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Rio Alto Mining Equity Research Report

Small Cap Sector - Date: 01/25/2012

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Mac Investment Club

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Stock Rating:

BUY

Sector Weighting:

Neutral

Today's Date: \$3.71

Price Target: \$4.50

Target Price Date: 04/01/2012

COMPANY MARKET STATISTICS

Ticker: RIO

Exchange: TSX Venture

Fiscal Year End May

52-week range (High/Low) \$1.69/\$3.84

Shares Outstanding 169.746M

Avg. Daily Trading Vol. 975857

Market Capitalization \$629.76M CAD

Annual Dividend \$0

Dividend Yield 0%

Price/Earnings N/A

Enterprise Value 627.19M

EV/EBITDA N/A

Price to Book 6.13

BETA 1.27

Short Interest % 0.25

ASSET BREAKDOWN

Peru: 152.28M

Canada: 8.94M

ANNUAL EARNINGS PER SHARE (EPS)

Current Year \$0.44E

2011 \$-0.15

2010 \$-0.04

2009 \$-0.05

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HIGHLIGHTS

- Gold production totalled 51,398 oz in 2011, above the production guidance for the fiscal year.
- La Arena project is located in a promising mining district in northern Peru and is close to other major deposits.
- Rio updated its mineral reserves at La Arena on Jan. 5th, 2012. Significant increases in both oxide and sulphide mineral resources.
- Expected to graduate from the TSX Venture to the TSX Exchange in February 2012, thus increasing investor exposure.

OVERVIEW

Rio Alto Mining Ltd. is based out of Vancouver, British Columbia and is focused on the acquisition and exploration of mineral properties. Rio Alto Mining has three wholly owned subsidiaries including La Arena S.A., Rio Alto S.A.C. and Mexican Silver Mines Ltd. Rio Alto's current focus is on the development of its 100% owned La Arena project located in north eastern Peru. The La Arena project totals 21,000 hectares and is comprised of a gold oxide resource and copper/gold sulphide resource. As of Jan. 5th, 2012, the gold oxide deposit has measured and indicated resources of 1.484 million oz/AU and 90,000 oz/AU inferred. The copper/gold deposit contains 2.0 billion pounds copper and 2.422 million oz/AU in measured and indicated resources, and 2.1 billion pounds copper and 2.075 million oz/AU inferred. Rio Alto began production on the La Arena project in May 2011, and produced 51,000 ounces of gold by year end. Furthermore, Rio Alto is focused on exploring for and identifying potential mineral deposits in Peru and intends to progress toward exploring for silver in Mexico.

