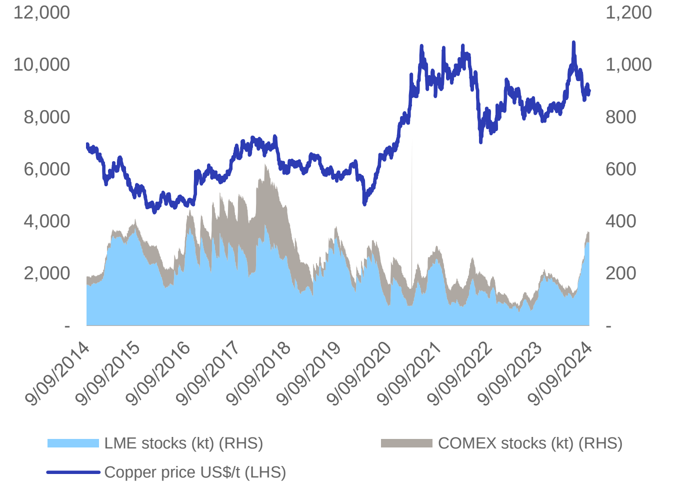
...resulting in a structural deficit in the medium term

Global copper market balance (Mt)



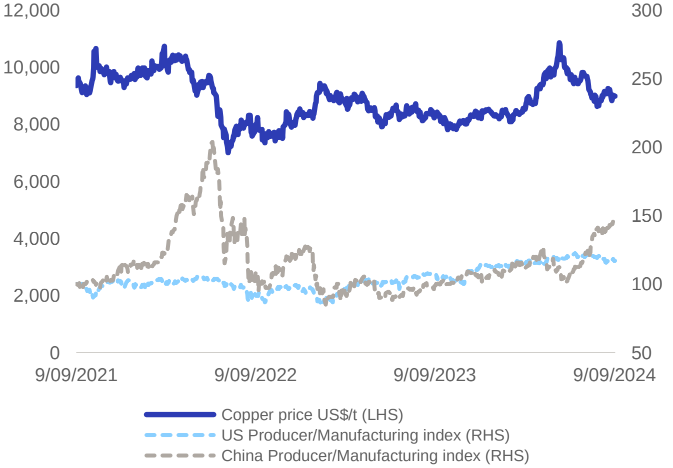
Copper warehouse stocks have been in decline…

Copper price and LME, COMEX warehouse stock levels



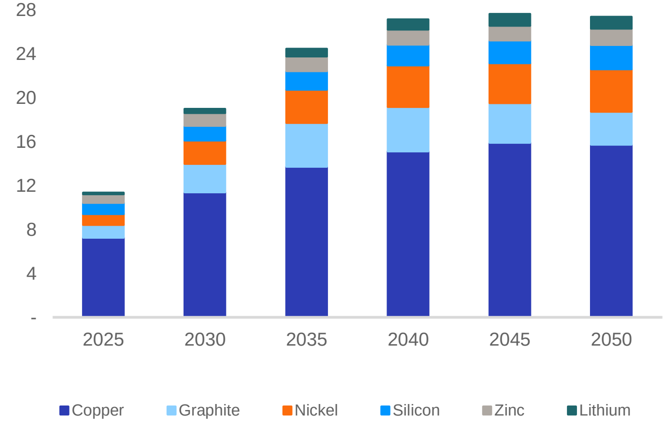
… still, copper remains essential in the short-term...

Copper price and manufacturing indices



…while decarbonisation drives long-term demand

Mineral demand for clean technologies (Mt)



Source: Top left: S&P Global, Top Middle: Wood Mackenzie, Top right: S&P Global, Bottom left: FactSet, Bottom Middle: FactSet, Bottom right: International Energy Agency, MA Research

