

30 May 2018

Red 5 Limited (RED)

BUY

Share Price: \$0.07

Exploration success pointing to longer mine life

Target Price: A\$0.13

RED has released a number of significant exploration results from the Darlot and King of the Hills (KOTH) mines in WA. At Darlot, drilling has extended the CDA Oval orebody, potentially doubling the size at significantly higher grades. CDA Oval is an important source of high grade ore at Darlot which subsequently allows significant operational flexibility throughout the remnant areas of the mine. Further, drilling at KOTH continues to delineate multiple, narrow, high grade veins which is leading to higher ounces per vertical metre. Despite the current modest reserve position at both Darlot & KOTH, these results show mineralisation is not closed off and a growing mine life is likely. An updated resource & reserve for both mines is due mid-18. Maintain BUY, with a PT of A\$0.13/sh (unchanged).

Darlot upside starting to become evident

- Exploration program started in January, targeting in-mine, near mine and regional opportunities
- In-mine drilling has extended the high grade CDA Oval which currently supplies small tonnages of high grade ore; multiple high grade hits including 14m at 37g/t
- Drilling has now extended CDA up-plunge, with thick (up to 14m true width) high grade zones suggesting the deposit could be ~2x the size of the original orebody
- Multiple intersections well in excess of 20g/t, suggesting a diluted grade around 8-10g/t is possible (Figure 1)
- High grade shoots also identified down-plunge at CDA Oval, indicating the system remains open at depth
- Higher grades from CDA allow a lower marginal cut-off grade in remnant areas and potential introduction of significant additional ore tonnes into the mine plan
- Resource, reserve & mine plan update due mid-year; extensional drilling and more time to complete stope designs will the lift resource to reserve conversion ratio

Higher ounces per vertical metre at KOTH

- Drilling continues to discover new, high grade veins; over 170 veins currently being re-modelled
- Capital development in the process of establishing sufficient ore headings to achieve and maintain mining targets; capex to reduce & ore tonnes to lift from SepQ
- Increased density of narrow, high grade veins is lifting the ounces per vertical metre, potentially reducing the required rate of vertical decline advance

Price target of A\$0.13/sh (1xP/NPV₁₀)

- NPV assumes 4.5yrs at 120kozpa & A\$1,200/oz AISC
- Key near-term catalyst: production growth from 12.6koz in MarQ, 18-23koz in JunQ & 25-30koz in Sep & DecQ

Company Data

Shares – ordinary (M)	1240.7
Market capitalisation (\$M)	85.69
12 month low/high (\$)	0.03/ 0.083
Average monthly turnover (\$M)	2.2
Index	All Ords
GICS Industry	Metals & Mining

Financial Summary (fully diluted/normalised)

Year end June	FY16A	FY17A	FY18F	FY19F	FY20F
Revenue (\$M)	97	70	99	205	204
Costs (\$M)	-46	-155	-83	-146	-144
EBITDA (\$M)	51	-86	16	60	60
NPAT (\$M)	22	-110	4	32	33
EPS (¢ps)	3	-14	0.3	2.6	2.7
EPS growth (%)	0.0%	0.0%	>100%	782%	1%
PER (x)	2.4	N.M	23.2	2.6	2.6
Operating Cashflow (\$M)	54.4	3.3	21.5	50.9	45.5
FCFPS (¢ps)	7.1	0.4	1.7	4.1	3.7
PFCFPS (x)	1.0	16.1	4.0	1.7	1.9
Enterprise Value (\$M)	63.7	76.5	78.0	53.8	32.5
EV / EBITDA (x)	1.3	N.M	5.0	0.9	0.5
Payout ratio (%)	0%	0%	0%	0%	0%
Dividends (¢ps)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%	0%