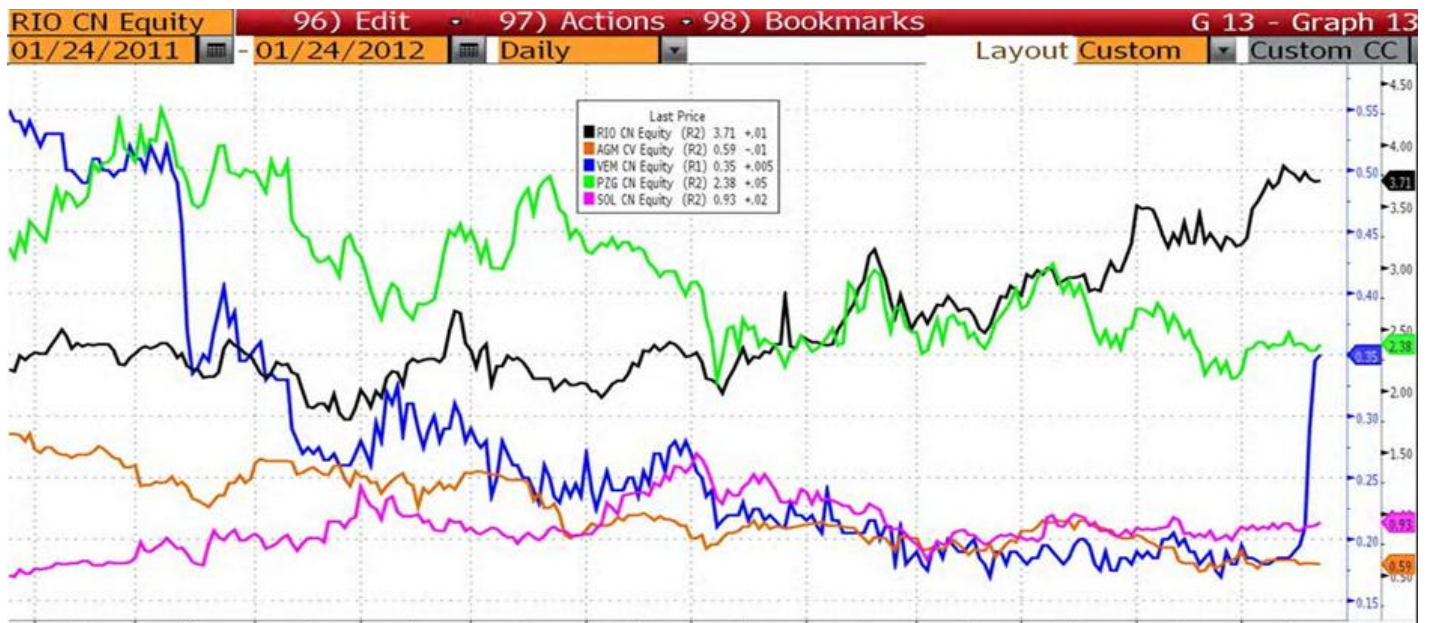
PRICE CHARTS

RIO one year



Stock price has rallied since the announcement of 100% ownership of the La Arena Project. It was purchased for US\$49 million on Feb. 9th 2011, through an option agreement with IAMGOLD.

RIO vs. peers over one year



RIO (in black) appreciated 69% over one year, significantly outperforming its peers.

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RIO vs. TSX Venture Exchange over one year



RIO and the venture index are moving in an inverse pattern. RIO (black) is on a steady uptrend while the venture is on a steady downtrend.

NEWS AND EVENTS

Rio Alto Mining acquired a 100% interest in the La Arena copper/gold project from IAMGOLD on Feb. 9th, 2011. The deal was part of an option and earn-in agreement between Rio Alto and IAMGOLD, which gave Rio Alto the option to acquire 100% of La Arena S.A. (company that owns La Arena project) from IAMGOLD. Rio Alto paid \$US49 million in cash to IAMGOLD as part of the agreement.

On Sep. 29th, 2011, Rio Alto announced a temporary suspension of mining activities at its La Arena Gold Oxide Mine due to an illegal work stoppage. Although the suspension only lasted a couple of days, the halt decreased overall production for the year. As a result, Rio Alto agreed to create a joint committee with the local community to ensure corporate responsibility through social programs. So far this measure has prevented any further work stoppages.

Rio Alto announced updated mineral resource estimates for its 100% owned La Arena Project on January 5th, 2012. The oxide mineral deposit increased by 41.33% and 57.89% for measured and indicated and inferred resources respectively. In addition, the sulphide mineral deposit showed an increase in indicated resources of 16.55% copper and 25.36% gold. The updated mineral reserve includes approximately 25 000 metres of additional drilling, and the increases in reserves will contribute to the production for 2012. Rio Alto expects to release the production guidance for 2012 early in the New Year. Additional drilling is warranted which will act to complete the database for the sulphide feasibility study resource estimate which is due to be updated in Q3, 2012.

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Rio Alto reported gold production of 51,398 ounces during 2011 at its wholly owned La Arena Gold Mine. Capacity is expected to expand by 12 000 tonnes per day (tpd) in 2012, which should indicate an increase in resource production.

Mr. Alexander Black was appointed Rio Alto's new CEO and instatement will be effective as of February 1st, 2012. Mr. Black's previous involvement with the company has been in serving as the company's president and as a member of the board of directors. Mr. Black has 28 years of experience in the mining industry and will have an important role in the company's future progression as a junior miner.

COMPANY RISK

Moody's Rating agency has reported an A2L rating for Rio Alto Mining which falls under the investment grade quality category. This represents that Rio Alto is in a strong financial position to meet its current and future obligations. The likelihood or percent of default/bankruptcy within one year is very low at 0.0274%. Rio Alto's BETA of 1.27 is typical within its industry, and price movements typically rise and fall greater than that of the index.

The new government in Peru (since July 2011) led by President Ollanta Humala has called for policy reforms in the mining sector. The reforms seek to change regulatory and fiscal policies that will attempt to reduce local opposition to mining districts and reduce inequity among cities that are not rich in mineral resources. Stronger accountability standards for environmental impact assessments (EIA's) should lead to fewer work stoppages. Rio Alto must ensure that they meet these tighter standards to keep operations from interruption. Furthermore, fiscal reform has called for a transformation of the canon system to reduce the inequity of mining royalties that are paid back to the government through income taxes.

Political instability in Peru arises from the government's increased presence in the illegal-drug regions of the country. Violence is expected to increase by Mexican cartels that control these regions and by the terrorist group Sendero Luminoso (SL) through localised attacks. Peru is the world's leading cocaine exporter and second largest producer, therefore the Humala administration faces a tough challenge over the next few years to reduce these associated threats.

BETA	Moody's Rating
1.27	A2L (0.0274)
Volatility	WACC
61.35%	15.31%

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PEER COMPARISON

Ticker	Market Cap	Price	Div. Yield	Trailing P/E	Forward P/E	Annual Revenue	1-Mo Return	3-Mo Return	1-Yr Return
RIO	C\$629.76M	\$3.70	0%	N/A	9.92	N/A	12.92%	32.49%	69.91%
AGM	C\$21.89M	0.6	0%	N/A	N/A	N/A	-4.84%	-15.71%	-62.57%
VEM	C\$43.61	\$0.35	0%	N/A	N/A	N/A	68.42%	68.42%	-41%
PZG	C\$325.79	\$2.33	0%	N/A	N/A	C\$207K	6.70%	-8.43%	-22.40%
SOL	C\$52.75M	\$0.91	0%	N/A	N/A	N/A	6.02%	6.02%	77.78%

Rio Alto Mining has consistently trended upward over the past year, whereas returns among its competitors have been more volatile. Rio Alto, along with its peers, has no P/E because of zero earnings and thus no dividend yield. Rio Alto has a projected forward P/E of 9.92.

