

29 July 2011

Red 5 Limited

RED

\$0.15/share

Siana on track for gold in November

Buy

RED 5 has reiterated its targeted first gold pour from Siana for November. Dewatering of the pit is 85% complete and pre-strip material movement was 20% above budget in June. Cash costs have been reaffirmed at US\$364/oz for life of mine. RED is well funded with A\$52.5M cash and A\$34.4M required to complete the mine build. Recent drilling at Siana has intersected narrow alteration zones with assay results due soon. We recommend clients buy RED which is trading on FY12 & FY13 PEs of 4.3x & 2.7x backed by 87% upside to our base case NPV of A\$0.28/share.

Siana (100%) – project update

- Elution column, CIL and detox tanks in place (Fig. 1).
- SAG mill installation underway (Fig. 2).
- All major concrete pours completed.
- Mine site drainage system performing well.
- Truck movements above budget (0.5M BCM, June).
- Majority of operators employed from local villages.
- Over 1,100 people currently on site.
- Electrical teams mobilising to site.
- Operations Director and Exploration Manager hired.
- Capex in line - A\$80M (US\$85M), we model A\$85M.
- Reserves 708koz, resources of 1,124koz.
- Mine plan targets 849koz production over 8 years.
- Low cash costs of US\$364/oz LOM.

Exploration recommenced at Siana

- One rig operating with a second due soon.
- Two holes completed targeting northern extensions.
- Assay results expected soon.
- Mineralisation remains open at depth and along strike.

Attractive multiples, strong balance sheet

- Conservative NPV of \$0.28ps
- PEs 4.3x (2012), 2.7x (2013) & 2.2x (2014)
- PCFs 3.6x, 2.1x & 1.7x respectively.
- EV/Reserve oz of \$230 vs. peer average ~\$450.
- Fully funded with no debt and zero hedging.
- Additional US\$8M standby credit facility in place.
- Significant re-rating as gold production approaches.

Key Dates

- Q3 2011 – Drill results from Siana.
- Q3/4 2011 – Commission Siana plant.
- Q4 2011 – First gold production.

Company Data

Shares – ordinary (free float)	1283.7M
Unlisted Options	2.8M
Total (fully diluted)	1286.5M
Market capitalisation (fully diluted)	A\$193M
12 month low/high	\$0.11/ \$0.22
Monthly turnover	\$15.1M
Monthly volume	95M

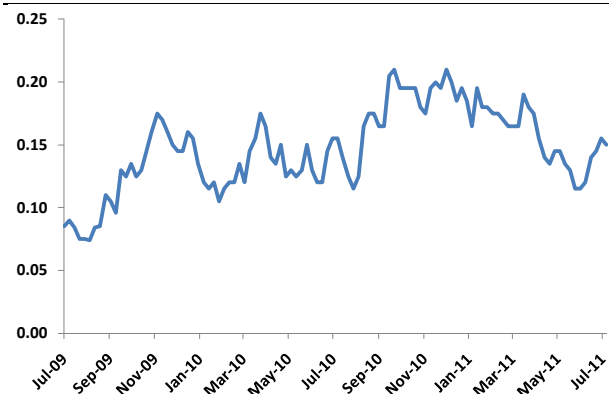
Financial Summary

Year end June	2010A	2011F	2012F	2013F	2014F
Revenue (\$M)	0.0	0.0	74.0	132.4	170.2
Costs (\$M)	2.2	5.5	24.3	47.8	67.6
EBITDA (\$M)	-2.2	-5.5	49.7	84.7	102.7
NPAT (\$M)	-0.4	-3.6	42.9	68.3	84.7
EPS (¢ps)	0.0	-0.3	3.3	5.3	6.6
PER (x)	na	na	4.3	2.7	2.2
Cashflow (Gross-\$M)	-0.1	-1.6	51.9	89.8	111.4
CFPS (¢/sh)	0.0	-0.1	4.0	7.0	8.7
PCFPS (x)	na	na	3.6	2.1	1.7
Enterprise Value (\$M)	59	167	118	59	-19.1
EV / EBITDA (x)	na	na	2.4	0.7	-0.2

Substantial Shareholders (FPO)

Substantial Shareholders (FPO)	Shares (M)	(%)
Mathews Capital	227.4	17.7%
Baker Steel	101.8	7.9%
JP Morgan	73.5	5.7%
Sprott Asset	71.2	5.5%

RED (A\$ps) – 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 in October 2010, raising A\$51.0M. A fee was received.