RED – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

Brett McKay
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Analysis

RED 5 Limited (RED)											
P&L (A\$M)	FY17A	FY18F	FY19F	FY20F	FY21F	Analyst: Brett McKay					
Revenues	70	99	205	204	200	Rating	BUY				
Operating Costs	-54	-83	-146	-144	-143	Target Price (A\$)	0.13	TSR	86%		
Other	-101	0	0	0	0	Price (A\$)	0.07	Price (US\$)	0.05		
EBITDA	-86	16	60	60	56	NPV (A\$)	0.13	NPV (US\$)	0.10		
D&A	-25	-9	-13	-14	-14	Shares (M)	1,241				
EBIT	-110	7	46	46	43	Mcap (A\$M)	86	Mcap (US\$M)	65		
Net Interest	0.0	0.1	0.2	0.7	1.1	EV (A\$M)	76	EV (US\$M)	57		
Taxes	0	-3	-14	-14	-13	Year End	June	Discount Rate	10%		
Adjustments	0	0	0	0	0						
Net Profit	-110	4	32	33	31						
EPS (¢)	-14.4	0.3	2.6	2.7	2.5						
DPS (¢)	0	0	0	0	0						
Cash Flows (A\$M)	FY17A	FY18F	FY19F	FY20F	FY21F	Assumptions					
Receipts	62	95	203	201	197	Gold (US\$/oz)	1,257	1,304	1,305	1,275	1,275
Payments	-57	-76	-146	-144	-143	Gold (A\$/oz)	1667	1674	1728	1700	1700
Net Interest	0	0	0	1	1	Silver (US\$/oz)	18	18	20	20	20
Taxes	-2	0	-9	-15	-13	AUD/USD	0.75	0.78	0.76	0.75	0.75
Other	1	3	2	2	2	Key Ratios					
Operating Cash Flows	3	21	51	45	44	PE (x)	N.M	23.2	2.6	2.6	2.8
Capex	-13	-18	-15	-12	-12	EV/EBITDA (x)	N.M	5.2	1.0	0.6	0.2
Disposals	0	0	0	0	0	EPS Growth (%)	<-100	<-100	>100	1.5	-7.2
Exploration	-2	-3	-7	-7	-7	Net Debt to Equity (%)	-7.8	-3.8	-22.9	-34.7	-44.9
Other	0	-14	-5	-5	0	Net Debt to EBITDA (x)	0.1	-0.2	-0.5	-0.8	-1.3
Investing Cash Flows	-15	-35	-27	-24	-19	Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
FCF	-12	-14	24	21	25	FCF Yield (%)	-22	0	34	31	0
Change in Borrowings	0	0	0	0	0	Production & Costs					
Dividends	0	0	0	0	0	Gold Production (koz)	FY17A	FY18F	FY19F	FY20F	FY21F
Equity	0	13	0	0	0	Darlot & KOH	0	67	120	121	121
Financing Cash Flows	0	13	0	0	0	Siana	77	0	0	0	0
Balance Sheet (A\$M)	FY17A	FY18F	FY19F	FY20F	FY21F	Group Gold Production (koz)	77	67	120	121	121
Cash & metal	13	14	33	54	67	Silver Production (koz)	73	0	0	0	0
Receivables	9	5	10	10	10	Eqv. Gold Production (koz)	79	67	120	121	121
Inventories	14	5	11	11	11	C1 cash costs (A\$/oz)					
Other	0	0	0	0	0	Darlot & KOH	na	1,329	1,136	1,109	1,108
Current Assets	36	24	54	76	88	Siana	847	na	na	na	na
Receivables	4	4	4	4	4	AISC (A\$/oz)					
Investments	0	0	0	0	0	Darlot & KOH	1,922	1,528	1,235	1,193	1,192
Property, Plant and Equipment	47	130	132	130	129	Siana	1,100	na	na	na	na
Intangibles	0	0	0	0	0	Resources (Contained Au, Moz)					
Other	0	0	0	0	0	Darlot & KOH		0.90			
Non Current Assets	50	134	135	134	133	Siana		0.81			
Total Assets	87	158	190	209	220	Reserves (Contained Au, Moz)					
Borrowings	0	0	0	0	0	Darlot & KOH		0.13			
Payables	5	10	20	20	20	Siana		0.41			
Provisions	1	1	1	1	1	EBITDA (A\$M)					
Other	0	7	7	7	7	FY17A	FY18F	FY19F	FY20F	FY21F	
Current Liabilities	6	17	28	28	27	Darlot & KOTH	na	29	70	70	66
Payables						Siana	86	na	na	na	na
Borrowings	0	0	0	0	0	Corporate & Exploration	-7	-9	-12	-12	-12
Provisions	4	31	31	31	31	NPV (+1yr)					
Other	0	8	8	8	8	(A\$M)	Per Share				
Non Current Liabilities	4	39	39	39	39	Darlot & KOTH	129	\$0.10	73%		
Total Liabilities	10	56	67	67	66	Exploration (incl Siana)	20	\$0.02	11%		
Total Equity	69	102	123	142	154	Mt Cattlin royalty	10	\$0.01	6%		
						Corporate and other	-11	-\$0.01	-6%		
						Net cash & metal	28	\$0.01	16%		
						Total	176	\$0.13	100%		

