

12 December 2013

RECOMMENDATION

Buy

Valuation **\$1.32**

Price Target **\$0.99**

12 month volume 58.6m
12 month share low \$0.34
12 month share high \$0.81

Market Risk High
Liquidity Risk Med
Infrastructure Risk Low
Country Risk Low

IRESS & DJC Research

ISSUED CAPITAL

ASX HCH
Share price \$0.39
Mkt cap¹ \$134m
Ordinary shares on issue¹ 348m
Options (various) 43.7m

Diluted for new shares Source: IRESS

DIRECTORS

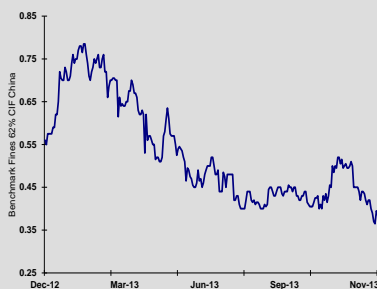
Murray Black Chairman
Christian Easterday Managing Director
Dr Alan Trench Non-Exec Director
Michael Anderson Non-Exec Director
Roberto de Andraca Non-Exec Director

MAJOR SHAREHOLDERS

Kalgoorlie Auto Services Pty Ltd 19.7%
Port Finance 12.6%
Taurus SM Holdings 12.2%
Citicorp Nominees 10.3%
Merrill Lynch 8.8%

As at 19 August 2013

12 MONTH PERFORMANCE



Source: IRESS

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Hot Chili Ltd (HCH)

Habanero potentially pushes pit shell out

The latest round of results from the Habanero Zone at Productora reinforces our assumptions around the increase in resource tonnes in the forthcoming 1Q14 update. With a 54m intersection in the northern most hole, the newly discovered mineralised zone has the potential to push the pit shell out into an area with no drill coverage. The update is on track and is likely to post-date a maiden resource announcement for Frontera, a porphyry deposit located 70km to the south. We maintain our Buy recommendation on HCH and keep our risked valuation at \$0.99 per share.

Key Points

- Habanero extends to 600m strike and open to the north:** HCH has been concentrating their resource drilling campaign at Productora on the eastern flank of the existing Central Pit mineralised breccia zone that hosts the bulk of the current 165Mt resource. This flank had been modelled as waste in previous studies largely through lack of drilling and the interpretation that the whole mineralised body was dipping steeply to the west. The newly discovered Habanero Zone, located in the northern part of the eastern flank, has now been extended to a strike length of 600m and is open to the north with an intersection of 54m at 0.8% copper and 0.2g/t gold. Other intersections released from the zone include 43m at 1.1% copper and 0.3g/t gold; 39m at 0.8% copper and 0.2g/t gold.
- Resource update in 1Q14:** HCH anticipate their resource update release in 1Q14, consistent with their previous estimate. There are still 61 holes yet to receive assay results from the 2013 drilling program which consisted of 100,000m of RC and diamond drilling. The discovery of Habanero delayed the timing of the resource update, in order to include the zone and to include other high grade, near-surface mineralised zones that have the potential to materially affect the grade mined in the early years of an operation. This has implications for the PFS, scheduled to be produced 1H2014.
- Joint Infrastructure agreements close:** HCH and its major JV partner, CMP are close to finalising a Joint Infrastructure Agreement for Productora. We had expected to see an announcement on the JV agreement in 2013, but we now expect to see this in 1Q14.
- News flow in 1Q14:** News flow next quarter will be considerable and will include a maiden resource at Frontera; the updated resource for Productora; the Joint Venture Infrastructure Agreement and several rounds of drilling data releases.
- Buy recommendation maintained:** We maintain our Buy recommendation and risked valuation of \$0.99 per share (\$1.15) which includes an assumption of a top up capital raise 1H2014. However, this is a conservative view as, in our view, there are a number of avenues available to the company to raise further funds outside the equity markets

