

30 November 2009

Red Rock Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/08	1.3	(0.2)	(0.1)	0.0	N/A	N/A
06/09	0.1	(0.8)	(0.2)	0.0	N/A	N/A
06/10e	6.2	3.8	0.6	0.0	2.3	N/A
07/11e	0.0	(0.8)	(0.2)	0.0	N/A	N/A

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

Investment summary: Results and deals

In its full-year results to end-June 2009 released last week, Red Rock reported a loss per share of 0.24p (cf our expectation of a 0.22p loss). More significant than the results themselves are the deals that Red Rock has concluded since the year end. These include the disposal of its stake in the Africa China Mining Corporation, the issue of approximately £500,000 in equity to three investors and the acquisition of a stake in Cue Resources. At the same time, Red Rock's associates have been active.

Final results

Given the nature of Red Rock's business model in the year under consideration, we regard the fact of a loss as being immaterial to the valuation of the company. Similarly, although we expect a strong earnings performance in FY10, this will reflect the completion of the Oakover-Jupiter deal (for which the accounting treatment has still to be finalised), and will therefore also be 'exceptional' in nature. As such we would expect Red Rock to return to losses again in FY11 in the absence of any other one-off deals. Nevertheless, on an asset valuation basis (see below) we estimate that there is considerable potential, unrealised value in Red Rock's shares. In the meantime, it continues to actively pursue a strategy designed to transform itself into an owner-operator of mining assets in Kenya.

Associates active

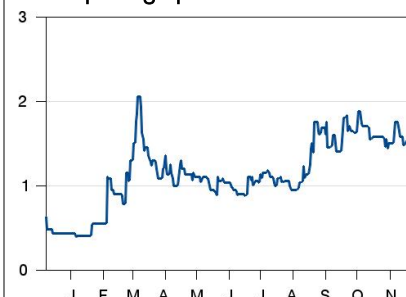
Red Rock's associates have been active with Resource Star raising A\$600,000 and in the process of raising another A\$5m prior to re-listing on the ASX (anticipated around 15 January 2010 according to its prospectus, released earlier this week) as well as concluding a deal with Globe whereby the latter farms in to up to 80% of Resource Star's rare-earth project in Malawi in return for funding a feasibility study.

Valuation: Potential 82% discount to NAV

Adjusting for the transactions noted above, we conclude that Red Rock is trading at a discount of 36% compared to the market value of its shareholdings in Jupiter and Cue Resources alone. This rises to 58%, and potentially 82%, taking into account its other balance sheet assets, the approximate valuation of Resource Star and our estimate of the value of its Kenyan gold assets (see over).

Price 1.43p
Market Cap £7m

Share price graph



Share details

Code RRR
Listing AIM
Sector Mining
Shares in issue 515.35m

Price

52 week High 2.1p
Low 0.4p

Balance Sheet as at 30 June 2009

Debt/Equity (%) N/A
NAV per share (p) 1.16
Net cash (£) 49k

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

	2009	2010e	2011e
P/E relative	N/A	16%	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	1.2	N/A
ROE	N/A	31%	N/A

Revenues on geography

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

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Estimated net asset value

Further to our note of 4 November, we have updated our valuation of Red Rock on the basis of its reported balance sheet as at 30 June 2009 to take account of its disposal of its Africa China Mining stake, the issue of approximately £500,000 in new equity, the acquisition of a 15% interest in the Mid-Migori Mining Company, the acquisition of an option to acquire 70% of the Ngira-Migori project and the acquisition of a 15.78% stake in Cue Resources.

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

Note: * FY09 year end figure adjusted for the sale of Africa China Mining Corporation, subsequent share issues to Yorkville, Regency and City Equities and acquisition of Cue Resources' stake; ** Estimated.

£000's	Worst case scenario	Low-end scenario	Median scenario	Top-end scenario
Current assets				
Investments in associates				
- Jupiter Mines	11,105	11,105	11,105	21,863
- Resource Star			911	1,194
- Cue Resources	566	566	1,510	2,454
Cash and cash equivalents*		598	598	598
Trade and other receivables		275	275	275
Investments in subsidiaries		964	964	964
Available for sale financial assets**		368	368	368
Exploration properties		3,812	12,293	12,293
Total current assets	11,670	17,687	28,023	40,010
Total assets	11,670	17,687	28,023	40,010
Liabilities				
Trade and other payables	(181)	(181)	(181)	(181)
Total liabilities	(181)	(181)	(181)	(181)
Net assets	11,489	17,506	27,842	39,829
Shares in issue (millions)	515.4	515.4	515.4	515.4
NAV per share (pence)	2.23	3.40	5.40	7.73
Discount of current share price to NAV (%)	-36.1	-58.0	-73.6	-81.6

