

8 March 2010

Red Rock Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/08	1.3	(0.2)	(0.12)	0.00	N/A	N/A
06/09	0.1	(0.8)	(0.24)	0.00	N/A	N/A
06/10e	3.5	1.9	0.34	0.05	6.0	2.5
06/11e	2.9	1.9	0.27	0.05	7.5	2.5

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: By Jove

Since our last note on Red Rock, the pound has fallen sharply on the foreign exchange markets, Resource Star has been relisted in Australia and Jupiter Mines has entered into a transformational deal that will quadruple the size of the company. All have consequences for Red Rock's valuation.

Jupiter's Tshipi deal

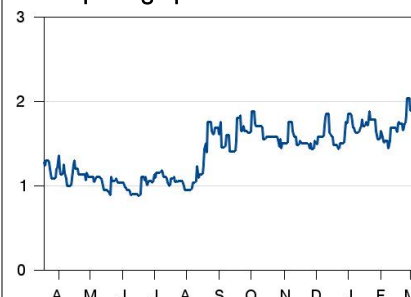
On 1 March, Jupiter announced that it has entered into a deal whereby it will purchase a 49.9% stake in the Tshipi project in South Africa for a consideration of A\$245m, discharged via the issue of 1.16bn shares to the vendor at a price of A\$0.211 per share. Contiguous with Samancor's Mamatwan mine, Tshipi has a SAMREC compliant mineral resource of 163Mt at 37% manganese in the 'indicated' and 'inferred' categories. In addition, it also has a clear path to near-term production and cash flows, with a completed feasibility study indicating a production rate of 2Mtpa for 28 years after capital expenditure of US\$200m. Development of Tshipi is anticipated in 2010 and production in 2013. Brian Gilbertson (formerly of Gencor, which owned a majority stake in Samancor) will become a non-executive director of Jupiter after the deal closes. Note that the deal is subject to a number of conditions precedent including, but not limited to, FIRB and other regulatory approvals.

Valuation: Discount to NAV potentially as high as 89%

At its current share price of 2.03p, we calculate that Red Rock is trading at an 89% discount to its net asset value with Kansai Mining and Cue Resources both revalued in line with the sector average valuations of their gold and uranium resource bases respectively. We also assume the exercise of the Mount Alfred bonus option and the subsequent issue of the maximum number of shares in Jupiter to Red Rock. That is in line with our last note of February 2010. Simply considering Red Rock's listed assets plus cash (less creditors), however, the discount has widened from 17% to 31%. This is partly a result of the re-rating of Jupiter shares in the wake of the Tshipi deal, but also a result of the re-admittance of Resource Star to the ASX on completion of a successful fund raising.

Price 2.03p
Market Cap £12m

Share price graph



Share details

Code RRR
Listing AIM
Sector Mining
Shares in issue 575m

Price

52 week High 2.03p Low 0.87p

Balance Sheet as at 30 June 2009

Debt/Equity (%) N/A
NAV per share (p) 1.2
Net cash (£'000s) 49.4

Business

Listed on AIM in July 2005, Red Rock Resources is now a combination of a junior gold explorer and a mineral property investment company focused on the discovery and development of iron ore, manganese, uranium and gold, primarily in Australia and Africa.

Valuation

	2009	2010e	2011e
P/E relative	N/A	43%	63%
P/CF	N/A	6.7	5.9
EV/Sales	N/A	2.4	2.9
ROE	N/A	20%	15%

Geography based on revenues (2008)

UK	Europe	US	Other
2%	0%	0%	98%

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Red Rock's estimated net asset value

Since our last note in December 2009, there have been a number of developments at Red Rock and also in our approach to its valuation. A summary of these is as follows:

1. Red Rock's associate, Resource Star Limited, was reinstated to Official Quotation on the ASX on Monday 1 March 2010. As a result, Red Rock's holding in Resource Star increased by 3.26m shares, to 12.9m in total, in consideration of funding that it had supplied to Resource Star while the latter's shares were suspended.
2. Jupiter Mines announced that it is to acquire (subject to various condition precedent) a 49.9% stake in the Tshipi Kalahari Manganese Project in South Africa, for which it will issue c 1.16bn new shares at a price of 21.10 Australian cents (based on the 30-day VWAP of Jupiter shares prior to the announcement of the deal).
3. Sterling has weakened markedly against the US dollar (from US\$1.5786/£ to US\$1.5044/£), the Canadian dollar (from C\$1.6454/£ to C\$1.5525/£) and the Australian dollar (from A\$1.7475/£ to A\$1.6705/£) since our last report.

