

Red River Resources ^{RVR}

Recommendations

Rating	BUY
Risk	High
Price Target	\$0.26
Share Price	\$0.21

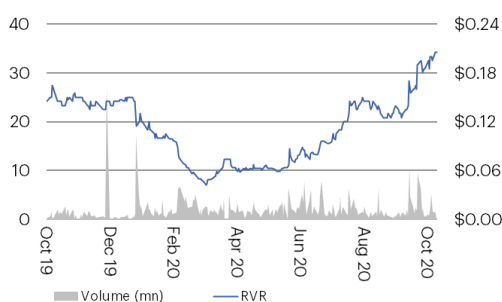
Snapshot

Monthly Turnover	\$11.8mn
Market Cap	\$104mn
Shares Issued	517.8mn
52-Week High	\$0.23
52-Week Low	\$0.04
Sector	Materials

Business Description

Red River Resources Limited (RVR) is a mineral exploration company. It has operations at the Thalanga project, which is located approximately 60km west of Charters Towers in Central Qld, and 200km SW of Townsville. RVR also plans to restart the Hillgrove Gold-Antimony Mine in NSW. RVR also plans to restart the Hillgrove Gold-Antimony Mine in NSW.

12-Month Price & Volume



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Disclosure

The author owns no shares in RVR.

Company Report

Strong start in terms of production, cash flow

Copper production benefits costs: Ore mined and processed was up over 10% on the June quarter. The highlights from a cash-flow perspective were copper, zinc and lead concentrate production of 4,073t (+51% QoQ), 7,026t (+55% QoQ) and 1,947t (+72% QoQ) respectively. The C1 and C3 cash costs at Thalanga were -US\$0.10/lb and +US\$0.49/lb. Revenue was A\$35.6m, A\$20m more than the June quarter. EBITDA was A\$13.8m, up A\$10.3m on the June quarter. RVR ended the quarter with \$12.5m in cash after spending \$5.6m on development at Far West, \$0.6m on exploration and a debt repayment of \$6.9m.

Earnings increased: We have updated our base metals price forecasts for the quarter and CY21. The increase in metal price forecasts and changes to Far West mining rates and grades has resulted in 8%/59%/17% increases to FY21F/FY22F/FY23F earnings. Our valuation has increased 2cps to 40cps.

Cash generation allows debt repayment, funds for Hillgrove: As previously foreshadowed by the CEO, the company repaid the \$6.9m balance of the working capital facility when it fell due in September. As a result, it now has no debt. RVR also recently reiterated its intention to restart production of gold at Hillgrove by year-end and said the \$5m restart was on track. With \$12.5m in cash, the company will have more than enough to fund the development capex at Hillgrove and Far West without the need for an equity issue. The workforce has increased to 22, while installation work on the gold circuit and leach reactor have commenced and refurbishment of tanks, electrical and mechanical plant components has started. No details of expected production or costs have been provided. We assume revenue and costs will be treated as pre-commercial and go to the balance sheet, and the cash generated will be used as part of the funding for the restart of underground mining operations.

Investment view: The company is well placed to generate cash from Far West and continue the studies to bring Lioneville into production, which should allow an increase in Thalanga milling rates from the current annualised rate of 400ktpa to the previous capacity of 650ktpa. Gold production from Hillgrove will diversify RVR's revenue and operating risk. The additional contribution to profits and valuation are yet to be included. RVR will provide more information on the Stage 2 Hillgrove restart in the first half of CY21. We maintain our BUY rating, and increase our price target 9cps to 26cps as a result of earnings changes and de-risking the Far West development.

