

6 February 2012

## Red 5 Limited

**RED**

**\$1.90/share**

**Buy**

### First gold poured at Siana

RED 5 has announced its first gold pour at Siana with a bar weighing 228oz. The gold was derived from Siana low grade stockpiles, minor Mapawa low grade stockpiles and ore from the Siana upper pit benches. Materials handling issues are largely resolved and the gold plant commissioning is now progressing satisfactorily. Reflecting the delays to first production and slower ramp up, we have downgraded FY12 production from 19koz to 10koz, FY13 from 90koz to 80koz. NPV has reduced by 4% to A\$3.37/share. We recommend buying RED which remains compelling on FY13 & FY14 PEs of 3.0x & 1.9x backed by 77% upside to NPV.

### First gold pour

- First gold bar from Siana poured on Feb 3<sup>rd</sup>.
- Materials handling issues largely resolved.
- Plant commissioning continuing.
- Siana ore is now primarily being fed into the plant.
- The crusher has operated at up to 150% of design capacity (750ktpa).
- Ramp up to full production targeted by end Q2 2012.

### Downgrading numbers

- We have cut FY12 production from 19koz to 10koz.
- FY12 NPAT is down 68% from A\$18.0M to A\$5.8M.
- We have cut FY13 production from 90koz to 80koz.
- FY13 NPAT is down 17% from A\$98.6M to A\$81.5M.
- NPV has reduced by 4% (13c) to A\$3.37/share.
- Forecasts remain unchanged from FY14 onwards.

### Attractive multiples, strong balance sheet

- NPV of A\$3.37/share.
- PEs 3.0x (2013) & 1.9x (2014)
- PCFs 2.5x & 1.6x respectively.
- Cash was \$20.8M at end of Dec 2011.
- RED has no debt and zero hedging.
- An undrawn debt facility of \$8M also remains.
- Significant re-rating expected as ramp up continues.

### Newsflow

- Feb 2012 – RED to provide FY12-13 production and cash cost guidance at month end.
- Ongoing drilling results – two rigs at site.

### Company Data

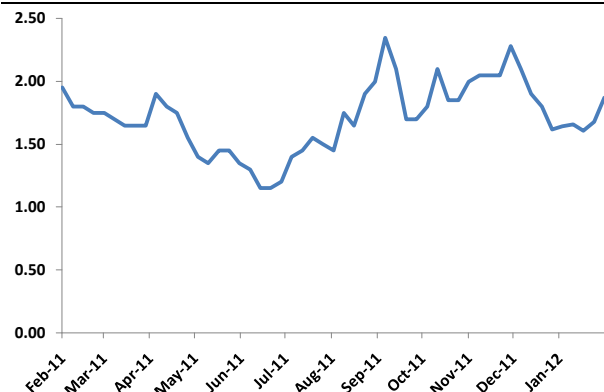
Shares – ordinary (free float)	128.4M
Unlisted Options	0.2M
Total (fully diluted)	128.6M
Market capitalisation (fully diluted)	A\$244.3M
12 month low/high	\$1.10/ \$2.40
Monthly turnover	\$17.9M
Monthly volume	9.1M

### Financial Summary

Year end June	2011A	2012F	2013F	2014F	2015F
Revenue (\$M)	0.6	17.2	137.1	210.7	170.4
Costs (\$M)	7.3	10.8	44.5	63.0	60.5
EBITDA (\$M)	-6.6	6.4	92.6	147.7	110.0
NPAT (\$M)	-8.1	5.8	81.5	130.1	101.9
EPS (¢ps)	-0.6	4.6	63.5	101.3	79.4
PER (x)	na	42	3.0	1.9	2.4
Cashflow (Gross-\$M)	-1.7	8.4	96.0	156.0	123.9
CFPS (¢/sh)	-0.1	6.5	74.8	121.6	96.5
PCFPS (x)	na	29	2.5	1.6	2.0
DPS	0.0	0.0	10.0	16.0	12.0
Dividend Yield (%)	0.0	0.0	5.3	8.4	6.3
Enterprise Value (\$M)	95.1	217.3	137.6	31.4	-73.1
EV / EBITDA (x)	na	34	1.5	0.2	-0.7

Substantial Shareholders (FPO)	Shares (M)	(%)
Baker Steel	11.1	8.6%
Franklin Resources Inc.	6.6	5.2%

### RED (A\$/share) – performance over one year



### Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was a broker to the issue of 300M shares at \$0.17/share (pre 10:1 consolidation) in October 2010, raising A\$51.0M. A fee was received.