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Analysis

RED 5 LIMITED (RED) 29-Jul-11 Year End 30 June A\$							Share Price	(\$)	0.15						
							Iss. Shares	(M)	1283.7						
							Unlisted Options	(M)	2.8						
							Mkt Cap.	(\$M)	186.5	Fully diluted for ops					
PROFIT & LOSS							RESERVES & RESOURCES								
	2009A	2010A	2011F	2012F	2013F	2014F		2009A	2010A	2011F	2012F	2013F	2014F		
Sales Revenue	\$M	0.0	0.0	0.0	74.0	132.4	170.2	Reserves							
Other Income	\$M	0.0	0.0	0.0	0.0	0.0	Tonnes	Mt	6.1	6.1	6.1	5.6	4.7	3.6	
Operating Costs	\$M	1.4	1.7	3.5	24.3	47.8	67.6	Grade	g/t	4.30	4.30	4.30	4.37	4.53	4.63
Exploration	\$M	0.1	0.5	2.0	0.0	0.0	0.0	Contained Gold	oz	846,079	846,079	846,079	790,137	684,837	535,947
Other	\$M	0.2	0.0	0.0	0.0	0.0	0.0	Resources							
EBITDA	\$M	(1.7)	(2.2)	(5.5)	49.7	84.7	102.7	Tonnes	Mt	6.7	6.7	6.7	6.2	5.3	4.2
Dep. & Amort.	\$M	0.0	0.0	0.0	9.0	21.5	26.7	Grade	g/t	5.20	5.20	5.20	5.34	5.65	6.03
EBIT	\$M	(1.7)	(2.2)	(5.5)	40.7	63.1	76.0	Contained Gold	oz	1,118,460	1,118,460	1,118,460	1,062,518	957,218	808,328
Net Interest	\$M	(1.4)	(1.7)	(1.9)	(2.2)	(5.1)	(8.7)	PRODUCTION (100%)							
Pre-Tax Profit	\$M	(0.3)	(0.4)	(3.6)	42.9	68.3	84.7	Ore Milled	Mt	0.00	0.00	0.00	0.50	0.9	1.1
Tax	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Grade	g/t	0.0	0.0	0.0	3.5	3.6	4.2
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Recovery	%	0%	0%	83%	86%	86%	86%
Net Profit	\$M	(0.3)	(0.4)	(3.6)	42.9	68.3	84.7	Gold Produced	oz	0	0	0	48,110	90,558	128,045
Abnormal	\$M	(0.4)	0.0	0.0	0.0	0.0	0.0	REVENUE (attributable)							
Reported Profit	\$M	(0.8)	(0.4)	(3.6)	42.9	68.3	84.7	Siana	\$M	0.0	0.0	0.0	74.0	132.4	170.2
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	29.6	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Total	\$M	0.0	0.0	0.0	74.0	132.4	170.2
Retained Earning	\$M	(15.9)	(16.4)	(20.0)	23.0	91.3	146.3	COSTS (attributable)							
CASH FLOW															
Revenue	\$M	0.0	0.0	0.0	74.0	132.4	170.2	Cash costs (post credits' A\$/oz)		0	0	0	293	400	429
Costs	\$M	(1.6)	(2.0)	(3.5)	(24.3)	(47.8)	(67.6)	Cash costs	J\$/oz	0	0	0	278	350	354
Net Interest	\$M	1.6	1.9	1.9	2.2	5.1	8.7	Cash costs	\$M	0.0	0.0	0.0	18.0	39.0	57.3
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Royalties	\$M	0.0	0.0	0.0	2.9	5.3	6.8
Gross Cash Flow	\$M	(0.0)	(0.1)	(1.6)	51.9	89.8	111.4	Other	\$M	1.4	1.7	3.5	3.5	3.5	3.5
Net Capex	\$M	(6.0)	(2.8)	(81.5)	(3.5)	(30.3)	(4.0)	Total	\$M	1.4	1.7	3.5	24.3	47.8	67.6
Exploration	\$M	0.0	(2.9)	0.0	0.0	0.0	0.0	CAPEX (attributable)							
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	(29.6)	Siana	\$M	6.3	3.7	81.5	3.5	30.3	4.0
Other	\$M	0.0	(1.6)	0.0	0.0	0.0	0.0	Other	\$M	-0.3	-0.9	0.0	0.0	0.0	0.0
Free Cashflow	\$M	(6.0)	(7.4)	(83.1)	48.5	59.5	77.8	Total	\$M	6.0	2.8	81.5	3.5	30.3	4.0
Equity Issues	\$M	0.0	42.5	48.5	0.0	0.0	0.0	DEPRECIATION (attributable)							
Net Borrowings	\$M	(2.0)	0.0	0.0	0.0	0.0	0.0	Siana	\$M	0.0	0.0	0.0	9.0	21.5	26.7