Investment Summary

Year End: 30 June		2019 (A)	2020 (A)	2021 (E)	2022 (E)	2023 (E)
Revenue	\$mn	97	64	107	134	159
EBITDA	\$mn	18.2	-2.8	28.4	34.1	40.5
EBIT	\$mn	5.8	-12.3	14.1	19.6	26.3
Reported Profit	\$mn	3.8	-6.9	8.9	13.3	18.5
Adjusted Profit	\$mn	3.8	-6.9	8.9	13.3	18.5
EPS (Reported)	¢	0.8	-1.4	1.8	2.7	3.8
EPS (Adjusted)	¢	0.8	-1.4	1.8	2.7	3.8
EPS Growth	%	N/A	N/A	N/A	49.4	39.2
PER (Adjusted)	x	27.4	N/A	11.6	7.8	5.6
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial Summary

Red River Resources (RVR)

Date	27-Oct-20
Share Price (\$A)	\$0.21
Market Capitalisation (A\$m)	\$104
Year End	30 June

Key Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
Reported NPAT	3.8	-6.9	8.9	13.3	18.5
Underlying NPAT	3.8	-6.9	8.9	13.3	18.5
EPS (underlying)	0.8	-1.4	1.8	2.7	3.8
EPS Growth (%)	1305%	n/a	n/a	49%	39%
P/E (x)	27.4	N/A	11.6	7.8	5.6
CFPS (A Cents)	4.7	(1.7)	6.5	7.7	7.2
P/CF (x)	4.5	n/a	3.2	2.7	2.9
DPS (A Cents)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%	0%	0%
EV/EBITDA (x)	5.3	-33.9	3.4	2.8	2.4

Assumptions	FY19A	FY20A	FY21E	FY22E	FY23E
Australian Dollar (AUD/USD)	0.7299	0.6713	0.7063	0.7000	0.7050
Zinc Price (US\$/lb)	1.19	1.02	1.04	1.00	1.06
Zinc Price (A\$/t)	3,598	3,351	3,245	3,149	3,312
Lead Price (US\$/lb)	0.90	0.86	0.84	0.88	0.94
Lead Price (A\$/t)	2,733	2,822	2,613	2,755	2,929
Copper Price (US\$/lb)	2.79	2.55	2.87	2.70	2.60
Copper Price (A\$/t)	8,428	8,356	8,940	8,501	8,128
Gold Price (US\$/oz)	1,262	1,561	1,853	1,675	1,575
Gold Price (A\$/oz)	1,729	2,325	2,623	2,393	2,234

Production	FY19A	FY20A	FY21E	FY22E	FY23E
Zinc Equivalent (kt)	28.1	19.2	32.9	42.5	47.9
Zinc - payable (kt)	15.7	8.5	12.3	16.2	19.3
Lead - payable (kt)	8.0	3.2	3.6	3.6	3.4
Copper - payable (kt)	1.2	2.0	4.7	6.3	7.3
Gold - payable (koz)	1.6	1.1	0.9	3.2	6.3
Silver - payable (koz)	460.7	334.1	446.9	465.9	470.0
Cash cost (US\$/lb payable)	0.54	0.84	0.20	0.25	0.32
AISC (US\$/lb payable)	0.84	1.14	0.58	0.49	0.49

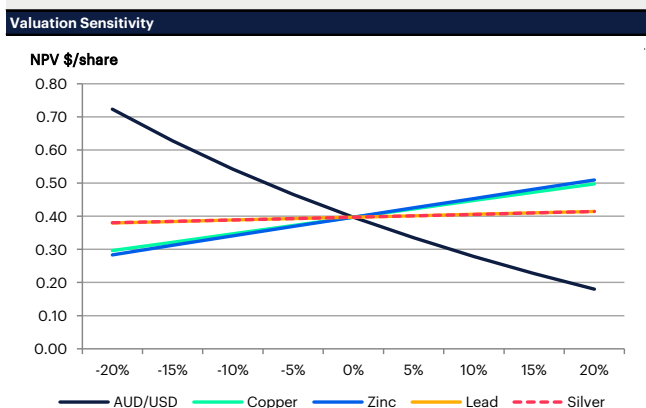
Profit & Loss (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating Revenue	96.5	63.2	106.9	133.9	158.5
Other Income	0.6	1.0	0.0	0.0	0.0
Total Revenue	97.1	64.2	106.9	133.9	158.5
Operating Costs	77.3	63.4	74.6	95.9	114.1
Corporates/Other	0.6	3.5	3.9	3.9	3.9
Exploration/Write-Offs	1.0	0.2	0.0	0.0	0.0
EBITDA	18.2	(2.8)	28.4	34.1	40.5
Depreciation & Amortisation	12.4	9.5	14.4	14.5	14.3
EBIT	5.8	(12.3)	14.1	19.6	26.3
Net Interest / (Expense)	-0.3	-0.6	0.2	0.7	1.3
Pre Tax Profit	5.5	-13.0	14.3	20.4	27.6
Income Tax Expense (credit)	1.7	-6.1	5.4	7.1	9.1
NPAT - Reported	3.8	-6.9	8.9	13.3	18.5
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT - Adjusted	3.8	-6.9	8.9	13.3	18.5