Source: Edison Investment Research estimates

The four scenarios considered in Exhibit 1 may be summarised as follows:

- In the worst case scenario, only Red Rock's holding in ASX-listed Jupiter and Toronto-listed Cue Resources are considered, valued according to its shareholdings at the most recent market prices of A\$0.215 per Jupiter share and C\$0.10 per Cue share respectively.
- The low-end scenario only considers Red Rock's holdings in Jupiter and Cue Resources (at their current market prices) and its 15% interest in the current Kenyan resource base (reflected in 'exploration properties'); it ascribes no value to its holding in Resource Star.
- 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). NB This compares with the 16 cents at which Resource Star recently raised A\$600,000 from institutions and the 20 cents at which it is currently raising A\$5m. 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 U_3O_8 indicated and inferred resources at US\$2.70/lb). Also taken into account are the three million additional Resource Star shares that Red Rock stands to be issued under the terms of the former's current fund-raising and re-listing exercise in satisfaction of a loan made to the company.

In addition, Red Rock also holds 9,898,000 warrants in Cue Resources, giving it the right to subscribe for 9,898,000 Cue shares at a price of C\$0.15. With Cue Resources' shares currently priced at C\$0.10 these are currently out of the money and have therefore been ignored for the purposes of this valuation. However, they clearly represent further upside potential in the event of any appreciation of the Cue Resources share price.

Exhibit 2: Financials

Year end 30 June	£'000s	2007 UK GAAP	2008 IFRS	2009 IFRS	2010e IFRS	2011e IFRS
PROFIT & LOSS						
Revenue		535	1,347	68	6,176	0
Cost of Sales		(185)	(1,026)	(108)	(1,590)	0
Gross Profit		350	321	(39)	4,586	0
EBITDA		(310)	(249)	(750)	3,832	(754)
Operating Profit (before GW and except.)		(310)	(249)	(750)	3,832	(754)
Intangible Amortisation		0	0	0	0	0
Exceptionals		85	422	(3)	0	0
Other		0	0	0	0	0
Operating Profit		(225)	173	(753)	3,832	(754)
Net Interest		2	13	(5)	1	2
Profit Before Tax (norm)		(309)	(235)	(755)	3,833	(752)
Profit Before Tax (FRS 3)		(223)	186	(758)	3,833	(752)
Tax		0	0	0	(0)	(1)
Profit After Tax (norm)		(309)	(235)	(755)	3,833	(752)
Profit After Tax (FRS 3)		(223)	186	(758)	3,833	(752)
Average Number of Shares Outstanding (m)		188.2	266.2	389.7	522.5	629.1
EPS - normalised (p)		(0.2)	(0.1)	(0.2)	0.6	(0.2)
EPS - FRS 3 (p)		(0.1)	0.1	(0.2)	0.7	(0.1)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		65.5	23.8	N/A	74.3	N/A
EBITDA Margin (%)		N/A	N/A	N/A	62.0	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	62.0	N/A
BALANCE SHEET						
Fixed Assets		0	0	0	0	0
Intangible Assets		0	0	0	0	0
Tangible Assets		0	0	0	0	0
Investments		0	0	0	0	0
Current Assets		2,848	4,364	5,552	10,591	10,520
Stocks		0	0	0	0	0
Debtors		1,080	394	275	508	0
Cash		220	88	49	76	184
Other		1,547	3,883	5,228	10,008	10,337
Current Liabilities		(294)	(413)	(180)	(131)	0
Creditors		(294)	(413)	(180)	(131)	0
Short term borrowings		0	0	0	0	0
Long Term Liabilities		0	0	0	0	0
Long term borrowings		0	0	0	0	0
Other long term liabilities		0	0	0	0	0
Net Assets		2,554	3,951	5,372	10,461	10,520
CASH FLOW						
Operating Cash Flow		(349)	(1,316)	(559)	(708)	(377)
Net Interest		2	13	(5)	1	2
Tax		0	0	0	(0)	(1)
Capex		(260)	(112)	(184)	(837)	(874)
Acquisitions/disposals		0	(11)	(402)	0	0
Financing		727	1,293	1,112	1,570	1,357
Dividends		0	0	0	0	0
Net Cash Flow		119	(133)	(38)	27	108
Opening net debt/(cash)		(101)	(220)	(88)	(49)	(76)
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(220)	(88)	(49)	(76)	(184)

Source: Red Rock Resources, Edison Investment Research

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