Andrew Richards  
+61 (0)2 9239 9605

## Analysis

### RED 5 LIMITED

(RED)

6-Feb-12

Year End 30 June A\$

PROFIT & LOSS	2010A	2011A	2012F	2013F	2014F	2015F
Sales Revenue	\$M 0.0	0.0	17.2	137.1	210.7	170.4
Other Income	\$M 0.0	0.6	0.0	0.0	0.0	0.0
Operating Costs	\$M 1.7	4.3	10.8	44.5	63.0	60.5
Exploration	\$M 0.5	2.0	0.0	0.0	0.0	0.0
Other	\$M 0.0	1.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>\$M (2.2)</b>	<b>(6.6)</b>	<b>6.4</b>	<b>92.6</b>	<b>147.7</b>	<b>110.0</b>
Dep. & Amort.	\$M 0.0	0.0	2.6	14.5	26.0	21.9
<b>EBIT</b>	<b>\$M (2.2)</b>	<b>(6.7)</b>	<b>3.9</b>	<b>78.1</b>	<b>121.7</b>	<b>88.0</b>
Net Interest	\$M (1.7)	1.4	(2.0)	(3.4)	(8.4)	(13.9)
<b>Pre-Tax Profit</b>	<b>\$M (0.4)</b>	<b>(8.1)</b>	<b>5.8</b>	<b>81.5</b>	<b>130.1</b>	<b>101.9</b>
Tax	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Minorities	\$M 0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>\$M (0.4)</b>	<b>(8.1)</b>	<b>5.8</b>	<b>81.5</b>	<b>130.1</b>	<b>101.9</b>
Abnormal	\$M 0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	<b>\$M (0.4)</b>	<b>(8.1)</b>	<b>5.8</b>	<b>81.5</b>	<b>130.1</b>	<b>101.9</b>
Dividends Paid	\$M 0.0	0.0	0.0	12.2	19.5	15.3
Adjustments	\$M 0.0	0.0	0.0	0.0	0.0	0.0
<b>Retained Earning</b>	<b>\$M (16.4)</b>	<b>(24.5)</b>	<b>(18.6)</b>	<b>50.7</b>	<b>161.2</b>	<b>247.9</b>
<b>CASH FLOW</b>						
Revenue	\$M 0.0	0.4	17.2	137.1	210.7	170.4
Costs	\$M (2.0)	(4.8)	(10.8)	(44.5)	(63.0)	(60.5)
Net Interest	\$M 1.9	2.8	2.0	3.4	8.4	13.9
Tax Paid	\$M 0.0	(0.2)	0.0	0.0	0.0	0.0
<b>Gross Cash Flow</b>	<b>\$M (0.1)</b>	<b>(1.7)</b>	<b>8.4</b>	<b>96.0</b>	<b>156.0</b>	<b>123.9</b>
Net Capex	\$M (2.8)	(45.8)	(34.3)	(4.0)	(30.4)	(4.0)
Exploration	\$M (2.9)	0.0	0.0	0.0	0.0	0.0
Dividends	\$M 0.0	0.0	0.0	(12.2)	(19.5)	(15.3)
Other	\$M (1.6)	0.0	0.0	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>\$M (7.4)</b>	<b>(47.5)</b>	<b>(25.9)</b>	<b>79.7</b>	<b>106.1</b>	<b>104.5</b>
Equity Issues	\$M 42.5	48.8	0.0	0.0	0.0	0.0
Net Borrowings	\$M 0.0	(0.3)	0.0	0.0	0.0	0.0
Net Investments	\$M 0.0	(4.5)	0.0	0.0	0.0	0.0
<b>Surplus Cash Flow</b>	<b>\$M 35.1</b>	<b>(3.6)</b>	<b>(25.9)</b>	<b>79.7</b>	<b>106.1</b>	<b>104.5</b>
<b>BALANCE SHEET</b>						
Cash	\$M 57.7	52.5	26.6	106.3	212.5	317.0
Other Current	\$M 1.5	3.3	3.4	11.0	14.7	15.3
<b>Total Current</b>	<b>\$M 59.2</b>	<b>55.8</b>	<b>30.1</b>	<b>117.3</b>	<b>227.2</b>	<b>332.3</b>
Fixed Assets	\$M 39.8	76.9	108.6	98.2	102.6	84.7
Exploration	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Intangibles	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$M 0.0	3.5	3.5	3.5	3.5	3.5
<b>Total NC Assets</b>	<b>\$M 39.9</b>	<b>80.4</b>	<b>112.1</b>	<b>101.7</b>	<b>106.1</b>	<b>88.2</b>
<b>TOTAL ASSETS</b>	<b>\$M 99.1</b>	<b>136.1</b>	<b>142.2</b>	<b>219.0</b>	<b>333.3</b>	<b>420.6</b>
Total Debt	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Current Liab	\$M 2.9	6.3	6.3	6.3	6.3	6.3
Non Current Liab	\$M 0.3	0.4	0.6	8.1	11.9	12.5
<b>TOTAL LIAB</b>	<b>\$M 3.3</b>	<b>6.7</b>	<b>6.9</b>	<b>14.4</b>	<b>18.2</b>	<b>18.8</b>
<b>NET ASSETS</b>	<b>\$M 95.8</b>	<b>129.4</b>	<b>135.3</b>	<b>204.6</b>	<b>315.1</b>	<b>401.8</b>
<b>SH/HLDRS FUND</b>	<b>\$M 95.8</b>	<b>129.4</b>	<b>135.3</b>	<b>204.6</b>	<b>315.1</b>	<b>401.8</b>
<b>RATIO ANALYSIS</b>						
EPS	¢ (0.0)	(0.6)	4.6	63.5	101.3	79.4
PER	x na	na	41.7	3.0	1.9	2.4
EPS Growth	% (13.3)	1,300	(821)	1,295.0	59.5	(21.6)
EBITDA per share	¢ -0.2	-0.5	5.0	72.1	115.0	85.7
EBITDA Multiple	x -54.1	-22.2	37.9	2.6	1.7	2.2
EV/EBITDA	x -27.4	-14.3	33.8	1.5	0.2	-0.7
CFPS	¢ (0.0)	(0.1)	6.5	74.8	121.6	96.5
PCFR	x na	na	29.0	2.5	1.6	2.0
DPS	¢ 0.0	0.0	0.0	10.0	16.0	12.0
Yield	% 0.0	0.0	0.0	5.3	8.4	6.3
Franking	% 0	0	0	0	0	0
Payout Ratio	% 0%	0%	0%	15%	15%	15%
Gearing D/E	% na	na	na	na	na	na
Interest Cover	x 1.3	na	na	na	na	na
EBITDA Margin	% na	na	37.4	67.5	70.1	64.5
EBIT Margin	% na	na	22.5	57.0	57.8	51.7
Return On Assets	% (2.2)	(4.9)	2.7	35.7	36.5	20.9
Return On Equity	% (0.5)	(6.3)	4.3	39.9	41.3	25.4
Eff Tax rate	% 0	0	0	0	0	0

