

14 March 2018

RED 5 Limited (RED)

1H FY18 result and guidance update

RED 5 reported a mixed 1H result due to the impact of the Darlot and King of the Hills (KOTH) acquisitions during the period. EBITDA of \$3.2m was below of \$8.6m forecast, whilst a loss of \$2.5m was below our \$4.7m profit. Key variations relate to acquisition costs and stamp duty, as well as higher D&A. Operating cash flow largely derived from one quarter operating the Darlot mine was \$8.2m, above our \$7.6m forecast. Cash and bullion is \$22m with no debt. However, RED has also downgraded MarQ production guidance to 12-15koz (from 16-19koz) due to recent issues with the gear and clutch on Mill-1 at Darlot. It appears around two weeks of milling has been lost, with mining continuing to build ROM stocks. We reduce our MarQ estimate to 14.3koz (from 17.5koz), with FY18 forecast down 4% to 65.9koz. As previously flagged, costs in 2H FY18 are still expected to be high as resource definition drilling restarts and the KOTH mine is opened up. We view these issues as minor disruptions, with improvements expected over coming months as the operating strategy delivers both Darlot and KOTH at steady state and costs normalise. Maintain BUY.

MarQ production guidance revised down

- Gear and clutch issue with Mill-1 at Darlot appears to have impacted around two weeks of production
- MarQ guidance reduced to 12-15koz from 16-19koz
- Mining continues to build ROM stocks which could potentially utilise spare milling capacity during the JunQ
- Our FY18 output is down 4% to 65.9koz

2H FY18 still going to be a high cost period

- As has been well flagged by RED, elevated AISC are expected in both MarQ & JunQ due to resource definition drilling and commencement of underground mining and development at KOTH
- We now expected A\$1,739/oz AISC for the MarQ & A\$1,504/oz in JunQ (A\$1,527/oz for FY18); we think AISC can come down to A\$1,200/oz in FY19

1H FY18 result convoluted by acquisitions

- 1H results impacted by one-off costs associated with the acquisition of Darlot & KOTH
- Reconciling for the 1H result and lowering our FY18 production estimate impacts FY18 earnings forecasts
- A strong FY19 is expected once Darlot and KOTH are operating at full production

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

- Our valuation and price target are unchanged

BUY

Share Price: A\$0.063

Target Price:

A\$0.13

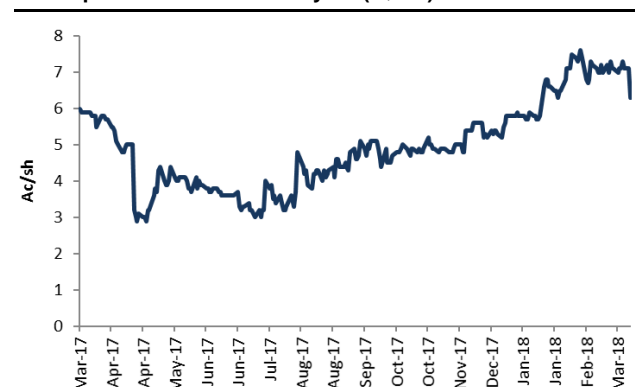
Company Data

| | |
|--------------------------------|-------------------|
| Shares – ordinary (M) | 1,241 |
| Market capitalisation (\$M) | \$78.2m |
| 12 month low/high (\$) | \$0.029 / \$0.077 |
| Average monthly turnover (\$M) | \$1.9m |
| Index | Materials |
| GICS Industry | Metals & Mining |

Financial Summary (fully diluted/normalised)

| Year end June | 2017A | 2018F | 2019F | 2020F | 2021F |
|------------------------|-------|-------|-------|-------|-------|
| Revenue (\$M) | 70 | 97 | 184 | 189 | 187 |
| Costs (\$M) | -155 | -86 | -128 | -129 | -129 |
| EBITDA (\$M) | -86 | 11 | 56 | 60 | 58 |
| NPAT (\$M) | -110 | 1 | 31 | 34 | 33 |
| EPS (¢ps) | -14 | 0.0 | 2.5 | 2.7 | 2.6 |
| EPS Growth (%) | 0.0% | >100% | 5683% | 10% | -3% |
| PER (x) | N.M | N.M | 2.6 | 2.3 | 2.4 |
| Cashflow (\$M) | 3.3 | 16.8 | 48.9 | 45.8 | 45.4 |
| CFPS (¢ps) | 0.4 | 1.4 | 3.9 | 3.7 | 3.7 |
| PCFPS (x) | 14.7 | 4.6 | 1.6 | 1.7 | 1.7 |
| Enterprise Value (\$M) | 82.7 | 85.4 | 63.2 | 41.6 | 88.1 |
| EV / EBITDA (x) | N.M | 7.7 | 1.1 | 0.7 | 0.3 |
| 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 (A¢/sh)



