

4 October 2011

Red 5 Limited

RED

\$0.17/share

Resources increased, reserves to follow

Buy

RED 5 announced a 21% (231koz) increase in resources to 1.36Moz Au. The increase is based on a US\$900/oz pit shell (previously US\$650/oz). Around 65% of total resources are now in open cut and 35% in the underground. This potentially extends open pit mine life by four years to nine years, and delays start of underground production from year three to year six. We have left our forecasts unchanged ahead of an updated reserve and mine plan due this quarter. Based on recently upgraded gold prices our NPV has increased 32% to A\$0.37/share. We recommend clients buy RED which is trading on FY12 & FY13 PEs of 4.4x & 2.3x backed by 118% upside to NPV.

Resource upgrade

- Resources increased from 1.12Moz to 1.36Moz.
- Open pit comprises 867koz, underground 475koz.
- Indicated resources now 969koz or 71% of total.
- Open pit extended a further 100m to ~300m depth.
- Resources equate to a 12 year mine life at 1.1Mtpa.

Reserves and mine plan

- Ore reserve, mine plan and production schedule currently under review.
- Updated numbers targeted Nov/Dec this year.
- Reserves may potentially rise to ~900koz (708koz).
- RED 5 target cash costs to remain <US\$400/oz.

Siana (100%) – nearing first gold

- Capex in line - A\$80M (US\$85M), we model A\$85M.
- Siana project now 85% complete.
- First gold pour on track for November.

Gold price changes

- We recently upgraded our gold price forecasts.
- 2013 – up 17% from A\$1,457/oz to A\$1,701/oz.
- 2014 – up 24% from A\$1,333/oz to A\$1,649/oz.
- 2015 – up 26% from A\$1,250/oz to A\$1,571/oz.
- Long term – up 20% from A\$1,250/oz to A\$1,500/oz.

Attractive multiples, strong balance sheet

- NPV of A\$0.37ps
- PEs 4.4x (2012), 2.3x (2013) & 1.6x (2014)
- PCFs 3.8x, 1.9x & 1.4x respectively.
- Fully funded with no debt and zero hedging.
- Significant re-rating as gold production approaches.

Company Data

Shares – ordinary (free float)	1283.7M
Unlisted Options	2.8M
Total (fully diluted)	1286.5M
Market capitalisation (fully diluted)	A\$219M
12 month low/high	\$0.11/ \$0.24
Monthly turnover	\$18.5M
Monthly volume	110M

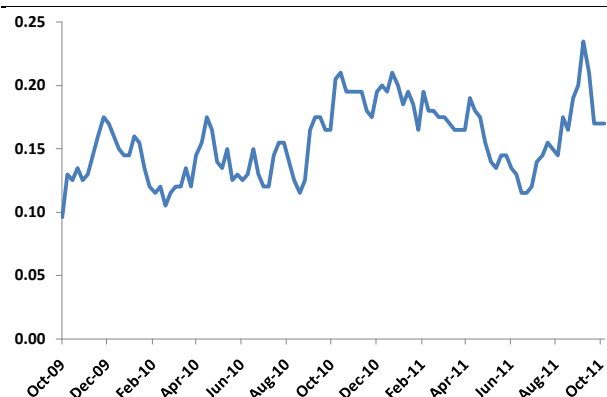
Financial Summary

Year end June	2011A	2012F	2013F	2014F	2015F
Revenue (\$M)	0.6	75.4	154.7	210.7	170.4
Costs (\$M)	7.3	21.2	44.3	63.0	60.5
EBITDA (\$M)	-6.6	54.1	110.4	147.7	110.0
NPAT (\$M)	-8.1	50.0	95.8	132.3	103.8
EPS (¢ps)	-0.6	3.9	7.5	10.3	8.1
PER (x)	na	4.4	2.3	1.6	2.1
Cashflow (Gross-\$M)	-1.7	58.1	117.3	158.9	126.3
CFPS (¢/sh)	-0.1	4.5	9.1	12.4	9.8
PCFPS (x)	na	3.8	1.9	1.4	1.7
Enterprise Value (\$M)	95.1	111.2	57.8	-50.8	-136.8
EV / EBITDA (x)	na	2.1	0.5	-0.3	-1.2