Share Price	(\$)	1.90
Iss. Shares	(M)	128.4
Unlisted Options	(M)	0.2
Mkt Cap.	(\$M)	244.3 Fully diluted for ops

RESERVES & RESOURCES	2010A	2011A	2012F	2013F	2014F	2015F
<b>RESERVES</b>						
Tonnes	Mt 6.1	6.1	6.0	5.2	4.1	3.2
Grade	g/t 4.30	4.30	4.34	4.46	4.53	4.56
Contained Gold	oz 846,079	846,079	833,058	739,776	590,886	464,411
<b>RESOURCES</b>						
Tonnes	Mt 6.7	13.2	13.1	12.2	11.1	10.2
Grade	g/t 5.20	3.20	3.21	3.18	3.08	2.96
Contained Gold	oz 1,118,460	1,358,048	1,345,026	1,251,744	1,102,854	976,380
<b>PRODUCTION (100%)</b>						
Ore Milled	Mt 0.00	0.00	0.15	0.8	1.1	0.9
Grade	g/t 0.0	0.0	2.7	3.6	4.2	4.4
Recovery	% 0%	0%	75%	86%	86%	86%
Gold Produced	oz 0	0	9,766	80,223	128,045	108,768
<b>REVENUE (attributable)</b>						
Siana	\$M 0.0	0.0	17.2	137.1	210.7	170.4
Other	\$M 0.0	0.6	0.0	0.0	0.0	0.0
Total	\$M 0.0	0.6	17.2	137.1	210.7	170.4
<b>COSTS (attributable)</b>						
Cash costs (post credits) A\$/oz	0	0	571	404	371	452
Cash costs	J\$/oz 0	0	592	398	344	396
Cash costs	\$M 0.0	0.0	6.6	35.5	51.1	51.6
Royalties	\$M 0.0	0.0	0.7	5.5	8.4	6.8
Other	\$M 1.7	4.3	3.5	3.5	3.5	2.0
Total	\$M 1.7	4.3	10.8	44.5	63.0	60.5
<b>CAPEX (attributable)</b>						
Siana	\$M 3.7	44.9	34.3	4.0	30.4	4.0
Other	\$M -0.9	0.9	0.0	0.0	0.0	0.0
Total	\$M 2.8	45.8	34.3	4.0	30.4	4.0
<b>DEPRECIATION (attributable)</b>						
Siana	\$M 0.0	0.0	2.6	14.5	26.0	21.9
Other	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Total	\$M 0.0	0.0	2.6	14.5	26.0	21.9
<b>EBITDA (attributable)</b>						
Siana	\$M 0.0	0.0	10.6	101.5	159.6	118.8
Other (incl. writedowns)	\$M -2.2	-6.6	0.0	0.0	0.0	0.0
Total	\$M -2.2	-6.6	10.6	101.5	159.6	118.8
<b>HEDGING (attributable)</b>						
Gold hedged	oz 0	0	0	0	0	0
Hedged price	J\$/oz 0	0	0	0	0	0
Hedged price	A\$/oz 0	0	0	0	0	0
Sales hedged	% 0%	0%	0%	0%	0%	0%
Ave. deliverable price	J\$/oz 1093	1373	1745	1675	1525	1375
Ave. deliverable price	A\$/oz 1,238	1,386	1,682	1,701	1,649	1,571
<b>ASSUMPTIONS</b>						
Exchange Rate	\\$/US: 0.88	0.99	1.04	0.99	0.93	0.88
Gold Price	J\$/oz 1093	1373	1745	1675	1525	1375
Gold Price	A\$/oz 1238	1386	1682	1701	1649	1571
Silver price	US\$/oz 16.91	28.94	40.01	37.50	32.50	28.50
90 day Bank Bills	% 4.06	4.91	4.97	5.13	5.25	5.25
10 Yr Bond rate	% 5.55	5.32	4.90	5.25	5.50	5.50
Interest Rate Charged	% 6.05	5.82	5.40	5.75	6.00	6.00
<b>VALUATION (fully diluted)</b>						
Siana				A\$M 412.8	A\$ps 3.22	
Exploration				5.0	\$ 0.04	
Corporate				0.0	\$ -	
Net Cash (Debt)				15.0	\$ 0.12	
<b>Total</b>				<b>432.8</b>	<b>\$ 3.37</b>	

