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Red 5 (RED)

Siana project completion within sight

Recommendation

Buy (unchanged)

Price

\$0.15

Target (12 months)

\$0.25 (unchanged)

Expected Return

Capital growth **67%**

Dividend yield **0%**

Total expected return **67%**

Company Data & Ratios

Enterprise value **\$166m**

Market cap **\$193m**

Issued capital **1,284m**

Free float **80.8%**

Avg. daily vol. (52wk) **4.55m**

12 month price range **\$0.11-0.225**

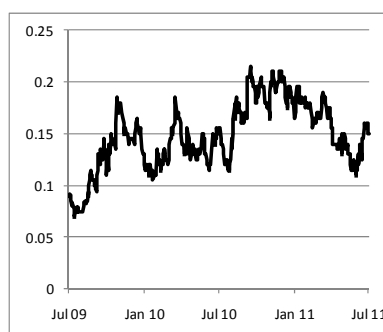
GICS sector

Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.12	0.17	0.15
Absolute (%)	30.43	-9.09	0.00
Rel market (%)	34.27	0.18	1.86

Absolute Price



SOURCE: IRESS

Progressing towards first gold pour November

Construction progress at the Siana gold mine in the Philippines accelerated towards the end of the June quarter with \$34m of the \$85m capital now left to spend. Unable to give a completion time previously, due rain affected delays to construction, the company has given November as the first gold pour date.

- Record rainfalls over the first four months of the year delayed the build by over 10 weeks. Rains persisted in June but did not cause the same disruption, allowing the critical items to reach the following stages:
- Open pit mine preparation is back on track - pit dewatering is 85% complete and pre-strip mining is proceeding satisfactorily;
- Plant construction - SAG mill installation has commenced, expected to take 90 days.

The project capital cost has increased to US\$85m (up from \$80m) due to currency movements and additional minor items of plant.

Valuation unchanged

We have reduced FY12 production and earnings estimates marginally due to the late start but the valuation and Target price remain unchanged.

Investment View

We continue to rate RED a Buy with a target price of \$0.25. Delays to the schedule this year have been a negative factor resulting in a slight downgrade of near term earnings expectations, but value remains in a deeply discounted share price. It is not surprising to see discounts applied and investor interest weaken during the construction phase but these can quickly turn to premiums upon successful commissioning.

Earnings Forecast

Year end June	2011f	2012f	2013f	2014f
Sales (A\$m)	0.0	18.3	83.4	99.2
EBITDA (A\$m)	-12.6	1.1	51.9	55.6
NPAT (reported) (A\$m)	-7.0	0.6	44.4	38.8
NPAT (adjusted) (A\$m)	-7.0	0.6	44.4	38.8
EPS (adjusted) (cps)	-0.6	0.0	3.5	3.0
EPS growth (%)	na	na	na	87%
PER (x)	na	na	4.3	5.0
P/CF c)	na	na	3.7	3.2
EV/EBITDA (x)	na	87.9	2.4	1.4
Dividend (cps)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	-5.2	0.4	22.9	15.3

SOURCE: BELL POTTER SECURITIES ESTIMATES

June quarter highlights

Construction picks up pace

Project construction was delayed by abnormally heavy rain in the first four months of this year but more rapid progress of the build should see production commence near year end. Rain has eased off since the very heavy earlier rains, allowing mining and construction to accelerate. The record rains delayed the concrete pours for the crushing station and SAG mill floors for over 10 weeks, these being the critical path items of plant construction.

The stages of the main components of the build are:

- Dewatering of the open pit is 85% complete with total of 13B litres discharged
- Pre-strip material movement exceeds 0.5B bcm in June
- SAG mill installation has commenced, expected to take 90 days
- All civil works to be completed within a month
- Operations Director and Group Exploration and Technical Manager commence duties.

Capital costs up slightly on currency movements

The project's capital cost estimate is up from the US\$80m mark to US\$85.0m due to a weakening of the US\$, additional plant requirements, time delays and additional engineering ground fill. The capital cost in Australian dollars of \$80.2m is considerably below the budget of \$96.0m.

The company's cash position (no debt) was \$52.5m at the end of June with a further \$34.4m to completing construction.