MA commodity price assumptions

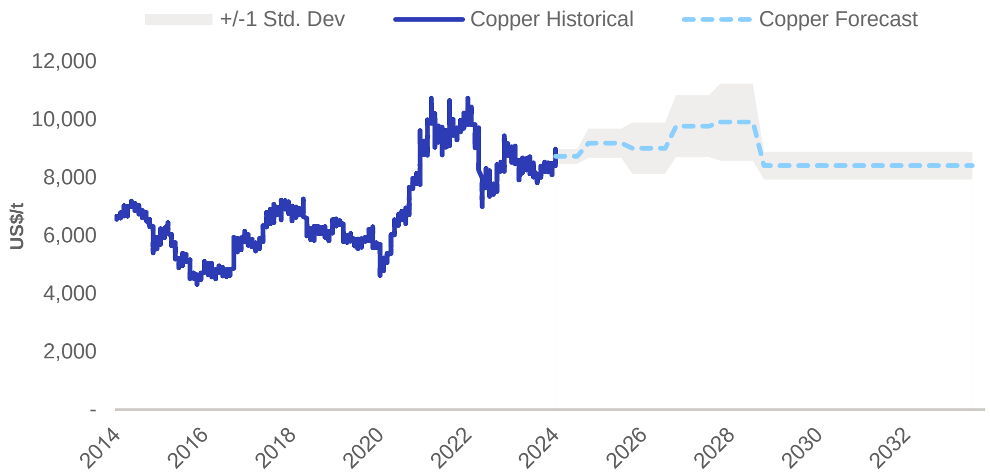
We take a consensus approach to commodity prices

Spot prices have lagged consensus as of recent

- While spot copper prices have moderated slightly from their recent highs in May, they still remain above historical averages, led largely by material supply constraints
- Market consensus suggests a positive outlook for copper fundamentals. Specifically, growing consumption in areas like power grid infrastructure, data centers and clean energy power generation is anticipated to counterbalance the reduced demand from sectors such as residential construction and manufacturing
- Historically low copper inventory levels present a persistent upside risk for prices over our forecast period, with potential for further inventory depletion if demand strengthens in the coming quarters
- Further moderation in inflation, especially in the US, could stimulate manufacturing activity and, consequently, keep copper prices buoyant in the short-to-medium term