Cash Flow (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash Flow from Ops	23.0	-8.6	32.3	38.0	35.4
Capex - Development & Sustaining	-17.4	-16.0	-16.9	-14.3	-12.3
Cash Flow From Investing	-17.3	-16.1	-16.9	-14.3	-12.3
Cash Flow From Financing	0.1	6.9	-7.3	0.0	0.0
Free cash flow	5.7	-17.8	8.0	23.7	23.1

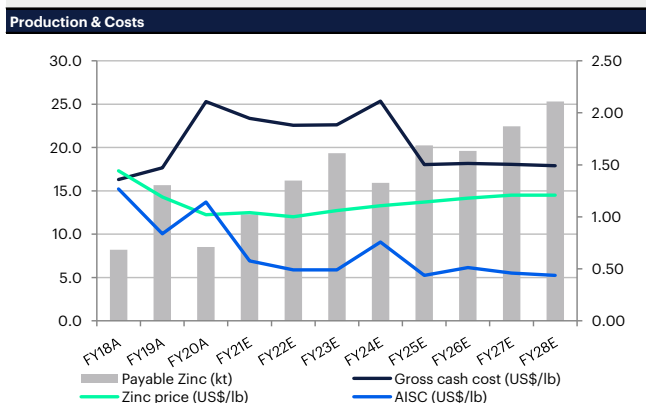
Balance Sheet (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	25.6	8.0	22.5	46.2	69.3
Property, Plant & Equipment	28.1	43.3	43.8	43.7	41.8
Exploration	11.2	9.7	12.0	14.4	16.7
Total Assets	82.0	92.9	110.3	136.2	159.6
Borrowings	0.0	0.0	0.5	0.5	0.5
Total Liabilities	25.6	39.0	39.5	39.5	39.5
Shareholders Equity	56.3	53.9	62.8	76.1	94.6
Gearing (%) - ND/ND + Eq	31%	13%	26%	38%	42%

Rating	BUY
Price Target	\$0.26
Upside/(Downside)	24%
Valuation	\$0.40
Risk	High

Valuation Summary	A\$m	A\$/Share
WACC	6.8%	
Thalanga	214	0.43
Corporate	(31)	(0.06)
Net Cash / (Debt)	(0)	(0.00)
Exploration/Other	14	0.03
Total Valuation	196	0.40



	NPV	FY21E	FY22E	FY23E
Forecast	0.40	8.9	13.3	18.5
Zinc + 10% increase in forecast	0.45	11.1	16.2	22.2
Zinc + US\$0.10/lb increase in forecast		2.1	2.9	3.5
USD + 10% increase in forecast	0.28	-0.6	-0.5	-0.5
USD + US\$0.10 increase in forecast		-0.7	-1.0	-1.2

