

With the near conclusion of Red Rock's Colombian gold project sale of up to \$5m and positive updates from several other projects/assets, we have re-visited our numbers from last October to calculate a revised sum-of-the-parts valuation.

As the management have demonstrated their ability in negotiating an asset sale, they may now be able to focus on monetising or seeking JV partners for other interests such as the Greenland iron ore and Kenyan gold projects.

A more likely near term asset realisation could come from Red Rock's interest in Resource Star Ltd. Last week the ASX listed company announced it had conditionally agreed to acquire a controlling interest in Sugar Dragon which has an exclusive licence to produce and distribute Candy Crush branded confectionary in Greater China. Given that Resource Star Ltd has now moved away from its original remit to invest in uranium projects, Red Rock may choose to dispose of its equity and option stake, which currently has a market value of around £0.47m.

Another asset that could become realisable at a higher value is Jupiter Mines, where Red Rock holds a 1.2% stake and royalty interest that we currently value at £4.23m in total, representing the Group's second largest asset by estimated value, after Kenya (£4.82m). With the improved performance of Jupiter's producing manganese mine in South Africa and given Red Rock management's belief that Jupiter should be profitable enough to start paying a dividend soon, we could witness further upward revisions to the net asset value and perhaps an exit route opening up from a Chinese or Indian buyer.

In terms of newsflow and project advancement, we may see the most action from the Group's gold (and manganese) exploration interests in Ivory Coast which could emerge as flagship Group projects. For the moment we have applied a notional valuation of £0.23m on the licences to reflect the estimated cost of project acquisition and funds spent to date in the country. With further exploration and licence additions anticipated from the Ivory Coast in the coming months, this valuation estimate may rapidly rise.

Our estimated net valuation (*Table: 2*) for Red Rock's projects improved slightly to £14.73m (previously £14.65m). Once the improved cash and debt position has been factored in, our estimated asset value comes to £15.26m, an improvement of 10.2% from the October 2014 estimate of £13.85m. With a higher number of shares in issue than 6 months ago following the recent £1m placing at 0.08p and note conversions, the price target per share is reduced from 0.63p to 0.33p. A target price of 0.33p nevertheless represents a sizeable potential uplift of 288% from the current share price of 0.085p and clear sum-of-the-parts mismatch to the current market price. With a number of valuation catalysts possible in the near future from Jupiter Mines and Ivory Coast and with the balance sheet looking much cleaner following recent loan note conversions, Dowgate Capital continues with its 'Buy' recommendation on the stock.

## BUY\*

**Price Target 0.33p#**  
(288% potential upside)

### Price Data

Price:	0.085p
Shares in Issue:	4.66bn
52 Week High/Low	0.435p/0.07p

### Profile

Market:	AIM - London
Sector:	Basic Resources
Ticker:	RRR.L
Weblink	rrrplc.com

### Key Data

Market Cap:	£4.0m
Est Net Asset Value:	£15.26m
Net Cash (est. 29/04/14):	£0.22m, rising to an estimated £0.51m in May following first tranche receipt from Colombian gold asset sale.

### Activities

*The investment, exploration, development and mining of resource projects with a focus on gold, along with manganese and iron ore.*

### Directors

Andrew Bell (Exec Chairman)
Michael Nott (Non-Ex)
John Watkins (Non-Ex)
James Ladner (Non-Ex)

### Main Shareholders

JIM Nominees (Bulk)	21.6%
JIM Nominees (Jarvis)	12.3%
HSBC Client Hdgs Nom'	8.3%
TD Direct Investing Nom'	6.8%
Daniel Sklan	5.6%
Barclayshare Nom'	5.5%
Regency Mines	4.9%
HSDL Nom'	4.7%

### Valuation Estimate Summary

Colombia	£1.60m
Kenya	£4.82m
Ivory Coast	£0.23m
Greenland	£3.39m
Jupiter Mines	£4.23m
Resource Star	£0.47m

Exchange Rates: A\$/£1.92 / US\$/£1.54

*\*Dowgate Capital Stockbrokers acts as Joint Broker to Red Rock Resources plc.*

*#previous price target 0.63p (223% upside from 0.195p share price) – 20/10/14.*

## VALUATION RATIONALE

We have used the same approach in calculating an estimated value for Red Rock Resources, as previously detailed in our research note published on 20 October 2014, copies of which are available on request.