Net Investments	\$M	0.0	0.0	(3.5)	0.0	0.0	0.0	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0
Surplus Cash Flo	\$M	(8.0)	35.1	(38.2)	48.5	59.5	77.8	Total	\$M	0.0	0.0	0.0	9.0	21.5	26.7
BALANCE SHEET							EBITDA (attributable)								
Cash	\$M	22.5	57.7	19.5	68.0	127.4	205.2	Siana	\$M	0.0	0.0	0.0	56.1	93.5	113.0
Other Current	\$M	0.3	1.5	0.0	3.7	6.6	8.5	Other (incl. writedowns)	\$M	-1.7	-2.2	0.0	0.0	0.0	0.0
Total Current	\$M	22.8	59.2	19.5	71.7	134.1	213.7	Total	\$M	-1.7	-2.2	0.0	56.1	93.5	113.0
Fixed Assets	\$M	1.3	39.8	121.3	115.8	124.6	101.9	HEDGING (attributable)							
Exploration	\$M	27.5	0.0	20.0	18.0	16.0	13.0	Gold hedged	oz	0	0	0	0	0	0
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Hedged price	J\$/oz	0	0	0	0	0	0
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Hedged price	A\$/oz	0	0	0	0	0	0
Total NC Assets	\$M	28.8	39.9	141.4	133.8	140.7	115.0	Sales hedged	%	0%	0%	0%	0%	0%	0%
TOTAL ASSETS	\$M	51.6	99.1	160.9	205.5	274.7	328.7	Ave. deliverable price	J\$/oz	875	1093	1370	1413	1275	1100
Total Debt	\$M	0.3	0.0	0.0	0.0	0.0	0.0	Ave. deliverable price	A\$/oz	1,173	1,238	1,381	1,487	1,457	1,333
Current Liab	\$M	0.4	2.9	2.9	2.9	2.9	2.9	ASSUMPTIONS							
Non Current Liab	\$M	0.3	0.3	17.3	19.0	20.0	18.8	Exchange Rate	A\$/US:	0.75	0.88	0.99	0.95	0.88	0.83
TOTAL LIAB	\$M	1.0	3.3	20.2	21.9	22.9	21.8	Gold Price	J\$/oz	875	1093	1370	1413	1275	1100
NET ASSETS	\$M	50.6	95.8	140.6	183.6	251.9	306.9	Gold Price	A\$/oz	1173	1238	1381	1487	1457	1333
SH/HLDRS FUND	\$M	50.6	95.8	140.6	183.6	251.9	306.9	Silver price	US\$/oz	12.89	16.91	29.18	32.50	27.50	22.50
RATIO ANALYSIS															
EPS	¢	(0.1)	(0.0)	(0.3)	3.3	5.3	6.6	90 day Bank Bills	%	4.77	4.06	4.90	5.13	5.25	5.25
PER	x	na	na	na	4.3	2.7	2.2	10 Yr Bond rate	%	5.06	5.55	5.35	6.00	6.00	6.00
EPS Growth	%	(45.4)	(13.3)	523	(1,291)	59.0	24.1	Interest Rate Charged	%	5.56	6.05	5.85	6.50	6.50	6.50
EBITDA per share	¢	-0.3	-0.2	-0.4	3.9	6.6	8.0	VALUATION (fully diluted)							
EBITDA Multiple	x	-27.7	-54.1	-33.8	3.7	2.2	1.8	Siana	\$M				337.4	\$	0.26
EV/EBITDA	x	-14.8	-27.4	-30.3	2.4	0.7	-0.2	Exploration				10.0	\$	0.01	
CFPS	¢	(0.0)	(0.0)	(0.1)	4.0	7.0	8.7	Other				0.0	\$	-	
PCFR	x	na	na	na	3.6	2.1	1.7	Net Cash (Debt)				18.0	\$	0.01	
DPS	¢	0.0	0.0	0.0	0.0	0.0	2.3	Total				365.4	\$	0.28	
Yield	%	0.0	0.0	0.0	0.0	0.0	15.9								
Franking	%	0	0	0	0	0	0								
Payout Ratio	%	0%	0%	0%	0%	0%	35%								
Gearing D/E	%	na	na	na	na	na	na								
Interest Cover	x	1.2	1.3	2.9	na	na	na								
EBITDA Margin	%	na	na	na	67.1	63.9	60.3								
EBIT Margin	%	na	na	na	55.0	47.7	44.6								
Return On Assets	%	(3.3)	(2.2)	(3.4)	19.8	23.0	23.1								
Return On Equity	%	(0.7)	(0.5)	(2.6)	23.4	27.1	27.6								
Eff Tax rate	%	0	0	0	0	0	0								

Source: Petra Capital

Figure 1: CIL tanks, detox tanks and elution column



Source: Red 5

Figure 2: SAG Mill installation



Source: Red 5

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