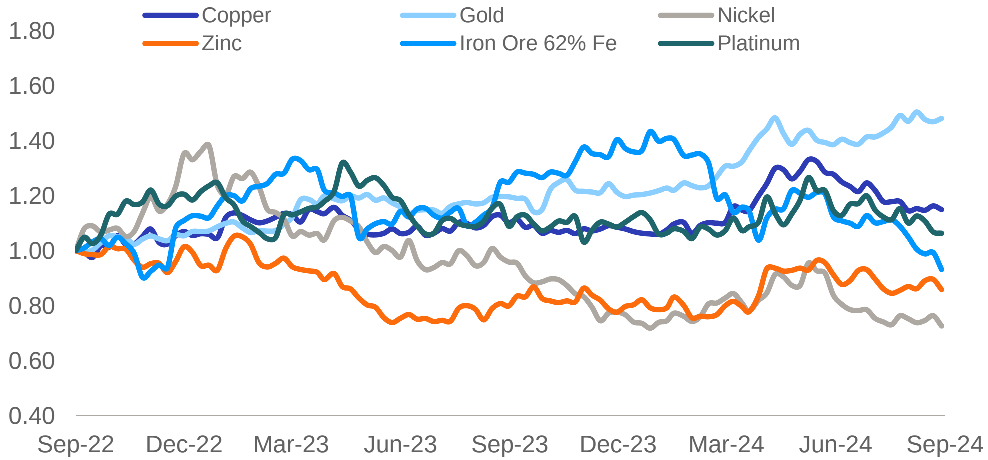
Historical and forecast copper price

$US/tonne



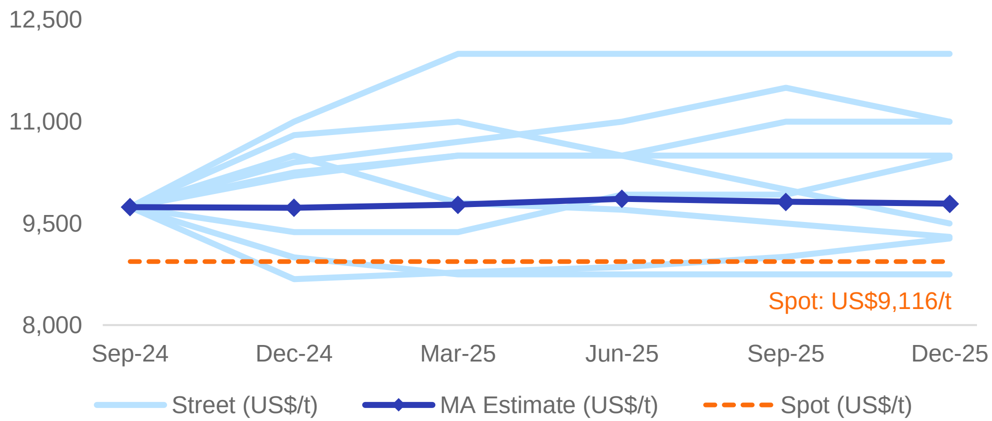
Copper's relative 2-year performance

Index=1, September 2022



MA Copper forecast vs the street

$US/tonne



Source: FACTSET, MA Research Estimates, prices as at 13 September 2024

MA

03

Estimates

Assumptions and cashflow

Assumptions

- We take a consensus approach to macro input assumptions (FX and commodity price), which generally assume higher near-term copper and gold prices, before a mean reversion from 2028-2029 towards long term averages of US$3.97/lb Cu and US$1758/oz Au respectively
- At the time of writing, spot copper price is trading approximately in line with our FY24 forecasts, although short term sentiment is potentially skewed to the downside
- Fundamentally, the copper price is anticipated to rise over the coming years, as ongoing demand growth is unable to be met by declining global supply
- We assume Kanmantoo is already operating around steady state after a rapid re-start. The uptick in production in CY25 is a function of a full 12 months' operations
- Given the current (short) mine life, we anticipate capital to gradually roll off. Obviously, in the event that mine life extensions can be discovered, we would expect to see sustained capital around the CY25 run rate

KEY ASSUMPTIONS		2023A	2024E	2025E	2026E
FX	A$/U$	0.65	0.66	0.66	0.66
Copper	US$/lb	3.85	4.27	4.43	4.41
Kanmantoo					
Production	Kt Cu	-	8.6	11.5	11.5
Guidance	*Kt Cu*	-	-	-	-
AISC	A$/lb	-	4.73	4.34	4.26
Guidance	*A$/lb*	-	-	-	-

Cashflow

- After investing during CY23 and early CY24, the restart of the operation should see positive operating cashflow and reducing investing cashflow looking ahead
- The company is well funded for steady state operations but could arguably benefit from additional capital to accelerate near-mine exploration programs
- Following the equity raise in CY23 to fund the project restart, the company remains debt free, with equipment leases the only material finance expense
- HGO benefits from approximately A$250m of carry forward tax losses which should provide a significant shield against future cash tax payments

CASHFLOW	2022A	2023A	2024E	2025E	2026E
EBITDA	(4.5)	(14.7)	35.8	77.8	77.2
Interest received	0.0	0.8	0.2	0.9	2.1
Interest paid	-	-	(0.8)	(1.0)	(0.3)
Net interest	0.0	0.8	(0.6)	(0.1)	1.8
Tax	-	-	-	-	-
Δ WC	-	-	-	-	-
Other	(1.3)	5.2	(5.2)	-	-
CFO	**(5.7)**	**(8.8)**	**30.0**	**77.8**	**78.9**
Growth	-	*(54%)*	*442%*	*159%*	*1%*
Capex (incl Expl'n)	(7.9)	(22.5)	(29.6)	(34.0)	(27.0)
Acquisitions	-	-	-	-	-
Divestments	-	0.1	0.2	-	-
Other	2.3	-	-	-	-
CFI	**(5.6)**	**(22.5)**	**(29.4)**	**(34.0)**	**(27.0)**
Equity Raised	(0.0)	36.8	9.7	-	-
Dividends Paid	-	-	-	-	-
Net Borrowings	5.9	-	-	-	-
Other	-	(0.7)	(4.4)	(5.2)	(5.2)
CFF	**5.8**	**36.2**	**5.3**	**(5.2)**	**(5.2)**
FX / Non Cash	-	-	-	-	-
Δ Cash	**(5.4)**	**4.9**	**5.9**	**38.6**	**46.7**
FCF	**(11.3)**	**(31.2)**	**0.7**	**43.8**	**51.9**
Growth	-	*(177%)*	*102%*	*6423%*	*19%*

Source: ASX Company Announcements, MA Research

Estimates cont'd

MA

Earnings and Balance Sheet

Earnings

- We expect to see a material earnings turnaround looking into CY24/25 as the operation has now been restarted from the prior period of care and maintenance
- With steady state production around 11-12kt Cu, the primary driver of revenue is changes in our copper price forecast. Costs are also expected to remain broadly consistent given steady annual mining and processing rates
- With a modest mine life, D&A expenses are elevated, although we would expect any resource extensions to allow low capex development and therefore result in a net reduction in amortization unit rates (per tonne of copper)