Exploration re-commences

Exploration has re-commenced for the first time in nearly three years with two drills targeting the northern extension. It is only just getting started and there is not a lot to report. Two Siana extension holes, SMDD136 and 137 have been completed at 706 and 577 metres depth respectively and results are awaited.

Drilling has not yet returned to the Mapawa deposit, 20km north of Siana.

RED5 (RED) - Buy

Investment View

RED is adding value by developing the Siana gold mine for production mid 2011, while it drills the potentially large Mapawa deposit nearby. 2011 has had its challenges in the way of rain affected plant construction but with this now behind it and production start up approaching, improved price performance can be expected.

Operations

The Siana deposit is of high sulphidation epithermal style, located in northern Mindanao adjacent to a major north–south fault zone, just 6km from Anglo's Boyongan 15moz gold-copper porphyry deposit. The Project is under construction as an open pit followed by an underground mine, conventional CIP treatment, production of 850koz at low cash costs of US\$350/oz over 10 years, capex US\$85m.

The Mapawa deposit has been identified by electrical/geophysical surveys and initial drilling as an extensive porphyry style deposit with a low grade 'gold cap' at surface. Located 20km north of Siana, it could potentially supply ore feed to the mill.

Valuation

We calculate a 12 month NPV and a target price for RED of \$0.25 per share.

Copprorate

Directors: Colin Jackson (Chairman), Greg Edwards (Managing Director), Gary Scanlan (Non Executive), Kevin Dundo (Non Executive director).

Substantial shareholders: Mathews Capital 17.9%, Baker Steel 7.9%, JP Morgan Chase 5.8%, Sprott Asset Management (5.2%), Lujeta 5.1%.

The company's cash position (no debt) was \$52.5m at the end of June with a further \$34.4m to complete construction.

Issued capital: 1,283.6m ordinary shares.

Risks

Commodity price volatility in gold and base metals.

Mining/geotechnical. The rocks are relatively soft but appropriate techniques of cut and fill mining and paste fill mitigates the risk.

Exploration/geology. The Mapawa deposit, for which we have assigned a value, requires further drilling and definition.

Project parameters. As project construction has not yet been completed, project parameters are yet to be established with certainty.

Social. Villages are located near the operations. RED has provided community support for many years and is well accepted in the area.

Financial risk. Until operations are established, there will be no internal cashflow.