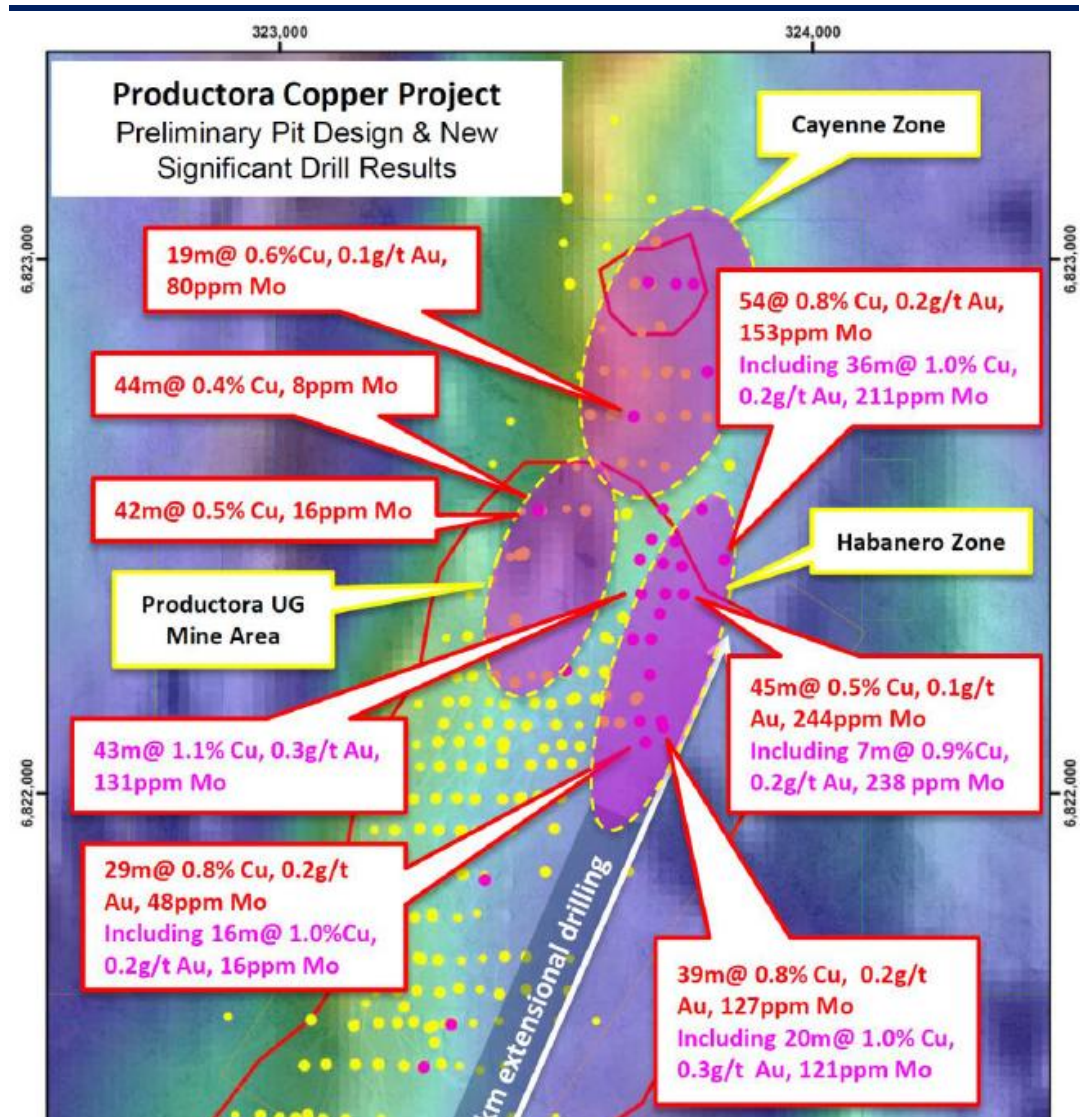


Figure 1. Drill hole collars and recent significant results

Source: HCH

Hot Chili Ltd

\$ 0.39

| PROFIT AND LOSS ANALYSIS | (\$m) | 2013A | 2014F | 2015F | 2016F | 2017F |
|-----------------------------|-------|-------------|-------------|-------------|--------------|--------------|
| Sales revenue | | 0.0 | 0.0 | 0.0 | 0.0 | 212.9 |
| Cost of Sales | | 0.0 | 0.0 | 0.0 | 0.0 | 64.7 |
| Exploration Written off | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Corporate / Other | | 4.4 | 6.0 | 6.0 | 6.0 | 16.6 |
| EBITDA | | -4.4 | -6.0 | -6.0 | -6.0 | 131.6 |
| Depreciation & Amortisation | | 0.1 | 0.0 | 0.0 | 0.0 | 16.3 |
| EBIT | | -4.5 | -6.0 | -6.0 | -6.0 | 115.3 |
| Interest Expense (benefit) | | -0.2 | 0.0 | 0.0 | 37.7 | 32.7 |
| Abnormals | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit before Tax | | -4.3 | -6.0 | -6.0 | -43.7 | 82.6 |
| Tax expense | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT | | -4.3 | -6.0 | -6.0 | -43.7 | 82.6 |
| DJC Adjusted NPAT | | -4.3 | -6.0 | -6.0 | -43.7 | 82.6 |

| CASH FLOW STATEMENT | (\$m) | 2013A | 2014F | 2015F | 2016F | 2017F |
|--|-------|--------------|--------------|---------------|---------------|--------------|
| Net cash from customers | | 0.0 | 0.0 | 0.0 | 0.0 | 131.6 |
| Net Interest | | 0.2 | 0.3 | 0.5 | -37.7 | -32.7 |
| Tax and Other | | -3.6 | -4.0 | -5.0 | -5.0 | -5.0 |
| Cashflows from Operating Activities | | -3.4 | -3.7 | -4.5 | -42.7 | 93.9 |
| Property, plant & equipment | | -0.3 | -1.0 | -200.0 | -400.0 | -9.0 |
| Exploration & Development | | -43.9 | -20.0 | -10.0 | -5.0 | -5.0 |
| Payments for prospects | | 0.0 | -1.0 | -1.0 | 0.0 | 0.0 |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cashflows from Investing Activities | | -44.1 | -22.0 | -211.0 | -405.0 | -14.0 |