Balance Sheet

- The funding to restart Kanmantoo has resulted in a relatively clean balance sheet
- We would expect cash to accumulate in line with operating margins
- The only other liabilities we model are operating leases in line with the mobile fleet (classified as 'ST debt' and 'LT debt' in the financial presented adjacent)
- HGO also has franking credits available however, pathway to return these to investors is unclear

PROFIT & LOSS	2022A	2023A	2024E	2025E	2026E
Revenue	**-**	**-**	**108.8**	**159.9**	**159.2**
Growth	*-*	*-*	*-*	*47%*	*(0%)*
EBITDA	**(4.5)**	**(14.7)**	**35.8**	**77.8**	**77.2**
Growth	*-*	*(229%)*	*343%*	*117%*	*(1%)*
Dep'n & Amort.	(0.1)	(0.7)	(27.1)	(39.0)	(39.0)
EBIT	**(4.5)**	**(15.5)**	**8.8**	**38.8**	**38.1**
Growth	*-*	*(241%)*	*157%*	*342%*	*(2%)*
Net Interest	(1.4)	(0.2)	(1.8)	(0.1)	1.8
PBT	**(6.0)**	**(15.7)**	**7.0**	**38.7**	**39.9**
Tax	(0.0)	(0.7)	(3.2)	(11.6)	(12.0)
Rate (%)	*(0%)*	*(4%)*	*46%*	*30%*	*30%*
Minorities	-	-	-	-	-
NPAT (U)	**(6.0)**	**(16.3)**	**3.8**	**27.1**	**27.9**
Growth	*-*	*(173%)*	*123%*	*615%*	*3%*
One-Off Items	-	-	(1.0)	-	-
NPAT (R)	**(6.0)**	**(16.3)**	**2.7**	**27.1**	**27.9**
EPS Diluted (U)	**(0.5)**	**(1.0)**	**0.2**	**1.3**	**1.3**
Growth	*-*	*(90%)*	*119%*	*615%*	*3%*

BALANCE SHEET	2022A	2023A	2024E	2025E	2026E
Cash	5.3	10.2	16.2	54.7	101.5
Inventory	0.4	3.1	6.8	6.8	6.8
Cur. Receivable	0.9	1.5	4.2	4.2	4.2
PPE	44.8	74.4	87.7	82.7	70.6
Intangibles	1.5	-	-	-	-
Other	-	11.8	13.0	13.0	13.0
Total Assets	**52.9**	**101.1**	**127.9**	**161.4**	**196.1**
Cur. Payable	0.7	13.7	24.2	24.2	24.2
ST Debt	-	4.3	5.2	5.2	0.7
LT Debt	-	7.5	5.9	0.7	-
Provisions	9.8	9.6	13.1	24.7	36.7
Other	9.9	11.1	11.7	11.7	11.7
Total Liabilities	**20.3**	**46.2**	**60.2**	**66.6**	**73.3**
Net Assets	**32.6**	**54.9**	**67.7**	**94.8**	**122.7**
Equity & Reserves	285.5	324.1	334.2	334.2	334.2
Retained Profits	(252.9)	(269.2)	(266.5)	(239.4)	(211.5)
SH Equity	**32.6**	**54.9**	**67.7**	**94.8**	**122.7**
Minorities	-	-	-	-	-
Total Equity	**32.6**	**54.9**	**67.7**	**94.8**	**122.7**

Source: ASX Company Announcements, MA Research

MA

04

Key Risks and Opportunities

Growing mineral inventory and therefore, mine life, remains key for Hillgrove

Potential Risks

Near-term

- Delivery is key. HGO has only recently recommenced mining at Kanmantoo and will remain acutely focused on cash management as it builds additional cash to cover working capital requirements
- In the short term, copper price will be a key element in determining cash and earnings outcomes. The hedge book (~10kt @ A$14.4k/t) will help mitigate fluctuations
- Given the modest mine life currently outlined by resources, there is a small window to increase inventory before “the end” starts to loom large in the mind of investors

Medium-term

- Sentiment towards copper is likely to play a key role in determining both HGO’s organic cashflow as well as access to capital which may be required to continue to extend the mine life at Kanmantoo and potentially explore inorganic opportunities
- As with the near-term, it is important that HGO can extend mineral inventory either through the extension of known shoots or discovery of new ones (for example Kanmantoo Deeps)

