

# Red Rock Resources

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Michael Coulson takes a look at AIM-listed Red Rock Resources plc...

In recent weeks the mining market has been taking a close interest in the iron ore price negotiations with China and Japan, where substantial price cuts seem certain. However, industrial mining groups have been staging a strong rally as confidence grows that China's appetite for raw materials is by no means sated yet. It seems odd, therefore, that ambitious juniors with real projects are not doing better and nascent iron ore developer, AIM listed **Red Rock Resources plc** ("RRR"), is an interesting case in point.

RRR has four current elements to it – manganese and iron ore in Western Australia (WA), uranium, other exploration in Africa, and gold clean up in Australia. The most advanced of RRR's interests is the iron ore/manganese tenements that it has built up with the assistance of ex Gencor and BHP boss Brian Gilbertson's Pallinghurst Resources which in turn is backed by Korean steel giant POSCO. RRR and Pallinghurst each hold or will hold 28% of Jupiter Mines, an Australian listed junior into which the iron ore and manganese assets of RR in the Yilgarn area of WA have been injected. The iron ore interests embrace tenements that contain several millions of tonnes of ore grading around 60% with the potential for expanding the resource many times over by exploration and drilling.

Jupiter has a strong management team headed by ex BHP and Portman Mining boss, Geoffrey Wedlock and the Yilgarn tenements 300 miles due east of Perth are conveniently located for ultimate access to the Portman rail link to the coast.

RRR's uranium interest is held through a 27% stake in Resource Star ("RS") established by RRR's Chairman, Andrew Bell. This is a sensible way to play the uranium story over which historically there has been 'many a slip twixt cup and lip', particularly in the light of 2007's overexcitement. MineMouth's view is that there is a bull market coming in nuclear power, and therefore uranium, which will be substantially led by Chinese demands. But timing is much more difficult than sector bulls admit, and it is sensible for RRR to take its exposure to this highly volatile but prospective sector in the form of an arms length investment. RS's uranium projects are in Australia's Northern Territory, one of the world's most prospective uranium provinces, and in Malawi. Ian Scott, who oversaw Western Mining's giant Olympic Dam uranium interests as chief geologist for many years, is CEO of RS and he and his team are shepherding the company to a relisting on ASX in due course.

The strength in gold also helps RRR as it has exposure through its clean up operations in Australia, and is negotiating some participations in Africa. In South Africa the idea, still at exploratory stage, is to operate a clean up business where RR enters old mines in a reclamation state and basically sweeps the closed workings gathering up mineralised rock left behind as a natural consequence of the old mining operation. The company believes that much payable rock was left behind and it is currently seeking a black empowerment partner. In Australia its idea is to access near surface hard rock gold ore and treat the product using a mobile crushing and grinding plant, and it has already placed an order for such a plant. With the gold price so strong currently, RRR is hopeful of more than useful short term cash flow which with £3 million of cash support will give it significant resources to pursue its longer term corporate ambitions to become an important iron ore player.

Although Red Rock is a tiny company, at 1p its current market capitalisation is around £4 million, its structure resembles an old style mining finance house. The value of RRR's holding in Jupiter alone is worth 1.5p per share, indicating that it is selling on a substantial discount to its underlying value. A complication in achieving a clearer market focus is that RRR's control shareholder is another



Andrew Bell company, **Regency Mines**, which has a market capitalisation little different from RRR. With AIM mining shares finding it difficult to attain any recognition these days Red Rock has its work cut out to attract investor attention, although RRR did make £100,000 from dealing profits last year and is hopeful of doing well in the current year also.

The key macroeconomic point to bear in mind is that China is on the move again as its economy picks up some steam after last year's slowdown. It has begun to look for ways to diversify its US dollar foreign currency holdings and part of that process has seen it begin to build metal stockpiles, and also to look to make strategic direct investments in mineral projects. Recently the almost interminable saga of Rio Tinto and Chinalco has concluded with the Chinese being denied an opportunity to take a stake in one of the world's largest iron ore groups. It is very likely that China may turn to acquiring control of early-stage, and therefore less strategically sensitive, iron ore prospects to secure long term supplies for its steel industry. Certainly the mooted participation of POSCO in Jupiter, and Gilbertson's reputation as an aggressive deal maker, suggests that Jupiter has serious intentions to expand its iron ore interests and is in the market for big deals. The market is more sanguine which provides an interesting buying opportunity in Red Rock at current price levels.

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### Platinum



### Copper



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