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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) | | | | | |
| Revenues | FY17A | FY18F | FY19F | FY20F | FY21F |
| Operating Costs | | | | | |
| Other | | | | | |
| EBITDA | -86 | 11 | 56 | 60 | 58 |
| D&A | -25 | -9 | -12 | -13 | -13 |
| EBIT | -110 | 2 | 44 | 47 | 45 |
| Net Interest | 0.0 | 0.1 | 0.1 | 0.6 | 1.1 |
| Taxes | 0 | -2 | -13 | -14 | -14 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Net Profit | -110 | 1 | 31 | 34 | 33 |
| EPS (¢) | -14.4 | 0.0 | 2.5 | 2.7 | 2.6 |
| DPS (¢) | 0 | 0 | 0 | 0 | 0 |
| Cash Flows (A\$M) | | | | | |
| Receipts | FY17A | FY18F | FY19F | FY20F | FY21F |
| Payments | | | | | |
| Net Interest | | | | | |
| Taxes | | | | | |
| Other | | | | | |
| Operating Cash Flows | 3 | 17 | 49 | 46 | 45 |
| Capex | -13 | -15 | -15 | -12 | -12 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Exploration | -2 | -3 | -7 | -7 | -7 |
| Other | 0 | -14 | -5 | -5 | 0 |
| Investing Cash Flows | -15 | -32 | -27 | -24 | -19 |
| FCF | -12 | -15 | 22 | 22 | 26 |
| Change in Borrowings | 0 | 0 | 0 | 0 | 0 |
| Dividends | 0 | 0 | 0 | 0 | 0 |
| Equity | 0 | 13 | 0 | 0 | 0 |
| Financing Cash Flows | 0 | 13 | 0 | 0 | 0 |
| Balance Sheet (A\$M) | | | | | |
| Cash & metal | FY17A | FY18F | FY19F | FY20F | FY21F |
| Receivables | | | | | |
| Inventories | | | | | |
| Other | | | | | |
| Current Assets | 36 | 23 | 49 | 71 | 84 |
| Receivables | 4 | 4 | 4 | 4 | 4 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Property, Plant and Equipment | 47 | 127 | 130 | 129 | 129 |
| Intangibles | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Non Current Assets | 50 | 131 | 133 | 133 | 132 |
| Total Assets | 87 | 153 | 182 | 203 | 216 |
| Borrowings | 0 | 0 | 0 | 0 | 0 |
| Payables | 5 | 9 | 18 | 19 | 18 |
| Provisions | 1 | 1 | 1 | 1 | 1 |
| Other | 0 | 7 | 7 | 7 | 7 |
| Current Liabilities | 6 | 17 | 26 | 26 | 26 |
| Payables | | | | | |
| Borrowings | 0 | 0 | 0 | 0 | 0 |
| Provisions | 4 | 31 | 31 | 31 | 31 |
| Other | 0 | 8 | 8 | 8 | 8 |
| Non Current Liabilities | 4 | 39 | 39 | 39 | 39 |
| Total Liabilities | 10 | 56 | 65 | 65 | 65 |
| Total Equity | 69 | 97 | 117 | 138 | 151 |
| Analyst: Brett McKay | | | | | |
| Rating | BUY | | | | |
| Target Price (A\$) | 0.13 | TSR | 103% | | |
| Price (A\$) | 0.06 | Price (US\$) | 0.05 | | |
| NPV (A\$) | 0.13 | NPV (US\$) | 0.10 | | |
| Shares (M) | 1,241 | | | | |
| Mcap (A\$M) | 88 | Mcap (US\$M) | 69 | | |
| EV (A\$M) | 78 | EV (US\$M) | 61 | | |
| Year End | June | Discount Rate | 10% | | |
| Assumptions | | | | | |
| Gold (US\$/oz) | FY17A | FY18F | FY19F | FY20F | FY21F |
| Gold (A\$/oz) | | | | | |
| Silver (US\$/oz) | | | | | |
| AUD/USD | | | | | |
| Key Ratios | | | | | |
| PE (x) | FY17A | FY18F | FY19F | FY20F | FY21F |
| EV/EBITDA (x) | | | | | |
| EPS Growth (%) | | | | | |
| Net Debt to Equity (%) | | | | | |
| Net Debt to EBITDA (x) | | | | | |
| Dividend Yield (%) | | | | | |
| FCF Yield (%) | | | | | |
| Production & Costs | | | | | |
| Gold Production (koz) | FY17A | FY18F | FY19F | FY20F | FY21F |
| Darlot & KOH | | | | | |
| Siana | | | | | |
| Group Gold Production (koz) | 77 | 66 | 109 | 113 | 113 |
| Silver Production (koz) | 73 | 0 | 0 | 0 | 0 |
| Eqv. Gold Production (koz) | 79 | 66 | 109 | 113 | 113 |
| C1 cash costs (A\$/oz) | | | | | |
| Darlot & KOH | na | 1,398 | 1,090 | 1,052 | 1,051 |
| Siana | 847 | na | na | na | na |
| AISC (A\$/oz) | | | | | |
| Darlot & KOH | 1,922 | 1,527 | 1,199 | 1,142 | 1,141 |
| Siana | 1,100 | na | na | na | na |
| Resources (Contained Au, Moz) | | | | | |
| Darlot & KOH | 0.90 | | | | |
| Siana | 0.81 | | | | |
| Reserves (Contained Au, Moz) | | | | | |
| Darlot & KOH | 0.13 | | | | |
| Siana | 0.41 | | | | |
| EBITDA (A\$M) | | | | | |
| Darlot & KOTH | FY17A | FY18F | FY19F | FY20F | FY21F |
| Siana | | | | | |
| Corporate & Exploration | | | | | |
| NPV (+1yr) | | | | | |
| | (A\$M) | Per Share | | | |
| Darlot & KOTH | 131 | \$0.11 | 76% | | |
| Exploration (incl Siana) | 20 | \$0.02 | 12% | | |
| Mt Cattlin royalty | 10 | \$0.01 | 6% | | |
| Corporate and other | -12 | -\$0.01 | -7% | | |
| Net cash & metal | 23 | \$0.01 | 13% | | |
| Total | 173 | \$0.13 | 100% | | |

