Red Rock Resources PLC

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Red Rock's holding in Jupiter Mines is starting to pay off, in several different ways

Just how much of a re-rating is on the cards for Red Rock Resources Plc (LON:RRR)? It could be pretty substantial, given the recent statements that have been coming out of Jupiter Mines (ASX:JMS), a company in which Red Rock holds 18.5mln shares.

Jupiter has said that all dividends it receives from manganese production at the Tshipi mine in South Africa will be passed on directly to shareholders. The most recent payout, announced in mid-September, amounted to A$98mln, and there should be more to come.

WATCH: Red Rock Resources focused on production as it advances portfolio of assets
There's likely to be a commensurate payment at the full year, assuming that manganese prices continue to perform well.

So Tshipi is a mine that's now hit its stride, and which is enjoying the benefits of even wider margins as the South African rand begins to come under pressure.

It all means that Jupiter shares are currently trading on a yield of around 14.5%, taking only the first half dividend into account. If the payout for the full year follows the same pattern, the yield will go even higher.

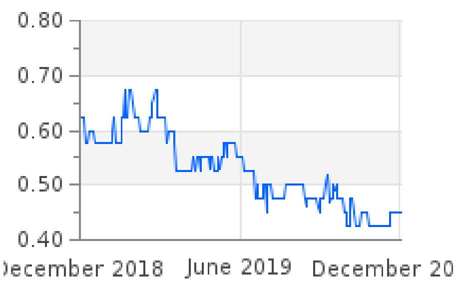
And that works well for Red Rock on several levels. The first is that £508,000 has already come into Red Rock's coffers, as its share of the inerim payout.

The second, and perhaps more significant is that once it has established a precedent for chunky cash payouts Jupiter's shares are likely to re-rate.

Price: 0.4

Market Cap: £2.7 m

1 Year Share Price Graph



Share Information

Code:		RRR
Listing:		AIM
52 week	**High**	**Low**
	0.7	**0.4**
Sector:		**Oil & Gas**
Website:		**www.rrrplc.com**

Company Synopsis:
Red Rock is a natural resource development company listed on the AIM market in London (AIM: RRR).

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As the current price of A$0.35 per Jupiter share, Red Rock's stake is worth around A$6.5mln, or £3.6mln. But with the forthcoming dividend likely to move the price up, it's pretty clear that Red Rock ought to re-rate too.

Each additional A$0.05 that gets added onto the Jupiter price would increase the value of Red Rock's stake by A$925,000, or just over £500,000.

Or to put it another way, if the interim dividend from Jupiter is followed by a commensurate final dividend, then at the current share price, Jupiter would be on a yield of 20%. But assume it moves to a more sensible 5%, then the value of Red Rock's stake would rise by over 90%, taking just the interim dividend into account.

If Tshipi and Jupiter pay out for the full year too, then the rise in Red Rock could even be as much as four times.

Markets can be fickle of course, and may not allow direct correlation between the relative valuations of the two companies. Nevertheless, crunching numbers like this, does give an indication of the kind of value that's on offer. And if the full value does remain elusive, there's always the cash to fall back on.

READ: Red Rock Resources amends terms for DRC tailings venture
As executive chairman Andrew Bell explains, that cash inflow is crucial to the future of the company.

Bell has been through some highly volatile markets over the years, and he knows the pain of equity dilution as well as the next company director.

"Our objective has always been to move to a situation where we can generate cash flow," he says.

"I think we've got there now. As producers with cash flow we worry less about the vagaries of the market. We've got sources that make us pretty independent and I can't see us doing any more small scale fundings just to keep the lights on.

"However, if a really good opportunity came up we might feel justified in raising capital. But we'd undertake rigorous analysis and we're relatively risk averse, because if you have a good thing going, why risk it?"

And Jupiter, though the gestation took a while, is now a very good thing.

"The price of manganese is holding up really well," says Bell. "And Jupiter is the cheapest producer of manganese around. To me, this is a very attractive time to be producing."

That sentiment is likely to be brought increasingly to bear on the other assets in the Red Rock portfolio as the cash starts rolling in.

For a start, there's the 1.2mln ounce gold project at Migori. This project has been the subject of licensing issues, but these now look set to be resolved.

Then there's a 22% stake in a ferrosilicon plant in Bosnia, a company which has already made Red Rock a profit in the form of coupons on repaid loans. The plant is now operational, and generating cash.

Upside is unconstrained?
"If the operation goes as it should," says Bell, "we think it should generate EBIDTA of €7mln, so you can put that on a multiple."

And that's only on one furnace. A second is planned, and income should rise correspondingly. Since Red Rock is now in at no cost, the upside is unconstrained.

Finally, there's also a royalty on production from the Colombian gold mine that Red Rock used to own, but which was sold a while ago.

When you add it all up, you get a company that has multiple potential income streams, that's solidly backed by a shareholding in one of the world's larger manganese producers, and which is run by seasoned and experienced management.

The shares are currently at 0.78p, giving Red Rock a market capitalisation of just over £4mln. But expect interest to build pretty quickly from here, and volumes to start rising.

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