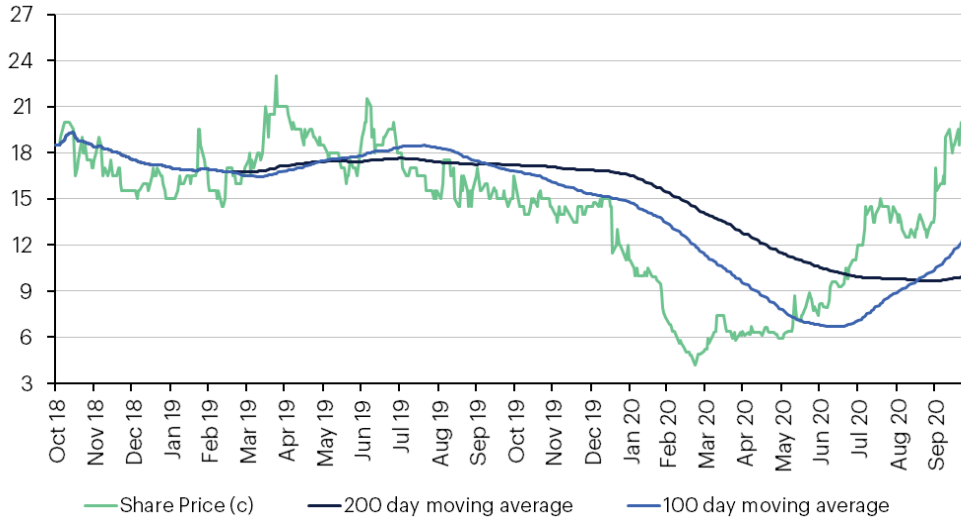


Resource Summary	Tonnes (kt)	Zn Eq	Zn	Cu	Pb	Au (g/t)	Ag (g/t)
Thalanga							
Far West	1,344	15.3%	6.5%	1.6%	2.2%	0.2	60.0
Orient	540	13.6%	7.9%	0.9%	1.8%	0.2	44.0
Waterloo	707	19.1%	11.0%	1.9%	1.6%	0.9	50.0
Liontown	4,138	12.7%	5.9%	0.6%	1.9%	1.1	29.0
M, I & I	6,729	14.0%	6.7%	1.0%	1.9%	0.8	38.6

Hillgrove	Tonnes (kt)	Au Eq	Au (g/t)	Sb(%)
Sunlight & Blacklode	2647	6.2	4.5	1.1
Brackin's Spur	1583	6.6	4.6	1.5
Clark's Gully	266	8.4	2.0	3.8
Syndicate	318	8.9	3.8	3.6
Bakers Creek	225	2.5	2.5	
M, I & I	5,039	6.4	4.3	1.5

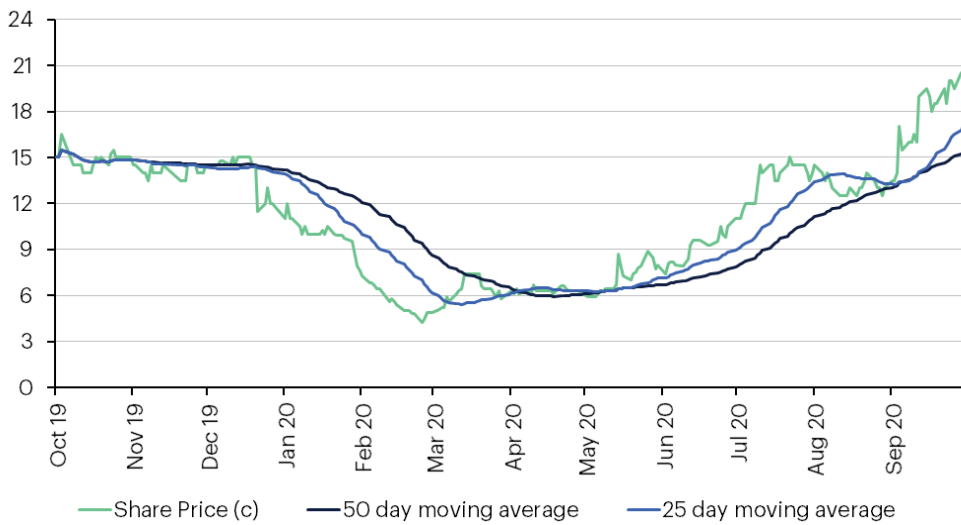
Appendix

Fig.1: Long-term momentum indicators



Source: Iress

Fig.2: Short-term momentum indicators



Source: Iress

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Hold: The stock's total return is expected to trade within a range of \pm 10-15 percent from the current share price over the next 12 months.

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