

15 July 2011

Red 5 Limited

RED

\$0.15/share

First gold pour in November

Buy

Process plant construction and open-pit pre stripping has progressed. SAG mill installation has commenced and commissioning (including contingency) is a further 75 days. Based on this schedule, RED 5 anticipates the inaugural Siana gold pour to take place in November. This is slightly behind our forecast of October, however we are leaving our numbers unchanged. Drilling at Siana has recommenced, targeting resource extensions with first results due in the next two weeks. We recommend clients BUY RED 5 which is trading on FY12 & FY13 PEs of 4.3x & 2.7x backed by 86% upside to our base case NPV of A\$0.27/share.

Siana (100%) – project update

- Pre-strip of the open cut is advanced (Fig. 1).
- Siana pit is almost completely dewatered (Fig. 1).
- Waste removal has accelerated (Fig. 2).
- Record 501,955 BCM material moved in June.
- SAG mill platform advanced (Fig. 3).
- Remaining steel works close to finalisation (Fig. 4).
- Majority of plant equipment now on site.
- Final civils works to be completed in August.
- Capex in line at A\$77M with A\$34M to spend.
- RED has cash at hand of A\$52.7M.
- Additional US\$8M standby credit facility in place.

Exploration recommenced at Siana

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

Attractive multiples, strong balance sheet

- Conservative NPV of \$0.27ps
- PEs 4.3x (2012), 2.7x (2013) & 2.1x (2014)
- PCFs 3.6x, 2.1x & 1.7x.
- EV/Reserve oz of \$170 vs. peer average ~\$425.
- Fully funded with no debt.
- Zero hedging.
- 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\$186M
12 month low/high	\$0.11/ \$0.22
Monthly turnover	\$15.7M
Monthly volume	98M

