

14 December 2011

Red 5 Limited

RED

\$1.85/share

First gold pour delayed

Buy

The inaugural gold pour has been inhibited by electrical issues and twenty year old stockpiled ore from Mapawa. The electrical issues have since been resolved and Siana ore, which has been comprehensively tested, is now being exclusively fed into the plant. We have downgraded FY12 production from 43koz to 19koz and NPV has reduced by 6% to A\$3.50/share. Whilst the delay is disappointing, we expect first gold pour by year end. RED remains compelling and we view any shareprice weakness as a buying opportunity. RED is trading on FY12 & FY13 PEs of 13.2x & 2.4x backed by 89% upside to NPV of A\$3.50/share.

First gold pour delayed

- Voltage regulators failed in early commissioning.
- Regulators replaced, generators working as planned.
- Initial feed was a blend of Siana and Mapawa ore.
- The Mapawa ore is 'dirty' (magnetite and pyrite) causing recovery issues.
- Siana ore is now being fed exclusively into the plant.
- Remainder of plant is commissioning as planned.
- We expect first gold pour by year end.
- Ramp up to full production targeted by end Q1 2012.

Downgrading numbers

- We have cut FY12 production by 55% to 19koz.
- FY12 NPAT down 64% from A\$49.7M to A\$18.0M.
- NPV has reduced by 6% (22c) to A\$3.50/share.
- Forecasts remain unchanged from FY13 onwards.

Attractive multiples, strong balance sheet

- NPV of A\$3.50/share.
- PEs 13x (2012), 2.4x (2013) & 1.8x (2014)
- PCFs 11x, 2.1x & 1.5x respectively.
- We estimate cash of ~\$15M.
- RED has no debt and zero hedging.
- An undrawn debt facility of \$8M also remains.
- Significant re-rating expected once in production.

Newsflow

- December – First gold pour.
- Q1 2012 - Reserve upgrade and mine plan.
- 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\$237.9M
12 month low/high	\$1.05/ \$2.25
Monthly turnover	\$13.1M
Monthly volume	8.4M

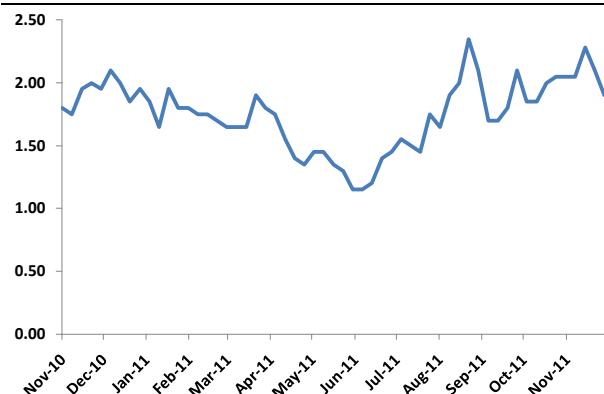
Financial Summary

Year end June	2011A	2012F	2013F	2014F	2015F
Revenue (\$M)	0.6	33.5	154.7	210.7	170.4
Costs (\$M)	7.3	14.4	44.3	63.0	60.5
EBITDA (\$M)	-6.6	19.1	110.4	147.7	110.0
NPAT (\$M)	-8.1	18.0	98.6	131.4	103.4
EPS (¢ps)	-0.6	14.0	76.8	102.4	80.5
PER (x)	na	13.2	2.4	1.8	2.3
Cashflow (Gross-\$M)	-1.7	21.4	114.9	157.6	125.5
CFPS (¢/sh)	-0.1	16.7	89.5	122.8	97.8
PCFPS (x)	na	11.1	2.1	1.5	1.9
Enterprise Value (\$M)	95.1	197.9	101.8	-5.7	-111.7
EV / EBITDA (x)	na	10.4	0.9	0.0	-1.0

Substantial Shareholders (FPO)

Substantial Shareholders (FPO)	Shares (M)	(%)
Baker Steel	11.1	8.6%
Matthews Capital	7.8	6.1%
Sprott Asset	6.9	5.4%

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.

