

The Sydney Contrarian Financial Analysis

Stock Valuation Report

Red 5 Limited (ASX: RED)

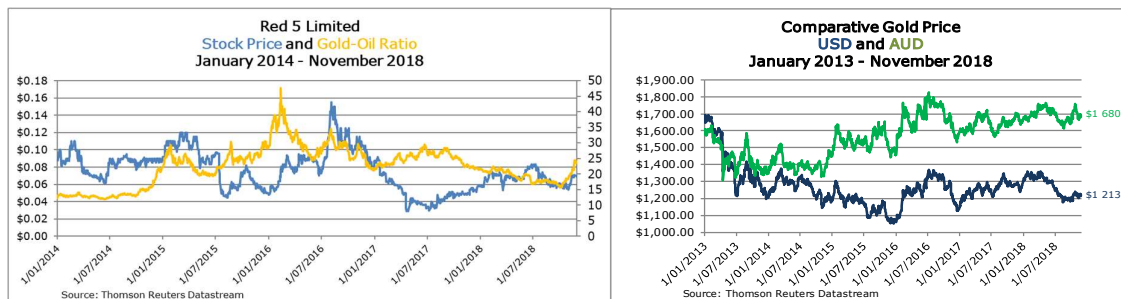
Date	28/11/2018
Classification	Junior Gold Miner
Current Price	\$0.069
No. Issued Stocks (m)	1240.7
Net Cash + Bullion (\$ m)	\$10.33
Last Dividend Payment (\$ p.a.)	\$0.00
Market Capitalisation (\$ m)	\$85.61
Enterprise Value (\$ m)	\$75.28

Ranking	Undervalued
Price Range	\$0.05-\$0.135
Annual Production Guidance (oz p.a.)	100 000-115 000
All-In Sustaining Cost Guidance (\$/oz)	\$1 350-1 550
EV/AISC-Adjusted Production Guidance (\$/oz)	\$1,015.60
EV/AISC-Adjusted Production Range (\$/oz)	\$800-1 800
Resources (oz)	2,708,000
Reserves (oz)	725,750

Summary

Red 5 has undertaken a change in direction with the acquisition of Darlot and King of the Hills gold mines in the Eastern Goldfields region in Western Australia for \$16m. Over the past 12 months, significant development have been underway to expand their production and increase their resources and reserves. The 2018 production and all-in sustaining cost (AISC) were 50koz and \$1 480/oz, respectively, an improvement from 2017 levels of 41koz and \$1 089/oz when the Siana mine in the Philippines was forced to shut down by government order. The company has spent over \$15m in developing both mines and they expect to produce 100-115koz at \$1 350-1 550/oz for the 2019 financial year, with 26-30koz at \$1 450-1 650/oz in the December quarter. The King of the Hills drilling program has delivered excellent assay results with long gold veins and encouraging grades. As production stabilises, the two mines have a capacity to increase in scope and efficiency. Red 5 currently has a marginal net cash position and they have a gold loan of \$8.2m to finance the operations in the next six months. With lower oil price, the AISC may reduce and the company could become cash flow positive from its operations earlier than expected.

The current price of \$0.069 is on the lower end of the pricing range of \$0.05-0.135. The company appears to be undervalued in the context of its production guidance. The price is currently subdued due to high AISC in the past three quarters and also its low cash balance. However, this may change very quickly if Red 5 reports an increase in the cash balance and repayment of their debt with favourable operating performance and an accommodating prevailing environment.

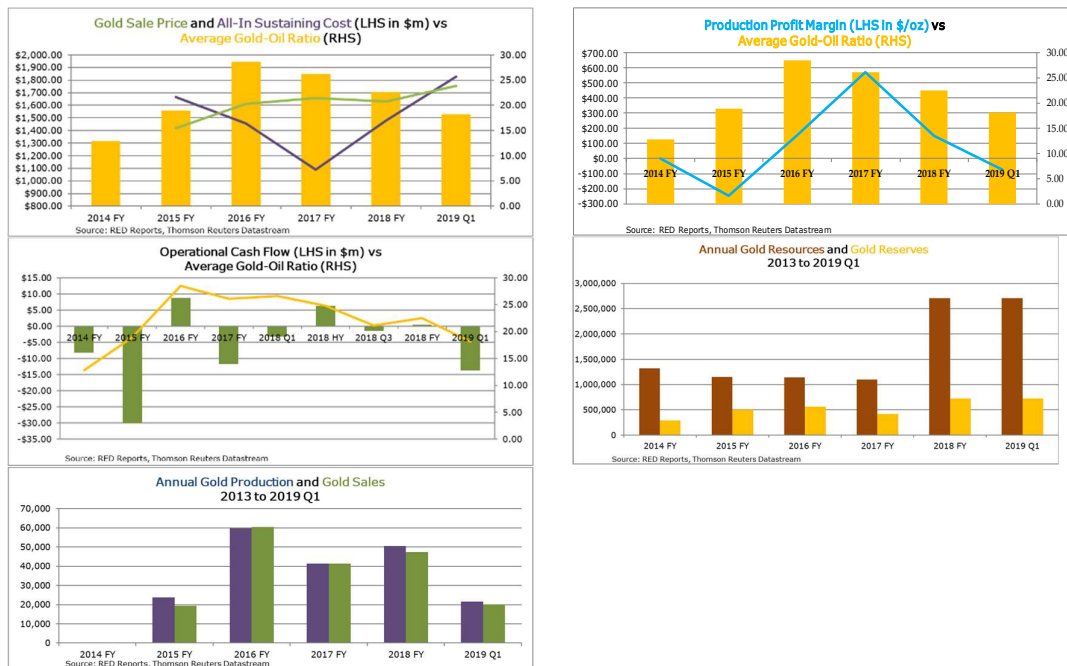


Prevailing Environment

2018 has been an increasingly challenging year for gold mining companies as the gold price fell from US\$1 350 in January/February to US\$1 180 in August/September. At the same time, crude oil price increased from US\$60 to US\$75 per barrel and only began to drop in early October to US\$50 now. As a result, many gold mining companies faced narrower profit margins and cash flow generation. However, for companies with Australian operations, a weakening Australian dollar slightly offset this pressure through hedging gold sales.

As gold recovered in the past two months and coinciding with sharply falling oil price, the gold mining companies will face tailwinds in their operations. The gold to oil ratio, a useful measure that is correlated with AISC and operating cash flow generation, has risen from 16 to 24 in the past two months. This trend has previously been observed in late 2014 and 2015, resulting in gold mining stocks staging a broad rally.

Operational and Financial Performance Charts



SWOT Analysis

<p>Strengths</p> <ul style="list-style-type: none"> • Gaining momentum on their production level and efficiency, underpinning potential for stock re-rating. • Demonstrated conversion of resources and reserves, with shallow mineralisation in the King of the Hills mine that can support low cost mining. 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Low cash balance with recent reported high AISC are cause for concern as this may require further dilution of capital if operations do not improve.
<p>Opportunities</p> <ul style="list-style-type: none"> • Further discovery of high grade mineralisation in Darlot and King of the Hills from their exploration program will result in further increase in resources and reserves. • The Filipino government has approved the underground mining in Siana, underpinning further production increase. 	<p>Threats</p> <ul style="list-style-type: none"> • Delays in reducing production costs at Darlot will jeopardise liquidity position.

Peer Comparison