Long-term

- As with all projects, commodity price provides the primary driver of long-term success (or otherwise) – although in this instance, modest mine life diminishes the materiality of risks beyond a 4-5 year window

Ongoing Upside Opportunities

Near-term

- There is significant exploration upside in the near-term. Given the immediate access to underground infrastructure and the nature of the operation (with excess installed milling capacity), any resource additions could reasonably be monetised almost immediately

Medium-term

- Implementing modern exploration tools such as downhole geophysics and surface electrical geophysics in previously operated areas has the potential to uncover further copper mineralisation across the landholding
- Continued support for copper may allow a greater access to capital which can in turn fund a more aggressive exploration effort proximal to Kanmantoo
- Significant leverage to both copper and potential additions to mine life, along with copper price upside could enable the current asset to be used as a platform for more corporate inorganic growth

Long-term

- HGO had previously signed an agreement to explore a pumped hydro solution at Kanmantoo and while the prior iteration was cancelled given the underground restart, we expect the demands for renewable energy within the state will be valid at the conclusion of mining operations. The previous agreement allowed for the purchase of the land post mining, which would assist in mitigating any significant rehabilitation obligations

Source: MA Research

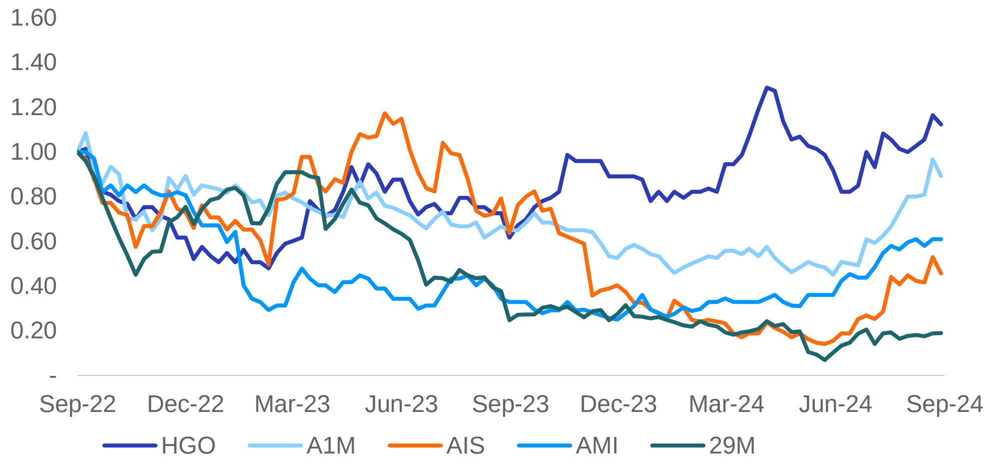
Investment peer group

Small cap base metal plays have been challenging…

- Of the domestic companies we consider peers alongside HGO, all have seen volatility in share price
- In part, this is the result of modest production with a mostly fixed cost base and insufficient balance sheet strength to weather fluctuations in price or operating outcomes. It is also a reflection of limited mine life
- AIC Mines (A1M - covered – our latest note here) is a relative newcomer to the domestic producer peer group, having purchased its flagship Eloise mine in 2021. The company has since focused shoring up its mineral inventory and expanding its asset base through the development of Jericho
- Aeris (AIS) has a mixed production output with copper from its Tritton asset as well as gold from Cracow. Recent balance sheet stress has seen the stock trade materially lower
- Aurelia (AMI) has endured a difficult few years following on from a leveraged balance sheet, however, the stock has experienced somewhat of a turnaround driven by improvements in operational performance, cost management and the sanction of Federation
- 29 Metals (29M) is arguably more exposed to zinc but has also experienced balance sheet strain in conjunction with operational challenges at its Capricorn Copper Mine in Queensland

With the last few years proving a difficult operating environment

2 yr. return (Sept 2022 = 1)



While other juniors have large projects, but significant capital hurdles

- Hot Chili (HCH): own a very large resource in Chile which has been subject of a PEA outlining ~100kt Cu production for 16 years – albeit after US$1b capital commitment to construct the project
- Caravel Minerals (CVV): If developed, this project in Western Australia will produce +60kt of copper for +25 years, but first needs to fund a capital program of ~A$1.7b
- Carnaby Resources (CNB): has discovered resources at its Duchess Project which have potential to be extracted and processed at the nearby Mt Isa Copper concentrator in partnership with Glencore
- Havilah resources (HAV): is currently developing the resource at its 100% owned Mutooroo copper-cobalt-gold deposit in South Australia, with economic studies to come in CY25
- New World Resources' (NWC) Antler and Javelin VMS deposits in Arizona could support a project yielding at least 16kt Cu (35kt Cu Eq with other metal credits) annually