Table 1 - Financial summary

Red 5 (RED)						Share price: A\$		\$ 0.125			
As at						Market Cap: A\$		\$ 193			
As at						29-Jul-11					
PROFIT AND LOSS (A\$)						VALUATION DATA (A\$)					
Y/e Jun 30	2010a	2011f	2012f	2013f	2014f	Y/e Jun 30	2010a	2011f	2012f	2013f	2014f
Sales revenue	0	0	18	83	99	Net profit adj (\$m)	-0.4	-7.0	0.6	44.4	38.8
EBITDA	-2	-13	1	52	56	EPS (c)	0.0	-0.6	0.0	3.5	3.0
D&A	0	0	-2	-8	-11	EPS growth (%)	na	na	na	7287%	87%
Other	0	0	0	0	0	P/E ratio (x)	na	na	316.1	4.3	5.0
EBIT	-2	-13	0	44	45	CFPS (c)	0	-0.6	0.2	4.1	4.6
Other income (expenses)	0	0	0	0	0	Price/CF (x)	na	na	87.9	3.7	3.2
Net Interest Expense	2	6	1	0	4	DPS (c)	0	0.0	0.0	0.0	0.0
Pre-tax profit	0	-7	1	44	48	Yield (%)	0	0.0	0.0	0.0	0.0
Tax	0	0	0	0	-10	Franking (%)	0	0.0	0.0	0.0	0.0
Net Profit	0	-7	1	44	39	EV/EBITDA	na	-10.9	154.3	2.4	1.4
Adjustments	0	0	0	0	0	EBITDA margin (%)	0	0.0	6.0	62.2	56.1
SCEQ adj profit	0	-7	1	44	39	Valuation per share:					0.25
One-off items	-1	0	0	0	0	Target price (12 mth):					0.25
Reported net profit	-2	-7	1	44	39	<i>Total Return (including yield)</i>					67%
CASHFLOW (A\$)						PROFITABILITY RATIOS					
Y/e Jun 30	2010a	2011f	2012f	2013f	2014f	Y/e Jun 30	2010a	2011f	2012f	2013f	2014f
Receipts from customers	0	0	18	83	99	EBITDA/sales (%)	0	0	6	62	56
Payments to suppliers	-2	-7	-11	-26	-38	EBIT/sales (%)	0	0	-3	53	45
Net interest	2	6	1	0	4	Return on assets (%)	-2	-5	0	22	15
Tax paid	0	0	0	0	0	Return on equity (%)	-2	-5	0	23	15
Other	0	-6	-6	-6	-6	Return on funds empl'd (%)	-5	-6	0	28	23
Operating cashflow	0	-7	2	52	59	Dividend cover (x)	0	0	0	3	6
Capex	0	-64	-29	-4	-3	Effective tax rate (%)	0	0	0	0	20
Investments	0	0	0	0	0	LIQUIDITY AND LEVERAGE					
Asset sales	0	0	0	0	0	Y/e Jun 30	2010a	2011f	2012f	2013f	2014f
Other	-7	-6	-6	-6	-6	Net debt/(cash) (\$m)	-57	-27	6	-37	-88
Investing cashflow	-7	-70	-35	-10	-9	Net debt/equity (%)	-60	-20	4	-19	-35
Change in borrowings	0	0	10	-10	0	Net interest cover (x)	-1	-2	0	106	12
Equity raised	43	51	0	1	0	Current ratio (x)	20	20	2	5	9
Dividends paid	0	0	0	0	0	Inventory turnover	0	0	8	4	5
Other	0	-4	0	0	0	Inventory/sales	0	8	0	8	6
Financing cashflow	43	47	10	-9	0	INTERIMS (A\$)					
Net change in cash	35	-30	-23	33	50	Y/e Jun 30 (\$m)	2010a	2011f	2012f	2013f	2014f
Cash at end of period	58	27	4	38	88	SCEQ adj profit	-1	-4	-5	23	14
BALANCE SHEET (A\$)						VALUATION (\$)					
Y/e Jun 30	2010a	2011f	2012f	2013f	2014f						
Cash	58	27	4	38	88		Current		12mth		
Receivables	0	0	1	4	5		\$M	\$ps	\$ps		
Inventories	0	0	1	7	8	Siana (90%)	179	0.14	0.21		
Investments	0	0	0	0	0	Corporate	-16	-0.01	-0.01		
Other	1	0	0	0	0	Exploration	48	0.03	0.03		
Current assets	59	27	7	48	101	Hedging	0	0.00	0.00		
PPE	0	65	94	98	101	Cash	27	0.02	0.02		
Investments	0	0	0	0	0	Total	238	0.18	0.25		
Intangibles	39	45	51	57	63	Production (koz)					
Other	0	0	0	0	0	Y/e Jun 30	2010a	2011f	2012f	2013f	2014f
Non-current assets	40	110	145	156	165	Milled (kt)			200	750	925
Total assets	99	138	152	204	265	Grade (g/t)			2.8	3.5	3.7
Payables	2	0	2	8	10	Recovery (%)			85%	85%	85%
Debt	0	0	10	0	0	Production (koz)			15	72	94
Provisions	0	0	0	0	0	Cash Cost					
Other	1	1	1	1	1	Y/e Jun 30	2010a	2011f	2012f	2013f	2014f
Total liabilities	3	2	14	10	12	Siana (US\$/oz)			469	362	398
Shareholders' equity	96	136	139	194	254	Siana (A\$/oz)			436	371	425
Minorities	0	0	0	0	0	ASSUMPTIONS					
Total shareholders funds	96	136	139	194	254	Y/e Jun 30	2010a	2011f	2012f	2013f	2014f
Total funds employed	38	109	145	157	166	Gold Price (US\$/oz)	1095	1374	1575	1400	1225
W/A diluted shares on iss	972	1277	1277	1284	1284	A\$	0.88	0.99	1.08	0.98	0.94
						Gold Price (A\$/oz)	1240	1390	1465	1436	1309

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 5% and 15% on a 12 month view

Hold: Expect total return between -5% and 5% on a 12 month view

Reduce: Expect total return between -15% and -5% on a 12 month view

Sell: Expect <-15% total return on a 12 month view

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Peter Chapman owns 150,000 shares in RED.