| Equity raised | | 44.5 | 21.7 | 0.0 | 180.0 | 0.0 |
| Change in Debt | | 0.0 | 0.0 | 220.0 | 260.0 | -50.0 |
| Dividends paid | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | | -2.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash Flow from Financing Activities | | 42.2 | 21.7 | 220.0 | 440.0 | -50.0 |
| Net change in cash | | -5.3 | -4.0 | 4.5 | -7.7 | 29.9 |
| Effects from Exchange rates | | 0.4 | 0 | 0 | 0 | 0 |
| Cash at end of period | | 11.1 | 7.1 | 11.6 | 4.0 | 33.9 |

| BALANCE SHEET | (\$m) | 2013A | 2014F | 2015F | 2016F | 2017F |
|--------------------------------------|-------|-------------|-------------|--------------|--------------|--------------|
| Cash | | 11.1 | 7.1 | 11.6 | 4.0 | 33.9 |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total current assets | | 11.2 | 7.1 | 11.6 | 4.0 | 33.9 |
| Property Plant & Equipment | | 0.5 | 1.5 | 201.5 | 601.5 | 610.5 |
| Exploration & development | | 63.1 | 83.1 | 93.1 | 98.1 | 103.1 |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total non-current assets | | 63.6 | 84.6 | 294.6 | 699.6 | 713.6 |
| Total Assets | | 74.7 | 91.7 | 306.2 | 703.5 | 747.4 |
| Payables | | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Borrowings | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total current liabilities | | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Non-current debt | | 0.0 | 0.0 | 220.0 | 480.0 | 430.0 |
| Other | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total non-current liabilities | | 0.0 | 0.0 | 220.0 | 480.0 | 430.0 |
| Total Liabilities | | 4.0 | 4.0 | 224.0 | 484.0 | 434.0 |
| Shareholders Funds | | 70.7 | 87.7 | 82.2 | 219.5 | 313.4 |