Peer Group Comps

Ticker	Company	A$ Mcap	A$ Price	Cu T Production NTM	A$ EV	A$ NTM EBITDA	A$ EV/EBITDA
AMI	Aurelia Metals Limited	271	0.17	3.0	160	93	1.7
29M	29metals Ltd.	249	0.38	24.3	382	141	2.7
A1M	AIC Mines Limited	181	0.32	12.0*	115*	66*	1.7*
AIS	Aeris Resources Limited	160	0.17	30.0	178	146	1.2
HGO	Hillgrove Resources Limited	107	0.05	11.5*	104*	68*	1.5*
HCH	Hot Chili Limited	119	0.80	-	125	-	-
CVV	Caravel Minerals Limited	84	0.16	-	73	-	-
CNB	Carnaby Resources Ltd.	70	0.39	-	52	-	-
HAV	Havilah Resources Limited	57	0.18	-	54	-	-
NWC	New World Resources Limited	54	0.02	-	46	-	-

Source: Company reports, ASX Company releases, FACTSET. Prices as at 13 September 2024
* Denotes MA Research Estimates

Investment peer group cont.

Ticker	Company	Rating	Price Target A$/share	Last Price A$/share	Return Potential	Mkt Cap A$m	Net Debt A$m	EV A$m	EV/EBITDA FY1	EV/EBITDA FY2	P/E FY1	P/E FY2	Sales Growth FY1	Sales Growth FY2	EBITDA Margin FY1	P/NAV
MA Research Copper Coverage																
CSC	Capstone Copper Corp CDI	BUY	14.00	9.97	40%	7,519	1,136	8,654	4.9x	4.4x	8.5x	7.3x	34.2%	45.2%	49%	0.75x
MAC	Metals Acquisition Corp CDI	BUY	23.00	16.59	39%	1,229	308	1,537	4.6x	4.2x	7.7x	6.8x	8.2%	20.4%	55%	0.71x
FFM	FireFly Metals Ltd	BUY	1.15	0.94	22%	340	(38)	302	-	-	-	-	-	-	-	0.82x
A1M	AIC Mines Limited	BUY	0.64	0.32	100%	183	(68)	115	1.7x	1.3x	8.6x	5.9x	6.1%	25.1%	35%	0.44x
HGO	Hillgrove Resources Limited	BUY	0.08	0.053	51%	111	(7)	103.6	1.3x	1.3x	4.1x	4.0x	47.0%	46.3%	49%	0.60x
Broader Copper Peers																
SFR*	Sandfire Resources Ltd	-	-	8.94	-	4,067	598	4,664	5.3x	4.8x	15.7x	12.3x	33.1%	40.7%	48%	1.05x
AMI*	Aurelia Metals Limited	-	-	0.17	-	271	(109)	162	1.8x	1.6x	-12.2x	-10.0x	1.5%	5.2%	29%	0.69x
AIS*	Aeris Resources Limited	-	-	0.17	-	160	37	196	1.3x	1.6x	3.5x	10.2x	6.3%	-9.3%	26%	0.47x
29M*	29metals Ltd	-	-	0.38	-	249	109	359	6.3x	2.0x	-3.0x	97.0x	20.4%	35.3%	11%	0.90x

** Factset consensus estimates*

Source: Company reports, ASX Company releases, FACTSET. Prices as 13 September 2024

Corporate Snapshot

Share Price vs Small Cap Resources

Share Price 2Y (A$/sh)

Capital Structure

As of 13 September 2024

Share price	$/sh	0.053
Market cap	$m	110
Cash	$m	7.4
Debt	$m	-
Enterprise value	**$m**	**102.6**

Event Calendar

Date	Event
Oct '24	Sep Q production report
Dec Q '24	MROR update
Jan '25	Dec Q production report
Feb '25	FY (CY) 2024 financial result
Apr '25	Jan Q production result
May '25	AGM
Jul '25	Jun Q production report
Aug '25	1H25 financial result