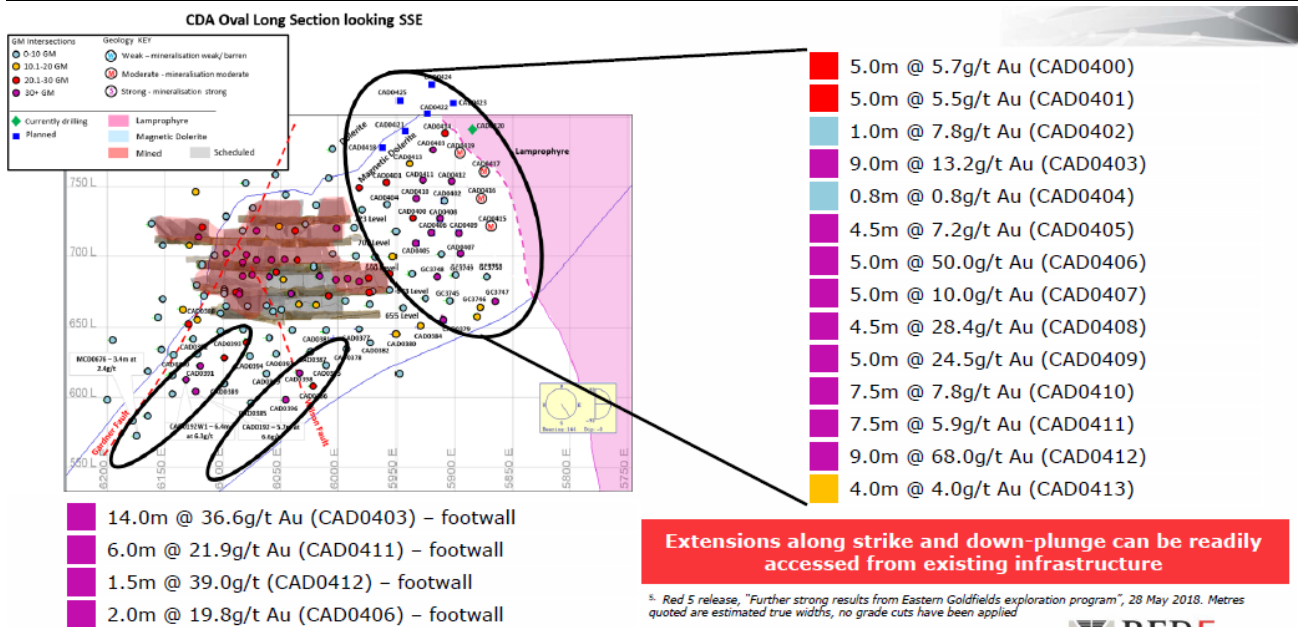
Source: Petra Capital

Top 10 high grade intersections

Top 10 intersections from Figure 1 include:

- 14m @ 36.6g/t
- 9m @ 68.0g/t
- 9m @ 13.2g/t
- 6m @ 21.9g/t
- 5m @ 50.0g/t
- 5m @ 24.5g/t
- 5m @ 10.0g/t
- 4.5m @ 28.4g/t
- 2m @ 19.8g/t
- 1.5m @ 39.0g/t.

Figure 1: Location of high grade drill intersections in the CDA Oval orebody at Darlot



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Source: Company reports

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