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Analysis

RED 5 LIMITED (RED) 14-Dec-11 Year End 30 June A\$							Share Price	(\$)	1.85						
							Iss. Shares	(M)	128.4						
							Unlisted Options	(M)	0.2						
							Mkt Cap.	(\$M)	237.9	Fully diluted for ops					
PROFIT & LOSS							RESERVES & RESOURCES								
	2010A	2011A	2012F	2013F	2014F	2015F		2010A	2011A	2012F	2013F	2014F	2015F		
Sales Revenue	\$M	0.0	0.0	33.5	154.7	210.7	170.4	Reserves							
Other Income	\$M	0.0	0.6	0.0	0.0	0.0	0.0	Tonnes	Mt	6.1	6.1	5.9	5.0	3.9	3.0
Operating Costs	\$M	1.7	4.3	14.4	44.3	63.0	60.5	Grade	g/t	4.30	4.30	4.33	4.47	4.54	4.58
Exploration	\$M	0.5	2.0	0.0	0.0	0.0	0.0	Contained Gold	oz	846,079	846,079	823,702	718,402	569,512	443,037
Other	\$M	0.0	1.0	0.0	0.0	0.0	0.0	Resources							
EBITDA	\$M	(2.2)	(6.6)	19.1	110.4	147.7	110.0	Tonnes	Mt	6.7	13.2	13.0	12.1	11.0	10.1
Dep. & Amort.	\$M	0.0	0.0	3.4	16.3	26.2	22.1	Grade	g/t	5.20	3.20	3.20	3.17	3.06	2.94
EBIT	\$M	(2.2)	(6.7)	15.7	94.1	121.5	87.8	Contained Gold	oz	1,118,460	1,358,048	1,335,671	1,230,370	1,081,480	955,006
Net Interest	\$M	(1.7)	1.4	(2.3)	(4.5)	(9.9)	(15.6)	PRODUCTION (100%)							
Pre-Tax Profit	\$M	(0.4)	(8.1)	18.0	98.6	131.4	103.4	Ore Milled	Mt	0.00	0.00	0.20	0.9	1.1	0.9
Tax	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Grade	g/t	0.0	0.0	3.5	3.6	4.2	4.4
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Recovery	%	0%	83%	86%	86%	86%	86%
Net Profit	\$M	(0.4)	(8.1)	18.0	98.6	131.4	103.4	Gold Produced	oz	0	0	19,244	90,558	128,045	108,768
Abnormal	\$M	0.0	0.0	0.0	0.0	0.0	0.0	REVENUE (attributable)							
Reported Profit	\$M	(0.4)	(8.1)	18.0	98.6	131.4	103.4	Siana	\$M	0.0	0.0	33.5	154.7	210.7	170.4
Dividends Paid	\$M	0.0	0.0	0.0	14.8	19.7	15.5	Other	\$M	0.0	0.6	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	0.6	33.5	154.7	210.7	170.4
Retained Earning	\$M	(16.4)	(24.5)	(6.5)	77.3	189.0	276.9	COSTS (attributable)							
CASH FLOW							Cash costs (post credits, A\$/oz)		0	0	409	342	371	452	
Revenue	\$M	0.0	0.4	33.5	154.7	210.7	170.4	Cash costs	J\$/oz	0	0	425	337	344	396
Costs	\$M	(2.0)	(4.8)	(14.4)	(44.3)	(63.0)	(60.5)	Cash costs	\$M	0.0	0.0	9.6	34.6	51.1	51.6
Net Interest	\$M	1.9	2.8	2.3	4.5	9.9	15.6	Royalties	\$M	0.0	0.0	1.3	6.2	8.4	6.8
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Other	\$M	1.7	4.3	3.5	3.5	3.5	2.0
Gross Cash Flow	\$M	(0.1)	(1.7)	21.4	114.9	157.6	125.5	Total	\$M	1.7	4.3	14.4	44.3	63.0	60.5
Net Capex	\$M	(2.8)	(45.8)	(34.3)	(4.0)	(30.4)	(4.0)	CAPEX (attributable)							
Exploration	\$M	(2.9)	0.0	0.0	0.0	0.0	0.0	Siana	\$M	3.7	44.9	34.3	4.0	30.4	4.0
Dividends	\$M	0.0	0.0	0.0	(14.8)	(19.7)	(15.5)	Other	\$M	-0.9	0.9	0.0	0.0	0.0	0.0
Other	\$M	(1.6)	0.0	0.0	0.0	0.0	0.0	Total	\$M	2.8	45.8	34.3	4.0	30.4	4.0
Free Cashflow	\$M	(7.4)	(47.5)	(12.9)	96.1	107.5	106.0	DEPRECIATION (attributable)							