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)							Share Price	(\$)	0.17											
4-Oct-11							Iss. Shares	(M)	1283.7											
Year End 30 June A\$							Unlisted Options	(M)	2.8											
							Mkt Cap.	(\$M)	218.7 Fully diluted for ops											
PROFIT & LOSS							RESERVES & RESOURCES							2010A	2011A	2012F	2013F	2014F	2015F	
Sales Revenue	\$M	0.0	0.0	75.4	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	5.7	4.8	3.7	2.8					
Operating Costs	\$M	1.7	4.3	21.2	44.3	63.0	60.5	Grade	g/t	4.30	4.30	4.37	4.52	4.61	4.68					
Exploration	\$M	0.5	2.0	0.0	0.0	0.0	0.0	Contained Gold	oz	846,079	846,079	795,731	690,431	541,541	415,066					
Other	\$M	0.0	1.0	0.0	0.0	0.0	0.0	Resources												
EBITDA	\$M	(2.2)	(6.6)	54.1	110.4	147.7	110.0	Tonnes	Mt	6.7	13.2	12.8	11.8	10.7	9.8					
Dep. & Amort.	\$M	0.0	0.0	8.1	21.5	26.6	22.5	Grade	g/t	5.20	3.20	3.19	3.16	3.05	2.93					
EBIT	\$M	(2.2)	(6.7)	46.0	88.9	121.0	87.4	Contained Gold	oz	1,118,460	1,358,048	1,307,699	1,202,399	1,053,509	927,035					
Net Interest	\$M	(1.7)	1.4	(4.0)	(6.9)	(11.3)	(16.4)	PRODUCTION (100%)												
Pre-Tax Profit	\$M	(0.4)	(8.1)	50.0	95.8	132.3	103.8	Ore Milled	Mt	0.00	0.00	0.45	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)	50.0	95.8	132.3	103.8	Gold Produced	oz	0	0	43,299	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)	50.0	95.8	132.3	103.8	Siana	\$M	0.0	0.0	75.4	154.7	210.7	170.4					
Dividends Paid	\$M	0.0	0.0	0.0	33.5	46.3	36.3	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	75.4	154.7	210.7	170.4					
Retained Earning	\$M	(16.4)	(24.5)	25.5	87.8	173.8	241.3	COSTS (attributable)												
CASH FLOW							CAPEX (attributable)													
Revenue	\$M	0.0	0.4	75.4	154.7	210.7	170.4	Siana	\$M	3.7	81.5	3.6	30.4	4.0	4.0					
Costs	\$M	(2.0)	(4.8)	(21.2)	(44.3)	(63.0)	(60.5)	Other	\$M	(0.9)	0.0	0.0	0.0	0.0	0.0					
Net Interest	\$M	1.9	2.8	4.0	6.9	11.3	16.4	Total	\$M	2.8	81.5	3.6	30.4	4.0	4.0					
Tax Paid	\$M	0.0	(0.2)	0.0	0.0	0.0	0.0	DEPRECIATION (attributable)												
Gross Cash Flow	\$M	(0.1)	(1.7)	58.1	117.3	158.9	126.3	Siana	\$M	0.0	0.0	8.1	21.5	26.6	22.5					
Net Capex	\$M	(2.8)	(45.8)	(3.6)	(30.4)	(4.0)	(4.0)	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0					
Exploration	\$M	(2.9)	0.0	0.0	0.0	0.0	0.0	Total	\$M	0.0	0.0	8.1	21.5	26.6	22.5					
Dividends	\$M	0.0	0.0	0.0	(33.5)	(46.3)	(36.3)	EBITDA (attributable)												
Other	\$M	(1.6)	0.0	0.0	0.0	0.0	0.0	Siana	\$M	0.0	0.0	60.6	120.1	159.6	118.8					
Free Cashflow	\$M	(7.4)	(47.5)	54.6	53.4	108.6	86.0	Other (incl. writedowns)	\$M	(2.2)	0.0	0.0	0.0	0.0	0.0					
Equity Issues	\$M	42.5	48.8	0.0	0.0	0.0	0.0	Total	\$M	(2.2)	0.0	60.6	120.1	159.6	118.8					
