

Hot Chili Limited

HCH : ASX

SPECULATIVE BUY

Target: A\$0.80↓

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COMPANY STATISTICS:

Share Price (A\$)	A\$0.30
1 Yr Hi-Lo (A\$)	0.55-0.23
Market Cap	A\$104m
Issued Shares	348m
Options (various)	55.2m
Cash (31/6/14) est.	A\$27m
Debt (31/6/14) est.	A\$27m

Major Shareholders

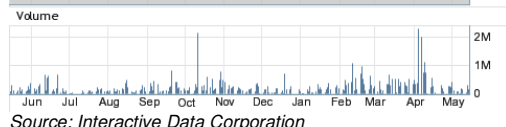
Kalgoorlie Auto Services	17.5%
CAP S.A (Port Finance)	11.8%
Taurus Funds Management	11.7%

EARNINGS SUMMARY:

Jun Yr End	2014e	2015e	2016e
Cu in Concentrate (t)	0	0	0
C1 Costs (US\$/lb)	n/a	n/a	n/a
Copper Price (US\$/lb)	\$3.12	\$3.25	\$3.03
EBITDA (A\$m)	-5.0	-12.5	-22.8
EV/EBITDA	nm	nm	nm
NPAT (A\$m)	-5.3	-12.9	-28.0
EPS (A\$)	-\$0.01	-\$0.03	-\$0.03
PER	-20.3x	-10.2x	-11.2x

Source: Canaccord Genuity estimates

SHARE PRICE PERFORMANCE:



Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Hot Chili is an ASX-listed company that acquires and develops projects in Chile. Two of the company's projects are at an advanced stage with exploration and resource drilling being undertaken.

All amounts are in AUD unless otherwise noted.

Metals and Mining – Base Metals and Minerals

DEBT FACILITY PROVIDES BUFFER

Investment Perspective

Hot Chili (HCH) has executed a term sheet for a secured debt facility of US\$25m with Sprott Resource Lending Partnership (Sprott). The facility takes the pressure off what we previously saw as an imminent capital raising and provides a strong working capital buffer for at least the next 12 months. Following final conditions of the term sheet met, the first draw down of the facility is expected by 30th June 2014. The facility highlights the initial debt level the economics expect. Discussions on joint venture agreements with project partner "CMP" continue to be the next major catalyst to unwind. SPECULATIVE BUY rating maintained.

Investment Highlights

- HCH has executed a term sheet for a US\$25m debt facility, which provides the capital to allow completion of the Productora Pre-feasibility Study. We estimate the PFS will highlight the long life, low-cost, bulk tonnage potential of this copper project. The additional debt will enable HCH to complete further drilling and act as a buffer for working capital and the commencement of a DFS.
- The facility is subject to typical conditions which are expected to be met and funds drawn by 30th June 2014. Key terms of the conditions include a twelve month duration, extension fee and the option to convert debt to equity. We don't consider HCH to be in any potential breach of meeting or agreeing to these final conditions. HCH has agreed to an exclusivity agreement, restricting them from engaging in discussions with alternative finance providers until the date of debt drawdown (30th June 2014) demonstrating the commitment from both parties to see the deal commercialised.
- We continue to consider the next major catalyst a potential game changing outcome from negotiations with "CMP" regarding joint venture agreements. We consider any commercial terms reached with "CMP" to potentially have a significant impact in de-risking and re-rating the company.

Maintain SPEC. BUY rating: Target Price revised to A\$0.80 share

We have decreased our target price marginally to A\$0.80/share (previously A\$0.81/share) and DCF for Productora. The change in valuation is a result of rolling forward our NAV and adjusting for the debt facility. Our valuation for HCH's Productora Copper Project includes forecast equity capital raisings in mid and late-2015. We maintain our SPECULATIVE BUY rating.