Partly in consequence of point 2 above, Jupiter's share price has rallied from A\$0.21 to A\$0.27. By contrast, Resource Star's shares have fallen back since its fund raising. Of more significance however, the company's relisting now enables us consider Resource Star in the 'worst-case' scenario of the spectrum of our valuations, below:

Exhibit 1: Edison estimates of Red Rock Resources' company balance sheet

£000's	Worst-case scenario	Low-end scenario	Median scenario	Top-end scenario
Current assets				
Investments in associates				
- Jupiter Mines	15,015	15,015	15,015	29,562
- Resource Star	1,042	1,042	1,042	1,042
- Cue Resources	637	637	1,665	2,692
- Kansai		3,963	60,141	28,302
Cash and cash equivalents	322	322	322	322
Trade and other receivables		275	275	275
Investments in subsidiaries		964	964	964
Available for sale financial assets		368	368	368
Exploration properties		699	10,907	40,439
Total current assets	17,017	23,286	90,699	103,965
Total assets	17,017	23,286	90,699	103,965
Liabilities				
Trade and other payables	(181)	(181)	(181)	(181)
Total liabilities	(181)	(181)	(181)	(181)
Net assets	16,836	23,105	90,518	103,784
Shares in issue (millions)	575.0	575.0	575.0	575.0
NAV per share (pence)	2.93	4.02	15.74	18.05
Share price discount to NAV (%)	(30.7)	(49.5)	(87.1)	(88.8)

Source: Edison Investment Research

The assumptions inherent in each of these scenarios may be summarised as follows:

- The worst-case scenario considers only Red Rock's interests in currently listed assets (ie it excludes Red Rock's interest in Kansai) at market value plus our estimate of the company's cash position less our estimate of trade creditors (taken from the group's last balance sheet). Of note is the fact that whereas this scenario previously excluded Red Rock's interest in Resource Star (which was then suspended), it is now included in the wake of its relisting.
- In addition to listed assets and cash, the low-end scenario considers Red Rock's holdings in companies whose shares have been suspended – ie Kansai Mining Corp. In this case, it values Kansai at 10 Canadian cents (the last price at which the company was able to raise funds, in August 2007, before its suspension on 31 December 2008 for failure to file its accounts in a timely fashion). Consistent with this, it then values Red Rock's direct holding in the Mid Migori Mining Company (under exploration assets) in direct proportion to the market capitalisation of Kansai at a price of 10 Canadian cents. It also takes account of the other items on Red Rock's balance sheet, as at its last reporting date.
- The median scenario values Red Rock's 15% interest in the current Kenyan resource base (under exploration assets) plus its 35.2% interest in Kansai, which has an 85% interest in those same assets at the average values calculated for 'indicated' and 'measured' resources listed in London and Canada in our January 2010 report, as shown in Exhibit 2, below. The Cue Resources stake has been valued at the mid-point between its market value and our estimate of its value based on the size and categorisation of its uranium resource base (see 'top-end scenario', below).

Exhibit 2: Enterprise values per resource oz summary by category and market (US\$)

Note: * Excluding Witwatersrand ounces; ** Excluding JSE; Highest valuations in each category in bold.

	Measured	Indicated	Inferred	Average
London*	403.53	85.94	3.78	120.73
Canadian*	283.68	243.76	62.01	196.90
Australian*	738.55	143.43	91.47	191.75
Simple average	395.46	131.57	48.38	120.26
Weighted average* **	339.90	158.55	33.65	158.56
JSE (maximum)	156.08	53.14	36.27	36.27

Source: Edison Investment Research

- Finally, the top-end scenario assumes that Red Rock exercises its option to take a direct 60% interest in the Kenyan gold assets (against which US\$8m has been deducted as the estimated expense of the bankable feasibility study), as a result of which Kansai's interest in the same assets has reduced to 40%. It also takes into account the effect of the exercise of the Mount Alfred Bonus option and the allocation of the maximum number of shares in Jupiter to Red Rock. Its Cue Resources stake is valued at 15.78% of US\$25.7m (being the value of 9.5m lbs of U₃O₈ indicated and inferred resources at US\$2.70/lb). It also takes into account an additional 3m shares in Resource Star to be issued to Red Rock on the relisting of the former on the ASX (expected imminently).

