

4 November 2009

Red Rock Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/07	0.5	(0.3)	(0.2)	0.0	N/A	N/A
06/08	1.3	(0.2)	(0.1)	0.0	N/A	N/A
06/09e	1.2	(0.7)	(0.2)	0.0	N/A	N/A
06/10e	6.2	3.8	0.7	0.0	2.3	N/A

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

Investment summary: Cue investment

Red Rock has announced that it has taken a 15.78% interest in Cue Resources (a company incorporated in Canada and listed on the TSX Venture Exchange) via a subscription for 9.898m units (comprising one share and one warrant each) at a price of C\$0.10 each for a total consideration of C\$989,800 (approximately £565,000). Each warrant entitles Red Rock to subscribe for one further share at a price of C\$0.15 prior to 1 November 2011. Cue's current share price is C\$0.105 and its market cap C\$4.1m.

Uranium assets

Cue's principal asset is a 100% interest in the Yuty uranium project in Paraguay. Covering 230,000ha, Yuty's mineralisation is interpreted as a sandstone-hosted roll-front deposit containing multiple uranium targets, including San Antonio, which was previously drilled in two separate campaigns in 1976-1983 and 2007-2009 comprising 266 and 234 drill holes respectively. As such, an NI 43-101 compliant resource of 8.3m lbs U₃O₈ in the indicated category and a further 1.2m lbs in the inferred category has been defined.

Yuty in-situ resource valuation

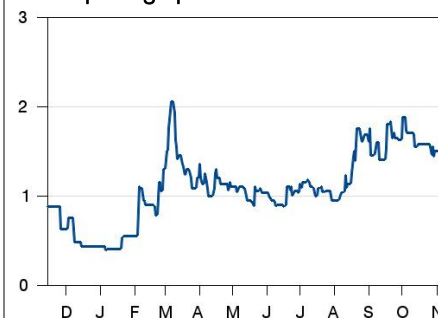
The average enterprise value for uranium resources is US\$10.12/lb. However, the range of potential valuations is wide (US\$25.20-0.23/lb). Moreover, resources in the measured category command a distinct premium over those in the indicated and inferred categories. As an initial estimation, we would apply a value of US\$2.70/lb to Cue's resources, on which basis its 9.5m lbs are worth US\$25.7m and Red Rock's interest in them US\$4.1m.

Valuation: Potential 83% discount to NAV

Further to our note of 22 October, we have now updated our valuation of Red Rock to account for its purchase of its stake in Cue Resources. On this basis, we conclude that the company is trading at a discount of at least 63% (cf 61% in October) to its NAV of 4.03p. If its uranium assets revalue fully (see above), then we believe that this NAV can increase to 8.70p (cf 8.30p in October).

Price 1.5p
Market Cap £7m

Share price graph



Share details

Code RRR
Listing AIM
Sector Mining
Shares in issue 477m

Price

52 week High 2.1p Low 0.4p

Balance Sheet as at 31 December 2008

Debt/Equity (%) N/A
NAV per share (p) 0.6
Net cash (£) 20,078

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

	2008	2009e	2010e
P/E relative	N/A	N/A	20%
P/CF	N/A	N/A	N/A
EV/Sales	3.1x	4.9x	1.3x
ROE	N/A	N/A	36%

Revenues on geography

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

Analyst

Charles Gibson 020 3077 5724
cgibson@edisoninvestmentresearch.co.uk

Red Rock's estimated net asset value

Further to our note of 22 October, we have updated our valuation of Red Rock on the basis of its assets to take account of the acquisition of its 15.78% stake in Cue Resources, as outlined above. Given that they are out of the money, we have not included any value in respect of Red Rock's holding of Cue Resources' warrants, although these obviously represent further potential upside in the event of appreciation in the Cue Resources' share price.

Exhibit 1: Red Rock Resources' forecast company balance sheet FY09, updated

Note: * Relates to sale of Africa China Mining Corporation, subsequent share issues to Yorkville & Regency and acquisition of Cue Resources' stake.