Equity Issues	\$M	42.5	48.8	0.0	0.0	0.0	0.0	Siana	\$M	0.0	0.0	3.4	16.3	26.2	22.1
Net Borrowings	\$M	0.0	(0.3)	0.0	0.0	0.0	0.0	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0
Net Investments	\$M	0.0	(4.5)	0.0	0.0	0.0	0.0	Total	\$M	0.0	0.0	3.4	16.3	26.2	22.1
Surplus Cash Flo	\$M	35.1	(3.6)	(12.9)	96.1	107.5	106.0	EBITDA (attributable)							
BALANCE SHEET							Siana	\$M	0.0	0.0	23.9	120.1	159.6	118.8	
Cash	\$M	57.7	52.5	39.6	135.7	243.2	349.2	Other (incl. writedowns)	\$M	-2.2	-6.6	0.0	0.0	0.0	
Other Current	\$M	1.5	3.3	5.0	12.4	14.7	15.3	Total	\$M	-2.2	-6.6	23.9	120.1	159.6	118.8
Total Current	\$M	59.2	55.8	44.6	148.1	258.0	364.5	HEDGING (attributable)							
Fixed Assets	\$M	39.8	76.9	107.8	95.5	99.7	81.6	Gold hedged	oz	0	0	0	0	0	0
Exploration	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Hedged price	J\$/oz	0	0	0	0	0	0
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Hedged price	A\$/oz	0	0	0	0	0	0
Other	\$M	0.0	3.5	3.5	3.5	3.5	3.5	Sales hedged	%	0%	0%	0%	0%	0%	0%
Total NC Assets	\$M	39.9	80.4	111.3	99.0	103.2	85.1	Ave. deliverable price	J\$/oz	1093	1373	1745	1675	1525	1375
TOTAL ASSETS	\$M	99.1	136.1	155.9	247.1	361.1	449.6	Ave. deliverable price	A\$/oz	1,238	1,386	1,682	1,701	1,649	1,571
Total Debt	\$M	0.0	0.0	0.0	0.0	0.0	0.0	ASSUMPTIONS							
Current Liab	\$M	2.9	6.3	6.3	6.3	6.3	6.3	Exchange Rate	\\$/US:	0.88	0.99	1.04	0.99	0.93	0.88
Non Current Liab	\$M	0.3	0.4	2.2	9.5	11.9	12.5	Gold Price	J\$/oz	1093	1373	1745	1675	1525	1375
TOTAL LIAB	\$M	3.3	6.7	8.5	15.8	18.2	18.8	Gold Price	A\$/oz	1238	1386	1682	1701	1649	1571
NET ASSETS	\$M	95.8	129.4	147.4	231.2	342.9	430.8	Silver price	US\$/oz	16.91	28.94	40.01	37.50	32.50	28.50
SH/HLDRS FUND	\$M	95.8	129.4	147.4	231.2	342.9	430.8	90 day Bank Bills	%	4.06	4.91	4.97	5.13	5.25	5.25
RATIO ANALYSIS							10 Yr Bond rate	%	5.55	5.32	4.90	5.25	5.50	5.50	
EPS	¢	(0.0)	(0.6)	14.0	76.8	102.4	80.5	Interest Rate Charged	%	6.05	5.82	5.40	5.75	6.00	6.00
PER	x	na	na	13.2	2.4	1.8	2.3	VALUATION (fully diluted)							
EPS Growth	%	(13.3)	1,300	(2,318)	448.1	33.3	(21.3)	Siana	\$M	424.4	\$	3.31			
EBITDA per share	¢	-0.2	-0.5	14.9	86.0	115.0	85.7	Exploration		10.0	\$	0.08			
EBITDA Multiple	x	-54.1	-22.2	12.4	2.2	1.6	2.2	Other		0.0	\$	-			
EV/EBITDA	x	-27.4	-14.3	10.4	0.9	0.0	-1.0	Net Cash (Debt)		15.0	\$	0.12			
CFPS	¢	(0.0)	(0.1)	16.7	89.5	122.8	97.8	Total	\$M	449.4	\$	3.50			
PCFR	x	na	na	11.1	2.1	1.5	1.9								
DPS	¢	0.0	0.0	0.0	12.0	16.0	13.0								
Yield	%	0.0	0.0	0.0	6.5	8.6	7.0								
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	57.0	71.4	70.1	64.5								
EBIT Margin	%	na	na	46.9	60.8	57.7	51.5								
Return On Assets	%	(2.2)	(4.9)	10.1	38.1	33.6	19.5								
Return On Equity	%	(0.5)	(6.3)	12.2	42.6	38.3	24.0								
Eff Tax rate	%	0	0	0	0	0	0								

Source: Petra Capital

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