Net Borrowings	\$M	0.0	(0.3)	0.0	0.0	0.0	0.0	HEDGING (attributable)												
Net Investments	\$M	0.0	(4.5)	0.0	0.0	0.0	0.0	Gold hedged	oz	0	0	0	0	0	0					
Surplus Cash Flo	\$M	35.1	(3.6)	54.6	53.4	108.6	86.0	Hedged price	J\$/oz:	0	0	0	0	0	0					
BALANCE SHEET							ASSUMPTIONS													
Cash	\$M	57.7	52.5	107.1	160.4	269.0	355.0	Exchange Rate	\\$/US:	0.88	0.99	1.04	0.99	0.93	0.88					
Other Current	\$M	1.5	3.3	11.3	12.4	14.7	15.3	Gold Price	J\$/oz:	1093	1373	1745	1675	1525	1375					
Total Current	\$M	59.2	55.8	118.4	172.8	283.8	370.3	Gold Price	A\$/oz:	1238	1386	1682	1701	1649	1571					
Fixed Assets	\$M	39.8	76.9	72.3	81.2	58.6	40.1	Silver price	US\$/oz:	16.91	28.94	40.01	37.50	32.50	28.50					
Exploration	\$M	0.0	0.0	0.0	0.0	0.0	0.0	90 day Bank Bills	%	4.06	4.91	4.97	5.13	5.25	5.25					
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	10 Yr Bond rate	%	5.55	5.32	4.90	5.25	5.50	5.50					
Other	\$M	0.0	3.5	3.5	3.5	3.5	3.5	Interest Rate Charged	%	6.05	5.82	5.40	5.75	6.00	6.00					
Total NC Assets	\$M	39.9	80.4	75.8	84.7	62.1	43.6	VALUATION (fully diluted)												
TOTAL ASSETS	\$M	99.1	136.1	194.2	257.5	345.9	413.9	Siana	\$M	450.6	\$	0.35								
Total Debt	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Exploration		10.0	\$	0.01								
Current Liab	\$M	2.9	6.3	6.3	6.3	6.3	6.3	Other		0.0	\$	-								
Non Current Liab	\$M	0.3	0.4	8.5	9.5	11.9	12.5	Net Cash (Debt)		18.0	\$	0.01								
TOTAL LIAB	\$M	3.3	6.7	14.8	15.8	18.2	18.8	Total		478.6	\$	0.37								
NET ASSETS	\$M	95.8	129.4	179.4	241.7	327.7	395.1													
SH/HLDRS FUND:	\$M	95.8	129.4	179.4	241.7	327.7	395.1													
RATIO ANALYSIS																				
EPS	¢	(0.0)	(0.6)	3.9	7.5	10.3	8.1													
PER	x	na	na	4.4	2.3	1.6	2.1													
EPS Growth	%	(13.3)	1,300	(717)	91.5	38.1	(21.5)													
EBITDA per share	¢	-0.2	-0.5	4.2	8.6	11.5	8.6													
EBITDA Multiple	x	-54.1	-22.2	4.0	2.0	1.5	2.0													
EV/EBITDA	x	-27.4	-14.3	2.1	0.5	-0.3	-1.2													
CFPS	¢	(0.0)	(0.1)	4.5	9.1	12.4	9.8													
PCFR	x	na	na	3.8	1.9	1.4	1.7													
DPS	¢	0.0	0.0	0.0	2.6	3.6	2.8													
Yield	%	0.0	0.0	0.0	15.4	21.2	16.6													
Franking	%	0	0	0	0	0	0													
Payout Ratio	%	0%	0%	0%	35%	35%	35%													
Gearing D/E	%	na	na	na	na	na	na													
Interest Cover	x	1.3	na	na	na	na	na													
EBITDA Margin	%	na	na	71.8	71.4	70.1	64.5													
EBIT Margin	%	na	na	61.1	57.5	57.4	51.3													
Return On Assets	%	(2.2)	(4.9)	23.7	34.5	35.0	21.1													
Return On Equity	%	(0.5)	(6.3)	27.9	39.6	40.4	26.3													
Eff Tax rate	%	0	0	0	0	0	0													