Also worthy of note is the fact that, while we have considered the potential revaluations of Cue and Kansai based on their resource bases, we have not performed similar exercises for Resource Star and Jupiter.

Jupiter Mines

The Tshipi deal

In return for its 49.9% stake in Tshipi project, Jupiter has issued approximately 1.16bn shares at a price of 21.10 Australian cents per share for a total consideration of A\$245m, thereby implying a value for the whole project of A\$490m (US\$441m at A\$1.1111/US\$). The Tshipi project has a SAMREC compliant mineral resource of 163Mt at 37% manganese, containing 60.6Mt of manganese. Hence Jupiter's acquisition cost equates to US\$7.28 per tonne of contained manganese.

Also of significance is the Tshipi project's near-term path to production, with development anticipated in 2010 and production from 2013. Contiguous to Samancor's Mamatwan mine, a feasibility study has indicated the viability of an open pit mining operation entailing US\$200m for capital expenditure, to produce approximately 2Mt of lump product per year for over 28 years to exploit 62Mt (38.0%) of the total mineral resource. On this basis, Jupiter's consideration equates to US\$19.17 per tonne of mined manganese.

Potential implications of the deal for Red Rock

While indirect, the Tshipi deal has a number of potential implications for Red Rock. First, Jupiter's share price has risen markedly – by c 29% – since the announcement of the deal. This may be most easily interpreted in terms of a re-rating Jupiter's shares in anticipation of production and positive cash flows in the foreseeable future. In combination with the enlarged share capital of the company, its shares are therefore likely to become more liquid and more easily tradeable, with the result that Red Rock should find it easier to liquidate its shareholding as and when desired. This will also be aided by the fact that whereas before the deal Red Rock's interest in Jupiter was approximately 25% of the latter's share capital, this will fall to around only 6% in the deal's aftermath. Finally, for those who had inferred otherwise in the wake of the dissolution of Red Rock's joint venture with Pallinghurst, it suggests the Red Rock group's relations with Brian Gilbertson continue to remain warm.

Other Jupiter assets

Apart from its interest in Tshipi, Jupiter's other principal assets may be summarised as follows:

Exhibit 3: Jupiter Mines' principal assets (excl Tshipi)

Note: JMS = Jupiter Mines.

Metal/Division	Asset	
Manganese	Oakover	Transferred to JMS as a result of 2009 transaction with Red Rock and Pallinghurst, the Oakover tenements comprise 700km ² of exploration acreage in the Pilbara Manganese Province in Australia.
Central Yilgarn Iron ore Project	Mt Mason	High grade haematite and some magnetite identified. JORC compliant inferred resource of 5.75Mt at 59.9% iron (Fe).
	Mt Ida	No JORC compliant resource to date, but Jupiter has announced a conceptual exploration target of 1.1-1.3bn tonnes of magnetite at a grade of 30-40% Fe. NB, Red Rock is entitled to a 1.5% gross production royalty on all ore production from Mt Ida.
	Mt Alfred	No formal resource defined to date. However, Red Rock holds a bonus option over Mt Alfred, such that it stands to share equally with Pallinghurst in an issue of new shares if a resource in excess of 10Mt is declared in the 'measured' and 'indicated' categories, up to a maximum of 180 million ordinary shares in JMS.
	Mt Hope/Walling Rock	Located at the western edge of the Mt Ida greenstone belt (see above), a three-dimensional geological model has been completed to assist a new drill hole programme to delineate magnetite mineralisation.
Nickel	Widgiemooltha	Located in Australia's Kambalda region, three of the five holes drilled at Widgiemooltha have intersected nickel sulphide mineralisation at grades of c 0.94% ($\pm 0.22\%$).
Gold	Klondyke	Located within an archaean greenstone belt within the Pilbara region of Australia, assays from exploration activities in the area have returned gold grades between 0.3g/t and 23.4g/t.