Source: Petra Capital

Figure 1: Summary of changes

| | | FY18e | | | FY19e | | | FY20e | | |
|---------------------|---------------|-------------|-------------|-----------|-------|------|-------|-------|------|-------|
| | | New | Old | % var | New | Old | % var | New | Old | % var |
| Revenue | A\$m | 97 | 100 | -3% | 184 | 184 | 0% | 189 | 189 | 0% |
| EBITDA | A\$m | 11 | 20 | -43% | 56 | 56 | 0% | 60 | 60 | 0% |
| EBIT | A\$m | 2 | 14 | -82% | 44 | 43 | 0% | 47 | 47 | 0% |
| NPAT | A\$m | 1 | 10 | -94% | 31 | 30 | 0% | 34 | 33 | 0% |
| EPS | Ac/sh | 0.0 | 0.8 | -94% | 2.5 | 2.5 | 0% | 2.7 | 2.7 | 0% |
| DPS | Ac/sh | 0.0 | 0.0 | na | 0.0 | 0.0 | na | 0.0 | 0.0 | na |
| NPV/sh | A\$/sh | 0.13 | 0.13 | 0% | | | | | | |
| Price target | A\$/sh | 0.13 | 0.13 | 0% | | | | | | |
| Darlot | | | | | | | | | | |
| Gold output | Koz | 65.9 | 68.3 | -4% | 109 | 109 | 0% | 113 | 113 | 0% |
| C1 costs | A\$/oz | 1,398 | 1354 | 3% | 1,090 | 1090 | 0% | 1,052 | 1052 | 0% |
| AISC | A\$/oz | 1,527 | 1461 | 4% | 1,199 | 1199 | 0% | 1,142 | 1142 | 0% |

Source: Company reports, Petra Capital

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