Source: Petra Capital

## Petra Capital

Level 1, 343 George Street, Sydney NSW 2000

ABN 95 110 952 782

ACN 110 952 782

AFSL 317 944

Research (Resources):	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Andrew Richards	+61 (0)2 9239 9605	arichards@petracapital.com.au
Research (Resources):	Mark Cotton	+61 (0)2 9239 9614	mcotton@petracapital.com.au
Research (Resources):	Shaun Giacomo	+61 (0)2 9239 9615	sgiacomo@petracapital.com.au
Research (Industrials):	Michael Henshaw	+61 (0)2 9239 9606	mhenshaw@petracapital.com.au
Research (Industrials):	Richard Amland	+61 (0)2 9239 9607	ramland@petracapital.com.au
Sales:	Patrick Schilling	+61 (0)2 9239 9616	pschilling@petracapital.com.au
Sales:	Errol Penrose	+61 (0)2 9239 9602	epenrose@petracapital.com.au
Sales:	Kevin Curran	+61 (0)2 9239 9609	kcurran@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9600	lfalvo@petracapital.com.au
Administration:	Jacky Smith	+61 (0)2 9239 9600	jsmith@petracapital.com.au

This document has been prepared in Australia by Petra Capital Pty Ltd who holds an Australian Financial Services License AFSL 317 944 and whose ABN is 95 110 952 782.

### Disclosure

Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may hold securities in Red 5 Limited and may trade in these securities either as principal or agent. On 14th October 2010, Petra Capital was a broker to the issue of 300,000,000 shares at \$0.17/share (pre 10:1 consolidation) to raise \$51.0M, for which Petra Capital received a fee.

### Disclaimer

This report is published by Petra Capital Pty Ltd by way of general information or advice only. The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information or advice has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice. Petra Capital Pty Ltd accepts no liability or responsibility for any direct or indirect loss or damage caused by any error or omission within this report, or by persons relying on the contents of this report.

### US Investors

This material is intended for use by major U.S. institutional investors (as such term is defined in the U.S. Securities Exchange Act of 1934) and “\$100 million investors” only and not the general investing public or retail customers. “\$100 million investors” means any entity, including any investment adviser (whether or not registered under the U.S. Investment Company Act of 1940) that owns or controls (or in the case of an investment adviser has under management) in excess of US\$100 million in aggregate financial assets (i.e. cash, money-market instruments, securities of unaffiliated issues, futures and options on futures and other derivative instruments). Transactions by or on behalf of any US person in any security mentioned in this document may only be effected through Monarch Capital Group LLC, a U.S. broker dealer. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer’s best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Limited or Monarch and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

### Other International Investors

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.