Source: Edison Investment Research

As can be seen, while prospective, Jupiter's other assets are at relatively early stages of exploration. Probably of most interest, however, is the Mt Ida prospect, where Jupiter is targeting 1.1-1.3bn tonnes of magnetite at grades between 30% and 40% Fe. An analysis of comparable junior iron ore explorers suggests an average enterprise value per unit tonne of iron is US\$1.61. If Jupiter is successful in converting its full 1.2bn tonne conceptual exploration target into JORC compliant resources at a grade of 35%, this would imply a value for the Mt Ida asset of c US\$620m (A\$689m at A\$1.1111/US\$), compared to a current market capitalisation of A\$100m and a post-Tshipi deal market capitalisation of A\$413m.

Other operational matters

In the meantime, Red Rock is continuing its strategy of pursuing value by discovering and upgrading ounces of gold into the higher JORC categories as quickly and as cheaply as possible. It is also happy to consider M&A targets to which such an approach could also add value. This means the immediate focus is on speeding up exploration at Mid Migori, especially on the tailings dams and also the largest historic anomaly within its leases, both of which have the potential to add hundreds of thousands of ounces to the company's resource base. Inevitably, it will also continue the process of tidying up its assets, with specific tenements being reorganised into specific, corporate vehicles.

Exhibit 3: Financials

Year end 30 June	£'000s	2007	2008	2009	2010e	2011e
		UK GAAP	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		535	1,347	68	3,526	2,926
Cost of Sales		(185)	(1,026)	(108)	(869)	(360)
Gross Profit		350	321	(39)	2,656	2,565
EBITDA		(310)	(249)	(750)	1,902	1,811
Operating Profit (before GW and except.)		(310)	(249)	(750)	1,902	1,811
Intangible Amortisation		0	0	0	0	0
Exceptionals		85	422	(3)	0	0
Other		0	0	0	0	0
Operating Profit		(225)	173	(753)	1,902	1,811
Net Interest		2	13	(5)	1	68
Profit Before Tax (norm)		(309)	(235)	(755)	1,904	1,880
Profit Before Tax (FRS 3)		(223)	186	(758)	1,904	1,880
Tax		0	0	0	(0)	(21)
Profit After Tax (norm)		(309)	(235)	(755)	1,903	1,859
Profit After Tax (FRS 3)		(223)	186	(758)	1,903	1,859
Average Number of Shares Outstanding (m)		188.2	266.2	389.7	529.9	637.3
EPS - normalised (p)		(0.16)	(0.12)	(0.24)	0.34	0.27
EPS - FRS 3 (p)		(0.12)	0.07	(0.19)	0.36	0.29
Dividend per share (p)		0.00	0.00	0.00	0.05	0.05
Gross Margin (%)		65.5	23.8	N/A	75.3	N/A
EBITDA Margin (%)		N/A	N/A	N/A	54.0	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	54.0	N/A
BALANCE SHEET						
Fixed Assets		0	0	0	0	0
Intangible Assets		0	0	0	0	0
Tangible Assets		0	0	0	0	0
Investments		0	0	0	0	0
Current Assets		2,848	4,364	5,552	8,933	11,465
Stocks		0	0	0	0	0
Debtors		1,080	394	275	290	240
Cash		220	88	49	2,281	4,458
Other		1,547	3,883	5,228	6,363	6,766
Current Liabilities		(294)	(413)	(180)	(71)	(30)
Creditors		(294)	(413)	(180)	(71)	(30)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		0	0	0	0	0
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	0	0	0	0
Net Assets		2,554	3,951	5,372	8,861	11,435
CASH FLOW						
Operating Cash Flow		(349)	(1,316)	(559)	1,602	2,179
Net Interest		2	13	(5)	1	68
Tax		0	0	0	(0)	(21)
Capex		(260)	(112)	(184)	(837)	(874)
Acquisitions/disposals		0	(11)	(402)	0	0
Financing		727	1,293	1,112	1,764	1,163
Dividends		0	0	0	(299)	(339)
Net Cash Flow		119	(133)	(38)	2,231	2,178
Opening net debt/(cash)		(101)	(220)	(88)	(49)	(2,281)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	(0)
Closing net debt/(cash)		(220)	(88)	(49)	(2,281)	(4,458)

Source: Company accounts/Edison Investment Research

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