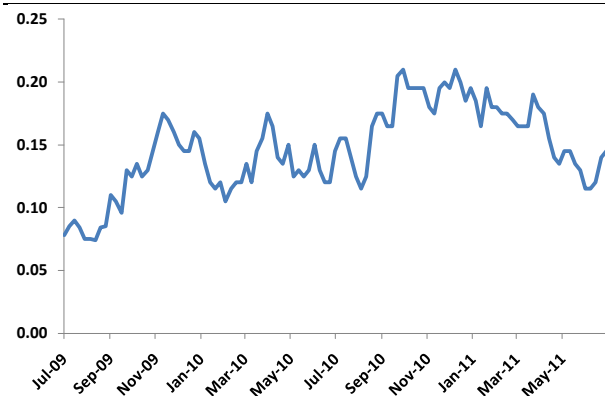
Financial Summary

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	43.6	70.0	86.9
EPS (¢ps)	0.0	-0.3	3.4	5.4	6.7
PER (x)	na	na	4.3	2.7	2.1
Cashflow (Gross-\$M)	-0.1	-1.6	51.9	89.8	111.4
CFPS (¢/sh)	0.0	-0.1	4.0	7.0	8.6
PCFPS (x)	na	na	3.6	2.1	1.7
Enterprise Value (\$M)	59	167	119	59.4	-18.1
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) 15-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	0.0	Tonnes	Mt	6.6	6.6	6.6	6.1	5.2	4.1		
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	4.51	4.59		
Exploration	\$M	0.1	0.5	2.0	0.0	0.0	0.0	Contained Gold	oz	916,586	916,586	916,586	860,643	755,343	606,453		
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	8.3	19.8	24.5	Grade	g/t	5.20	5.20	5.20	5.34	5.65	6.03		
EBIT	\$M	(1.7)	(2.2)	(5.5)	41.4	64.8	78.2	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)	43.6	70.0	86.9	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)	43.6	70.0	86.9	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)	43.6	70.0	86.9	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	30.4	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)	23.7	93.6	150.1	COSTS (attributable)									
CASH FLOW							CAPEX (attributable)										
Revenue	\$M	0.0	0.0	0.0	74.0	132.4	170.2	Siana	\$M	6.3	3.7	81.5	3.5	30.3	3.5		
Costs	\$M	(1.6)	(2.0)	(3.5)	(24.3)	(47.8)	(67.6)	Other	\$M	-0.3	-0.9	0.0	0.0	0.0	0.0		
Net Interest	\$M	1.6	1.9	1.9	2.2	5.1	8.7	Total	\$M	6.0	2.8	81.5	3.5	30.3	3.5		
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	DEPRECIATION (attributable)									
Gross Cash Flow	\$M	(0.0)	(0.1)	(1.6)	51.9	89.8	111.4	Siana	\$M	0.0	0.0	0.0	8.3	19.8	24.5		
Net Capex	\$M	(6.0)	(2.8)	(81.5)	(3.5)	(30.3)	(3.5)	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0		
Exploration	\$M	0.0	(2.9)	0.0	0.0	0.0	0.0	Total	\$M	0.0	0.0	0.0	8.3	19.8	24.5		
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	(30.4)	EBITDA (attributable)									
Other	\$M	0.0	(1.6)	0.0	0.0	0.0	0.0	Siana	\$M	0.0	0.0	0.0	56.1	93.5	113.0		
Free Cashflow	\$M	(6.0)	(7.4)	(83.1)	48.5	59.5	77.5	Other (incl. writedowns)	\$M	-1.7	-2.2	0.0	0.0	0.0	0.0		
Equity Issues	\$M	0.0	42.5	48.5	0.0	0.0	0.0	Total	\$M	-1.7	-2.2	0.0	56.1	93.5	113.0		
Net Borrowings	\$M	(2.0)	0.0	0.0	0.0	0.0	0.0	HEDGING (attributable)									
Net Investments	\$M	0.0	0.0	(3.5)	0.0	0.0	0.0	Gold hedged	oz	0	0	0	0	0	0		
Surplus Cash Flo	\$M	(8.0)	35.1	(38.2)	48.5	59.5	77.5	Hedged price	J\$/oz	0	0	0	0	0	0		
BALANCE SHEET							ASSUMPTIONS										
Cash	\$M	22.5	57.7	19.5	68.0	127.4	204.9	Exchange Rate	\\$/US:	0.75	0.88	0.99	0.95	0.88	0.83		
Other Current	\$M	0.3	1.5	0.0	3.7	6.6	8.5	Gold Price	J\$/oz:	875	1093	1370	1413	1275	1100		
Total Current	\$M	22.8	59.2	19.5	71.7	134.1	213.4	Gold Price	A\$/oz	1173	1238	1381	1487	1457	1333		
Fixed Assets	\$M	1.3	39.8	121.3	116.5	127.0	106.0	Silver price	US\$/oz:	12.89	16.91	29.18	32.50	27.50	22.50		
Exploration	\$M	27.5	0.0	20.0	18.0	16.0	13.0	90 day Bank Bills	%	4.77	4.06	4.90	5.13	5.25	5.25		
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	10 Yr Bond rate	%	5.06	5.55	5.35	6.00	6.00	6.00		
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Interest Rate Charged	%	5.56	6.05	5.85	6.50	6.50	6.50		
Total NC Assets	\$M	28.8	39.9	141.4	134.5	143.0	119.1	VALUATION (fully diluted)									
TOTAL ASSETS	\$M	51.6	99.1	160.9	206.2	277.1	332.5	Siana	\$M	303.4						\$	0.24
Total Debt	\$M	0.3	0.0	0.0	0.0	0.0	0.0	Exploration		20.0						\$	0.02
Current Liab	\$M	0.4	2.9	2.9	2.9	2.9	2.9	Other		0.0						\$	-
Non Current Liab	\$M	0.3	0.3	17.3	19.0	20.0	18.8	Net Cash (Debt)		20.0						\$	0.02
TOTAL LIAB	\$M	1.0	3.3	20.2	21.9	22.9	21.8	Total		343.4						\$	0.27
NET ASSETS	\$M	50.6	95.8	140.6	184.3	254.2	310.7										
SH/HLDRS FUND	\$M	50.6	95.8	140.6	184.3	254.2	310.7										
RATIO ANALYSIS																	
EPS	¢	(0.1)	(0.0)	(0.3)	3.4	5.5	6.8										
PER	x	na	na	na	4.3	2.7	2.1										
EPS Growth	%	(45.4)	(13.3)	523	(1,310)	60.3	24.2										
EBITDA per share	¢	-0.3	-0.2	-0.4	3.9	6.6	8.0										
EBITDA Multiple	x	-27.7	-54.1	-33.8	3.7	2.2	1.8										
EV/EBITDA	x	-14.8	-27.4	-30.3	2.4	0.7	-0.2										
CFPS	¢	(0.0)	(0.0)	(0.1)	4.0	7.0	8.7										
PCFR	x	na	na	na	3.6	2.1	1.7										
DPS	¢	0.0	0.0	0.0	0.0	0.0	2.4										
Yield	%	0.0	0.0	0.0	0.0	0.0	16.3										
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	55.9	48.9	45.9										
Return On Assets	%	(3.3)	(2.2)	(3.4)	20.1	23.4	23.5										
Return On Equity	%	(0.7)	(0.5)	(2.6)	23.7	27.5	28.0										
Eff Tax rate	%	0	0	0	0	0	0										

Source: Petra Capital

Figure 1: Siana open pit

Open pit cut back activity with pit dewatering .



Source: Red 5

Figure 2: Trucks on the waste dump

40 tonne articulated trucks cycling to the waste dump.



Source: Red 5

Figure 3: Final preparation prior to SAG mill lift to platform



Source: Source: Red 5

Figure 4: Final steel structure components for cyclone and gravity tower



Source: Source: Red 5

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