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FINANCIAL SUMMARY

Hot Chili Limited

HCH: ASX

Date: 5/15/2014

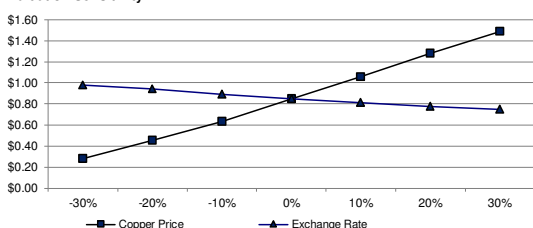
Year End: June

Market Information	Unit	Amount
Share Price	A\$	0.30
Market Capitalisation	A\$m	104.3
Enterprise Value	A\$m	77.6
12 Month Hi-Lo	A\$	0.79-0.30
Issued Capital	m	347.7
Options	m	55.3
Fully Diluted	m	403.0

Valuation	Method	A\$m	A\$/share
Productora	NPV @ 8%	499.5	0.48
Exploration/Oxide Resource	Estimate	40.0	0.04
Los Mantos	Estimate	10.0	0.01
Chile Norte	Estimate	5.0	0.00
Options		29.8	0.03
Cash	Estimate	26.8	0.03
Future Equity Raised		262.2	0.25
Less: Corporate & Overheads		(34.9)	(0.03)
Total NAV/ Price Target		838.4	0.80
Price to NAV			0.38x

Assumptions	2014e	2015e	2016e	2017e
Copper Price (US\$/lb)	3.23	3.12	3.25	3.03
Copper Price (US\$/t)	7,127	6,885	7,165	6,669
AS:US\$ FX rate	0.92	0.93	0.91	0.88

Valuation Sensitivity



Production Metrics	2014e	2015e	2016e	2017e
Productora				
Throughput (Mt)	0.0	0.0	0.0	6.0
Head Grade (% Cu)	0.00%	0.00%	0.00%	0.60%
Cu in Concentrate (t)	0	0	0	31,500
C1 Costs (US\$/lb)	n/a	n/a	n/a	n/a

Reserves & Reserves		Mt	Grade	Cu Metal
Central Area Resource (15% of deposit footprint)	Indicated	158.6	0.5%	799,000
	Inferred	55.6	0.4%	229,000
	Total	214.2	0.5%	1,028,000
Reserve (March 2014)		91.0	0.5%	433,000
Reserve target		210.0	0.6%	1,260,000

Directors & Management

Murray Black	Chairman
Christian Easterday	Managing Director
Allan Trench	Non-Executive Director
Michael Anderson	Non-Executive Director
Roberto de Andraca Adriasola	Non-Executive Director

Substantial Shareholders	Shares (m)	%
Kalgoorlie Auto Services	61.0	17.5%
CAP S.A. (Port Finance)	40.9	11.8%
Taurus Fund Management	40.7	11.7%
Lundin Mining	27.1	7.8%

Company Description

Hot Chili is an Australian company that has assembled a portfolio of copper projects in the iron-oxide-copper-gold belt of the Chilean coastal range. Its flagship project is the Productora project at an advanced stage with exploration and resource drilling ongoing. A PFS is due in Mid 2014.

Profit & Loss (A\$m)	2013a	2014e	2015e	2016e	2017e
Revenue	0.0	0.0	0.0	0.0	290.1
Operating Costs	0.0	0.0	0.0	0.0	181.8
Royalties	0.0	0.0	0.0	0.0	0.0
Corporate & Overheads	6.3	5.0	4.2	5.8	6.5
Exploration (Expensed)	0.0	0.0	8.3	16.9	17.3
EBITDA	-6.3	-5.0	-12.5	-22.8	71.7
Depreciation	0.0	0.0	0.0	0.0	70.6
EBIT	-6.3	-5.0	-12.5	-22.8	1.1
Net Interest	0.3	-0.3	-0.5	-5.2	-28.8
Tax	0.0	0.0	0.0	0.0	5.8
NPAT	-6.0	-5.3	-12.9	-28.0	-21.9
Abnormals	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	-6.0	-5.3	-12.9	-28.0	-21.9

Cash Flow (A\$m)	2013a	2014e	2015e	2016e	2017e
Cash Receipts	0.0	0.0	0.0	0.0	290.1
Cash paid to suppliers & employees	-3.4	-3.9	-4.0	-5.5	-187.8
Tax Paid	0.0	0.0	0.0	0.0	5.8
Operating Cash Flow	-3.4	-3.9	-4.0	-5.5	108.1
Exploration and Evaluation	-43.9	-19.3	-16.0	-16.0	-16.0
Capex	-0.3	-3.3	0.0	-350.7	-490.3
Other	0.0	-0.4	0.0	0.0	0.0
Investing Cash Flow	-44.1	-23.0	-16.0	-366.7	-506.3
Debt Drawdown (repayment)	0.0	27.0	0.0	300.0	170.0
Share Capital	44.5	16.6	0.0	300.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Financing Expenses	-2.3	-1.3	-0.5	10.7	-28.8
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	42.2	42.3	-0.5	610.7	141.2
Opening Cash	16.9	11.1	26.8	6.3	244.8
Increase / (Decrease)	-5.3	15.3	-20.5	238.5	-257.0
FX Impact	-0.4	0.4	0.0	0.0	0.0
Closing Cash	11.1	26.7	6.3	244.8	-12.3