As summarised in Table 2, the risked net present valuations of Red Rock's **Kenya** and **Greenland** assets remain unchanged. As the US dollar has strengthened against the pound (\$1.60 to \$1.54) since last October, the value in sterling terms for Kenya and Greenland has correspondingly improved by 4% to £4.82m and £3.39m respectively.

Given the relatively early stage exploration on the **Ivory Coast** gold and manganese prospects, we have applied a notional value of £0.23m which reflects the cost of acquiring the ground and funds spent on exploration work to date rather than the prospective value of the project. With Ivory Coast being a key focus for the Group and with the potential of further acreage being added, we may be able to apply a much higher value to this country in the near future.

Overall the value for the Group's equity (1.2%) and royalty interests in **Jupiter Mines** has remained almost unchanged at £4.23m in total. The valuation has improved from a slight upward revision of Jupiter's net asset value from A\$480m to A\$484.5m at the last reporting date of 31 August 2014, although a weakened A\$ since our last research note negated some of this upside when converted back to sterling.

The rise in the share price of ASX listed **Resource Star** from 0.7c to 1.1c, improved the value from £0.26m to £0.47m, in which Red Rock holds 65.3m shares and 5.21m options exercisable at 0.4c. Resource Star is currently acquiring a 60% stake in a company that holds the exclusive licence to produce and distribute Candy Crush branded confectionary in China.

Following confirmation of the **Colombian** asset sale on 14 April 2015, we have recalculated the present value of future cash payments from the deal as outlined in Table 1. This does not include the first payment (Tranche 1) of \$450,000, as it is expected to be paid in May 2015, or the \$100,000 received before the deal was concluded. The final computed figure of £1.60m (or £1.74m with Tranche 1 payment added) is less than estimated previously of £2.22m, as the terms have since changed to include more late stage payments and a higher production royalty element.

Payment	Payment (US\$)	Payment net of Commission (US\$)	Discount Period (10% p.a.)	Total (US\$)	Total US\$/£1.54
Tranche 2	225,000	209,250	9 mths	\$194,814	£126,502
Tranche 3	225,000	209,250	15 mths	\$185,747	£120,615
5% Note	1,000,000	930,000	3 years	\$698,714	£453,710
Interest Payments	150,000	n/a	Annual for 3 years	\$124,342	£80,741
Production Royalty	Up to 2m	1,346,565	Over 10 years	\$1,252,305	£813,185
<b>TOTAL</b>				<b>US\$2.46m</b>	<b>£1.60m</b>

**Table 1:** Projected discounted cash flows from asset sale.

## Valuation Summary

<b>Asset</b>	<b>A\$ or US\$ Valuation</b>	<b>£ Valuation</b>	<b>Comments</b>
<i>A\$/£1.92 US\$/£1.54</i>			
<b>Colombia</b>	US\$2.46m	£1.60m	<i>Present value of future payments and estimated royalty. Does not include Tranche 1 payment. (Previously £2.22m).</i>
<b>Kenya</b>	US\$7.42m	£4.82m	<i>Unchanged US\$ asset valuation.</i>
<b>Ivory Coast</b>	US\$0.35m	£0.23m	<i>Previously nil valuation.</i>
<b>Greenland</b>	US\$5.22m	£3.39m	<i>Unchanged US\$ asset valuation.</i>
<b>Jupiter Mines</b> Equity Stake Mt Ida Royalty	A\$4.65m US\$2.78m	£2.42m £1.81m	<i>Slight currency and asset valuation difference (Previously £2.52m - equity stake &amp; £1.73m – royalty estimate).</i>
<b>Resource Star</b>	A\$0.90m	£0.47m	<i>Previously £0.26m.</i>
<b>28 Apr '15 Valuation</b>			<i>(20 Oct '14 Valuation)</i>
<b>Sub Total</b>		<b>£14.73m</b>	<i>(£14.65m)</i>
Debt/Cash		Cash £0.53m	<i>(£0.8m Debt)</i>
<b>Total</b>		<b>£15.26m</b>	<i>(£13.85m)</i>
Shares In Issue		4.66bn	<i>(2.21bn)</i>
<b>Price per share</b>		<b>0.33p</b>	<b>0.63p</b>

**Table 2:** Group Valuation Summary

NB1: Exchange rate used for research note on 27/10/14 was A\$/£1.83 & US\$/£1.50.

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