MA Research vs the Street

Consensus Financial Estimates

	FY24e		FY25e	
	Consensus	*MA est.*	*Consensus*	*MA est.*
Production (kt Cu)	-	8.60	-	11.50
Revenue ($m)	-	108.8	-	159.9
EBITDA ($m)	(10.0)	35.8	(3.3)	77.8
Net income ($m)	(10.0)	3.8	(3.1)	27.3

Reserves and Resources

Mineral inventory as of 14 December 2022

Proved	Kt Cu	-
Probable	Kt Cu	-
Total Reserves	**Kt Cu**	**-**
Measured	Kt Cu	10.0
Indicated	Kt Cu	47.8
Inferred	Kt Cu	17.4
Total Resources	**Kt Cu**	**75.2**

Key Shareholders

Top Holders	Ownership	Value
Freepoint Commodities	19.96%	$13.1m
Ariadne Australia Ltd	10.29%	$6.7m
Raymond Edward Munro	2.95%	$1.9m
Susan Roberta Munro	2.94%	$1.9m
Proco Pty Ltd	2.29%	$1.5m
Laguna Bay Capital Pty ltd	1.43%	$0.9m
Lachlan A Wallace	1.29%	$0.8m

Source: ASX Company Announcements, FactSet, MA Research
Notes: 1. Totals may not add due to rounding in Company reported figures

Board and Management

Name	Role	Background and Experience
Derek Carter	Chairman	▪ Over 40 years' experience in exploration, geology and management ▪ Previously held senior roles at Burmine Ltd and Shell Group of Companies before founding Minotaur Gold NL ▪ Member of the South Australian Minerals and Petroleum Experts
Bob Fulker	Chief Executive Officer	▪ Nearly 40 years' experience in the minerals industry as a mining engineer ▪ Extensive experience across both corporate and operational roles at large Australian and global miners ▪ Previously held senior executive positions at Evolution Mining and OZ Minerals
Murray Boyte	Non-Executive Director	▪ Over 30 years' experience in mergers and acquisitions, merchant banking and restructuring ▪ Chartered Accountant with executive experience and directorships across various industries
Roger Higgins	Non-Executive Director	▪ Over 50 years' experience in leadership roles across various mining companies ▪ Formerly MD of Ok Tedi Mining Limited and Senior Vice President at Teck Resources Limited ▪ Currently Non-Executive Director at Newcrest and Worley
Joe Sutanto	Chief Financial Officer	▪ CPA qualified accountant with experience across corporate finance and audit ▪ Previously worked at Glencore as a commodities trader

Source: ASX Company Announcements

Disclosure Appendix

MA

RESEARCH & SALES RESPONSIBILTIES

Equities

Edward Day	Head of Equities	+612 8288 5424
Elliot Leahey	Business Director	+612 8288 5402
Jacqui Irons	Corporate Broking	+612 8288 5427

Equities Sales & Trading

Aaron Payne	+612 8288 5405
Roger Gamble	+612 8288 5410
Ronan Barratt	+612 8288 5426
David Baker	+612 8288 5428
Jake Rischbieth	+612 8288 5654
Brooke Davis	+612 8288 5417

Real Estate

Edward Day	Head of Equities	+612 8288 5424
Murray Connellan		+612 8288 5421

Industrials

Sarah Mann	+612 8288 5407
Sinclair Currie	+612 8288 5413
Matthew Chen	+612 8074 0872
Tom Tweedie	+612 8288 5430
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DISCLOSURE APPENDIX

Key Risks to the Investment Thesis

Upside risks to the Target Price: 1) Commodity price exposure – particularly copper; 2) Declining local currency exchange rate (AUD); 3) Further exploration success across the tenement package. Downside risks to the Target Price: 1) Operational risks around underground mining and mineral processing (power interruptions, ground stability); 2) Commodity and currency moves in the opposite direction; 3) Unexpected M&A which could have a dilutive effect on the capital structure.

RATING DEFINITIONS

All companies under coverage are assigned a rating of Buy, Hold or Sell based on the expected 12 month total return estimated by the analyst(s). The total return is a combination of the estimated capital gain or loss, in addition to the estimated 12 month forward dividends or distributions. In relation to all companies that MA Moelis Australia Securities Pty Limited conducts research coverage on the relevant total return bands that derive the ratings are:

Buy: >15% **Hold**: 5% to 15% **Sell**: <5%.

RATINGS DISTRIBUTION TABLE

Distribution of Ratings as at 13 September 2024

SELL	HOLD	BUY
1.22%	24.39%	74.39%

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