Balance Sheet (A\$m)	2013a	2014e	2015e	2016e	2017e
Cash	11.1	26.8	6.3	244.8	-12.3
Other current assets	0.0	0.0	0.0	0.0	69.6
Current Assets	11.2	26.8	6.3	244.8	57.4
Property, Plant & Equip.	0.5	4.2	4.2	354.9	774.7
Exploration & Develop.	63.1	82.4	90.4	90.4	90.4
Other Non-current Assets	0.0	3.5	17.6	0.0	2.9
Payables	4.0	0.0	0.0	0.0	23.2
Short Term Debt	0.0	0.0	27.0	0.0	99.4
Long Term Debt	0.0	27.0	0.0	327.0	397.6
Other Liabilities	0.0	7.8	22.3	22.0	85.9
Net Assets	70.7	82.0	69.1	341.1	319.2
Shareholders Funds	90.8	107.4	107.4	407.4	407.4
Reserves	1.1	1.1	1.1	1.1	1.1
Retained Earnings	-21.1	-26.4	-39.3	-67.3	-89.2
Total Equity	70.7	82.0	69.1	341.1	319.2

Ratios & Multiples	2013a	2014e	2015e	2016e	2017e
EBITDA Margin	nm	nm	nm	nm	25%
EV/EBITDA	nm	nm	nm	nm	11.5x
Op. Cashflow/Share	-\$0.01	-\$0.01	-\$0.01	-\$0.01	\$0.10
P/CF	-26.6x	-31.3x	-33.7x	-57.3x	2.9x
EPS	-\$0.02	-\$0.01	-\$0.03	-\$0.03	-\$0.02
EPS Growth	nm	nm	nm	nm	nm
PER	-13.3x	-20.3x	-10.2x	-11.2x	-14.4x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%	0%
ROE	-8%	-6%	-19%	-8%	-7%
ROIC	-7%	-4%	-12%	-3%	1%
Debt/Equity	0%	33%	0%	96%	125%
Net Interest Cover	nm	-10.6x	nm	nm	0.0x
Book Value/share	\$0.24	\$0.20	\$0.15	\$0.32	\$0.30
Price/Book Value	1.3x	1.5x	2.0x	0.9x	1.0x

Source: HCH & Canaccord Genuity estimates

INVESTMENT RISKS

Hot Chili Limited is exposed to a number of risks including:

- **Geological risk:** the actual characteristic of an ore deposit may differ significantly from initial interpretations.
 - **Resource risk:** All resource estimates are expressions of judgment based on knowledge, experience and industry practice. Estimates, which were valid when originally calculated, may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate.
 - **Capital cost and operational cost risk:** an increase in capital costs and operating costs will reduce the profitability and free cash generation of the project.
 - **Commodity price and exchange rate risk:** As with all mining and mineral exploration companies, commodity price and exchange rate risk should also be considered.
 - **Management and labour risk:** an experienced and skilled management team is essential to the successful development and operation of the project.
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Site Visit: An analyst has visited Hot Chili's material operations in Chile. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:



Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 03/25/2013	Smith	Speculative Buy	1.00	4) 10/01/2013	Klutke	Speculative Buy	0.76
2) 07/11/2013	Smith	Speculative Buy	0.85	5) 02/13/2014	Smith	Speculative Buy	0.86
3) 08/01/2013	Smith	Speculative Buy	0.80	6) 04/09/2014	Smith	Speculative Buy	0.81

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

**Distribution of Ratings:
Global Stock Ratings
(as of 31 March 2014)**

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	580	58.7%	37	37.1%
Speculative Buy	43	4.4%	29	55.8%
Hold	317	32.1%	13	13.2%
Sell	45	4.6%	2	4.4%
	988*	100.0%		

*Total includes stocks that are Under Review

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Hot Chili Limited	7,8

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