£000's	Low-end scenario	Median scenario	Top-end scenario
Current assets			
Investments in associates			
- Jupiter Mines	11,387	11,387	22,418
- Resource Star		913	913
- Cue Resources	592	1,523	2,454
Cash and cash equivalents*	505	505	505
Trade and other receivables	96	96	96
Investments in subsidiaries	964	964	964
Available for sale financial assets	1,952	1,952	1,952
Exploration properties	3,812	12,293	12,293
Total current assets	19,308	29,633	41,595
Total assets	19,308	29,633	41,595
Liabilities			
Trade and other payables	(61)	(61)	(61)
Total liabilities	(61)	(61)	(61)
Net assets	19,247	29,572	41,534
Shares in issue (millions)	477.4	477.4	477.4
NAV per share (pence)	4.03	6.19	8.70
Discount of current share price to NAV (%)	62.8	75.8	82.8

Source: Edison Investment Research estimates

The three scenarios considered above may be summarised as follows:

- The low-end scenario only considers Red Rock's holding in Jupiter and its 15% interest in the current Kenyan resource base; it ascribes no value to its holding in Resource Star. Its stake in Cue Resources is valued with respect to its share price.
- The median scenario values Red Rock's holding in Resource Star at 17 Australian cents per share (being the last price at which Red Rock accepted an equity for debt swap relating to its ongoing funding of Resource Star's working capital requirements). It also assumes a 60% interest in the Kenyan gold assets (against which US\$8m has been deducted as the estimated expense of the bankable feasibility study). The Cue Resources stake has been valued at the mid-point between its market value and our estimate of its value based on its resource base (see below)
- The top-end scenario considers the effect on the Red Rock holding in Jupiter in the event that the Mount Alfred Bonus option is exercised and the maximum number of shares are allocated 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).

Exhibit 2: Financials

	£'000s	2007	2008	2009e	2010e
Year end 30 June		UK GAAP	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		535	1,347	1,165	6,176
Cost of Sales		(185)	(1,026)	(1,098)	(1,590)
Gross Profit		350	321	67	4,586
EBITDA		(310)	(249)	(747)	3,832
Operating Profit (before GW and except.)		(310)	(249)	(747)	3,832
Intangible Amortisation		0	0	0	0
Exceptionals		85	422	0	0
Other		0	0	0	0
Operating Profit		(225)	173	(747)	3,832
Net Interest		2	13	3	10
Profit Before Tax (norm)		(309)	(235)	(744)	3,842
Profit Before Tax (FRS 3)		(223)	186	(744)	3,842
Tax		0	0	0	(3)
Profit After Tax (norm)		(309)	(235)	(744)	3,839
Profit After Tax (FRS 3)		(223)	186	(744)	3,839
Average Number of Shares Outstanding (m)		188.2	266.2	384.0	506.5
EPS - normalised (p)		(0.2)	(0.1)	(0.2)	0.7
EPS - FRS 3 (p)		(0.1)	0.1	(0.2)	0.8
Dividend per share (p)		0.0	0.0	0.0	0.0
Gross Margin (%)		65.5	23.8	5.7	74.3
EBITDA Margin (%)		(57.9)	(18.5)	(64.1)	62.0
Operating Margin (before GW and except.) (%)		(57.9)	(18.5)	(64.1)	62.0
BALANCE SHEET					
Fixed Assets		0	0	0	0
Intangible Assets		0	0	0	0
Tangible Assets		0	0	0	0
Investments		0	0	0	0
Current Assets		2,848	4,364	4,487	9,345
Stocks		0	0	0	0
Debtors		1,080	394	96	508
Cash		220	88	350	16
Other		1,547	3,883	4,042	8,821
Current Liabilities		(294)	(413)	(61)	(131)
Creditors		(294)	(413)	(61)	(131)
Short term borrowings		0	0	0	0
Long Term Liabilities		0	0	0	0
Long term borrowings		0	0	0	0
Other long term liabilities		0	0	0	0
Net Assets		2,554	3,951	4,426	9,215
CASH FLOW					
Operating Cash Flow		(349)	(1,316)	(426)	(768)
Net Interest		2	13	3	10
Tax		0	0	0	(3)
Capex		(260)	(112)	(290)	(837)
Acquisitions/disposals		0	(11)	0	0
Financing		727	1,293	975	1,264
Dividends		0	0	0	0
Net Cash Flow		119	(133)	262	(333)
Opening net debt/(cash)		(101)	(220)	(88)	(350)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(220)	(88)	(350)	(16)

Sources: Red Rock Resources, Edison Investment Research

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