

9 February 2012

Red Rock Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/09	0.0	(0.9)	(0.24)	0.00	N/A	N/A
06/10	0.1	4.8	0.65	0.00	4.5	N/A
06/11	0.9	14.0	1.78	0.00	1.7	N/A
06/12e	4.7	4.8	0.34	0.00	8.5	N/A

Note: *PBT and EPS are presented in accordance with IFRS.

Investment summary: Mt Ida royalty sale

Red Rock has agreed to sell 50% of its 1.5% production royalty over the Mt Ida magnetite project, Western Australia, to Anglo Pacific Group. Subject to due diligence, the sale will be completed via a series of staged cash and share payments totalling US\$14m. The first comprises 0.3% of the royalty for US\$6m and is payable on agreement of the terms of the transaction. The second US\$4m for 0.225% is payable following definitive feasibility study (DFS) results, a formal decision to mine and the provision of 20% of pre-production capital and DFS costs. The third US\$4m for 0.225% will be paid on commencement of production. With all payments completed Anglo Pacific will acquire a 0.75% production royalty at Mt Ida from Red Rock.

Purchase price provides a new benchmark

The proposed offer crystallises a value for all of Red Rock's 1.5% royalty at Mt Ida of US\$28m pre-tax/US\$19.6m post 30% tax, which compares with our previous low-end valuation of US\$32.5m pre-tax/US\$22.8m post-tax. Meanwhile Red Rock will retain 0.75% if the sale progresses. Separately, we have updated our median and top-end valuation scenarios. In these we apply the US\$14m to be paid by Anglo Pacific in conjunction with 50% of the 10Mtpa and 20Mtpa production scenarios we used previously, valuing the current 1.5% Mt Ida royalty at US\$60.7m (£38.5m) and US\$103.4m (£65.5m) respectively.

Valuation: Low-end now 3.96p/share

We have subsequently revised our low-end valuation, reducing Red Rock's post-tax Mt Ida value to US\$19.6m (assuming 30% tax) from the previous US\$22.8m. As stated, our median and top-end scenarios feature Anglo Pacific's cash payments plus 50% of our previous median and top-end values of Red Rock's 1.5% Mt Ida production royalty. Our low-end, median and top-end valuation scenarios are now 3.96p/share, 9.45p/share and 30.54p/share respectively.

Price 2.9p
Market Cap £23m

Share price graph

Share details

Code RRR
Listing AIM
Sector Mining
Shares in issue 784m

Price

52 week High Low
14.75p 2.58p

Balance Sheet as at 30 June 2011

Debt/Equity (%) 13.3
NAV per share (p) 4.53
Net debt (£m) 4.3

Business

Listed on AIM in July 2005, Red Rock Resources is now a combination of a junior gold explorer and a mining finance house, focused on the discovery and development of iron ore, gold, steel feed and uranium globally.

Valuation

	2010	2011	2012e
P/E relative			
P/CF			
EV/Sales			
ROE			

Geography based on revenues (H110)

	UK	Europe	US	Other
100%		0%	0%	0%

Analyst

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Exhibit 1: Financial summary

Year end 30 June	£'000s	2007	2008	2009	2010	2011	2012 ^a
		UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		535	24	3	9	943	4,697
Cost of Sales		(185)	(1,026)	(108)	0	(1,463)	0
Gross Profit		350	(-1,001)	(104)	9	(-521)	4,697
EBITDA		(310)	(249)	(750)	(872)	(1,140)	428
Operating Profit (before GW and except.)		(310)	(249)	(750)	(872)	(1,142)	(282)
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		85	422	(3)	6,215	15,545	5,829
Associates		(1)	(83)	(171)	(519)	(386)	(386)
Operating Profit		(225)	90	(923)	4,824	14,016	5,161
Net Interest		2	13	(5)	(69)	(43)	(344)
Profit Before Tax (norm)		(309)	(318)	(926)	(1,461)	(1,571)	(1,013)
Profit Before Tax (FRS 3)		(224)	104	(929)	4,755	13,974	4,817
Tax		0	0	0	(1,299)	(3,714)	(1,280)
Profit After Tax (norm)		(309)	(318)	(926)	(1,461)	(1,571)	(1,013)
Profit After Tax (FRS 3)		(224)	104	(929)	3,455	10,260	3,537
Average Number of Shares Outstanding (m)		188.2	266.2	389.7	530.3	668.4	761.2
EPS - normalised (p)		(0.16)	(0.12)	(0.24)	(0.28)	0.01	(0.26)
EPS - normalised fully diluted (p)		(0.16)	(0.12)	(0.23)	(0.26)	0.01	(0.25)
EPS - FRS 3 (p)		(0.12)	0.04	(0.24)	0.65	1.78	0.34
Dividend per share (p)		0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		65.5	N/A	N/A	100.0 [†]	0.0	100.0
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A	9.1
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A	N/A
BALANCE SHEET							
Fixed Assets		0	0	0	5	13,328	12,617
Intangible Assets		0	0	0	0	0	0
Tangible Assets		0	0	0	5	13,328	12,617
Investments		0	0	0	0	0	0
Current Assets		2,848	4,364	5,552	10,692	36,972	41,462
Stocks		0	0	0	0	0	391
Debtors		1,080	394	275	1,127	6,658	386
Cash		220	88	49	563	269	7,780
Other		1,547	3,883	5,228	9,002	30,045	32,905
Current Liabilities		(294)	(413)	(180)	(1,904)	(5,867)	(4,285)
Creditors		(294)	(413)	(180)	(1,144)	(4,117)	(534)
Short term borrowings		0	0	0	(760)	(1,750)	(3,750)
Long Term Liabilities		0	0	0	(193)	(11,588)	(11,588)
Long term borrowings		0	0	0	0	(2,818)	(2,818)
Other long term liabilities		0	0	0	(193)	(8,770)	(8,770)
Net Assets		2,554	3,951	5,372	8,600	32,844	38,206
CASH FLOW							
Operating Cash Flow		(174)	(753)	(621)	(1,484)	(8,207)	3,508
Net Interest		2	13	(5)	(122)	(96)	(344)
Tax		0	0	0	0	(827)	(1,280)
Capex		(260)	(112)	(184)	(150)	(1,697)	(4,028)
Acquisitions/disposals		0	(11)	(402)	(156)	(161)	5,829
Financing		553	730	1,112	1,613	6,833	1,825
Dividends		0	0	0	0	0	0
Net Cash Flow		119	(133)	(100)	(300)	(4,155)	5,511
Opening net debt/(cash)		(101)	(220)	(88)	(49)	197	4,299
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	61	53	53	0
Closing net debt/(cash)		(220)	(88)	(49)	197	4,299	(1,212)

Source: Edison Investment Research, Red Rock Resources accounts

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