Source: Petra Capital

Resources

A cut-off grade of 0.8g/t Au (1.1g/t Au previously) and 2.0g/t Au (no change) was used to define the resources in the open-pit and underground portions of the deposit respectively. Total Indicated resources have increased to 969koz (Fig.1) from 769koz (Fig. 2). The open-pit resource has been extended an additional 100m vertical and now accounts for 83% of the tonnes and 65% of the ounces (previously 48% and 31% respectively), an overall increase of 526koz.

Figure 1: New JORC Resources (@ 0.8g/t Au cut-off) – September 2011

Approximately 71% of resources are now in Indicated category.	Tonnes	Gold Grade	Contained	Silver	Contained
	(Mt)	(g/t)	Au (oz)	(g/t)	Ag (oz)
Indicated Resource					
Stockpiles	0.1	1.2	4,000	8.7	31,000
Open Pit	9.6	2.5	765,000	4.5	1,379,000
Underground	0.9	6.7	199,000	12.2	359,000
Total Indicated	10.7	2.8	969,000	4.6	1,775,000
Inferred Resource					
Open Pit	1.4	2.6	112,000	4.8	209,000
Underground	1.1	7.6	276,000	11.9	433,000
Total Inferred	2.5	4.8	388,000	8.0	642,000
Total Resource	13.2	3.2	1,357,000	5.7	2,417,000

Source: RED 5

Figure 2: Previous JORC Resources (@ 1.0g/t Au cut-off) – February 2009

	Tonnes	Gold Grade	Contained	Silver	Contained
	(Mt)	(g/t)	Au (oz)	(g/t)	Ag (oz)
Indicated Resource					
Stockpiles	0.1	1.3	3,000	10.7	29,000
Open Pit	3.1	3.4	336,000	8.5	839,000
Underground	2.0	6.7	430,000	10.2	655,000
Total Indicated	5.2	4.6	769,000	9.5	1,523,000
Inferred Resource					
Open Pit	0.2	2.9	15,000	13.6	70,000
Underground	1.4	7.6	338,000	11.3	503,000
Total Inferred	1.5	7.1	353,000	11.5	573,000
Total Resource	6.7	5.2	1,122,000	9.7	2,095,000

Source: RED 5

Reserves

Reserves may increase from 708koz to ~900koz based on historical conversion rates.

Current reserves equate to 5.1Mt @ 4.3g/t Au and 8.9g/t Ag for 708koz Au and 1.47Moz Ag (Fig.3). RED 5 is currently reviewing the ore reserves with an upgrade likely before the end of the year. Assuming historical conversion rates of 92% (Indicated Resource to Reserve), potential exists for a reserve of ~900koz to be calculated.

Figure 3: Current JORC Reserves

	Tonnes	Gold Grade	Contained	Silver	Contained
	(Mt)	(g/t)	Au (oz)	(g/t)	Ag (oz)
Probable Reserve					
Stockpiles	0.1	1.3	3,500	10.7	28,500
Open Pit	3.1	3.4	341,000	8.7	870,000
Underground	1.9	5.8	363,000	9.1	566,000
Total Indicated	5.1	4.3	708,000	8.9	1,465,000

Source: RED 5

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