| Key Assumptions | | 2013A | 2014F | 2015F | 2016F | 2017F |
|------------------------|--------|-------|-------|-------|-------|-------|
| Cu Price | (US\$) | 7300 | 7300 | 7300 | 7300 | 7300 |
| Au price | (US\$) | 1300 | 1300 | 1300 | 1300 | 1300 |
| Exchange rate (USDAUD) | (US\$) | 0.95 | 0.95 | 0.95 | 0.95 | 0.95 |

| Resources and Reserves | t (m) | % Cu | g/t Au |
|--------------------------|--------------|-------------|-------------|
| Current Resources | | | |
| Productora | 165.2 | 0.60 | 0.10 |
| Frontera | - | - | - |
| Los Mantos | - | - | - |
| Total | 165.2 | 0.60 | 0.10 |

| PHYSICALS | | 2016F | 2017F | 2018F | 2019F | 2020F |
|-------------------|------|-------|-------|-------|-------|-------|
| Tonnes milled | Mt | | 4.0 | 11.0 | 11.0 | 11.0 |
| Cu Grade | % | | 0.75% | 0.75% | 0.75% | 0.55% |
| Au Grade | g/t | | 0.2 | 0.2 | 0.2 | 0.2 |
| Copper production | 000t | | 25.5 | 76.7 | 76.7 | 76.7 |
| Gold production | Kozs | | 20.6 | 56.6 | 56.6 | 56.6 |

| RATIOS | | 2013A | 2014F | 2015F | 2016F | 2017F |
|------------------|-----|-------|-------|-------|-------|-------|
| Number of shares | m | 309.9 | 366.5 | 406.3 | 586.3 | 586.3 |
| EPS | cps | -0.01 | -0.02 | -0.01 | -0.07 | 0.14 |
| PER | x | na | na | na | na | 2.8 |
| EPS growth th | % | na | na | na | na | + |
| CFPS | cps | -0.01 | -0.02 | -0.49 | -0.76 | 0.15 |
| DPS | cps | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| EV/EBITDA | % | na | na | na | na | 0.6 |
| EBIT Margin | % | na | na | na | na | 54.1 |

| BOARD | |
|-------------------|---------------------|
| Non-Exec Chairman | Murray Black |
| Managing Director | Christian Easterday |
| Non-Exec Director | Micahel Anderson |
| Non-Exec Director | Roberto de Andraca |
| Non-Exec Director | Alan Trench |
| Company Secretary | John Sendziuk |

| VALUATION | A\$m | A\$ps |
|--|-----------------|----------------|
| Productora | \$ 400.7 | \$ 1.09 |
| Exploration | \$ 100.0 | \$ 0.27 |
| Cash | \$ 12.8 | \$ 0.03 |
| Corporate | -\$ 30.0 | -\$ 0.08 |
| Total Valuation (un-risked) | \$ 483.5 | \$ 1.32 |
| Valuation - Productora risked @ 70% | \$ 363.3 | \$ 0.99 |

Disclosure Disclaimer

RCAN1168

This Research report, accurately expresses the personal view of the Author.

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The Author of this report made contact with the **Hot Chili Limited** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released on **Hot Chili Limited**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

Recommendation Definitions

SPECULATIVE BUY – 10% or more outperformance, high risk

BUY – 10% or more outperformance

HOLD – 10% underperformance to 10% over performance

SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

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