REVENUE AND EARNINGS

There are no earnings or revenues for the most recent periods as Rio Alto Mining makes the transition from exploration into production. The income deficit over the past four years is due to capital expenditures, corporate expenses and drilling programs during the exploration phase. Net income over the 2011/12 fiscal year (year end in May) is projected at \$51.9 million. The production guidance for 2012/13 should provide a better estimation of revenues for the coming year. In addition, the EPS ratio is relatively inferior as no earnings have been posted over the past four years. EPS is projected to gradually rise over the coming year.

Net Income (millions)

	Q1	Q2	Q3	Q4	Annual Total
2011/12	-10.26	N/A	N/A	N/A	51.90E
2010/11	-1.5	-2.54	-3.01	-0.9	-7.95
2009/10	-9.7	-1.29	-0.88	-0.74	-12.61
2008/09	-0.45	-0.27	-0.36	-0.38	-1.46

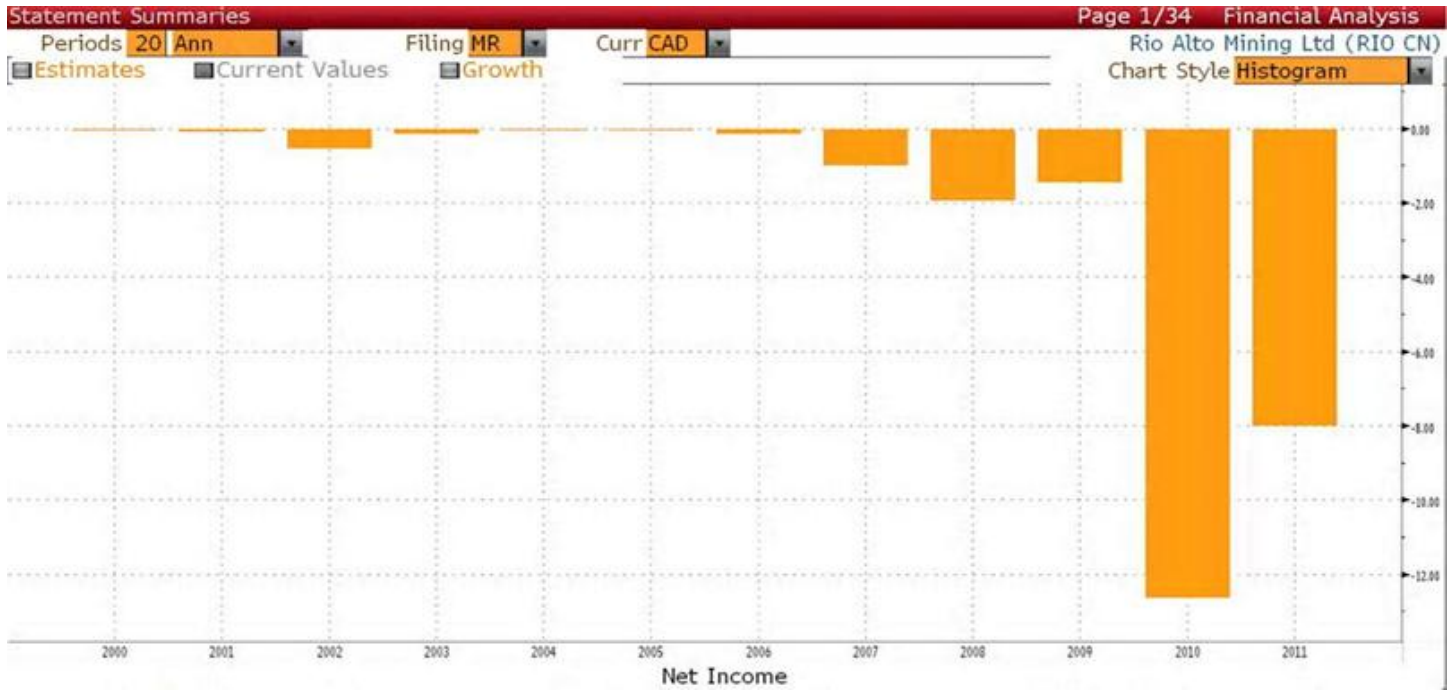
EPS

	Q1	Q2	Q3	Q4	Total
2011/12	-0.06	0.05E	0.09E	0.10E	0.18E
2010/11	-0.01	-0.02	-0.02	-0.01	-0.06
2009/10	-0.01	-0.01	-0.01	-0.09	-0.12
2008/09	-0.01	-0.01	-0.01	-0.01	-0.04

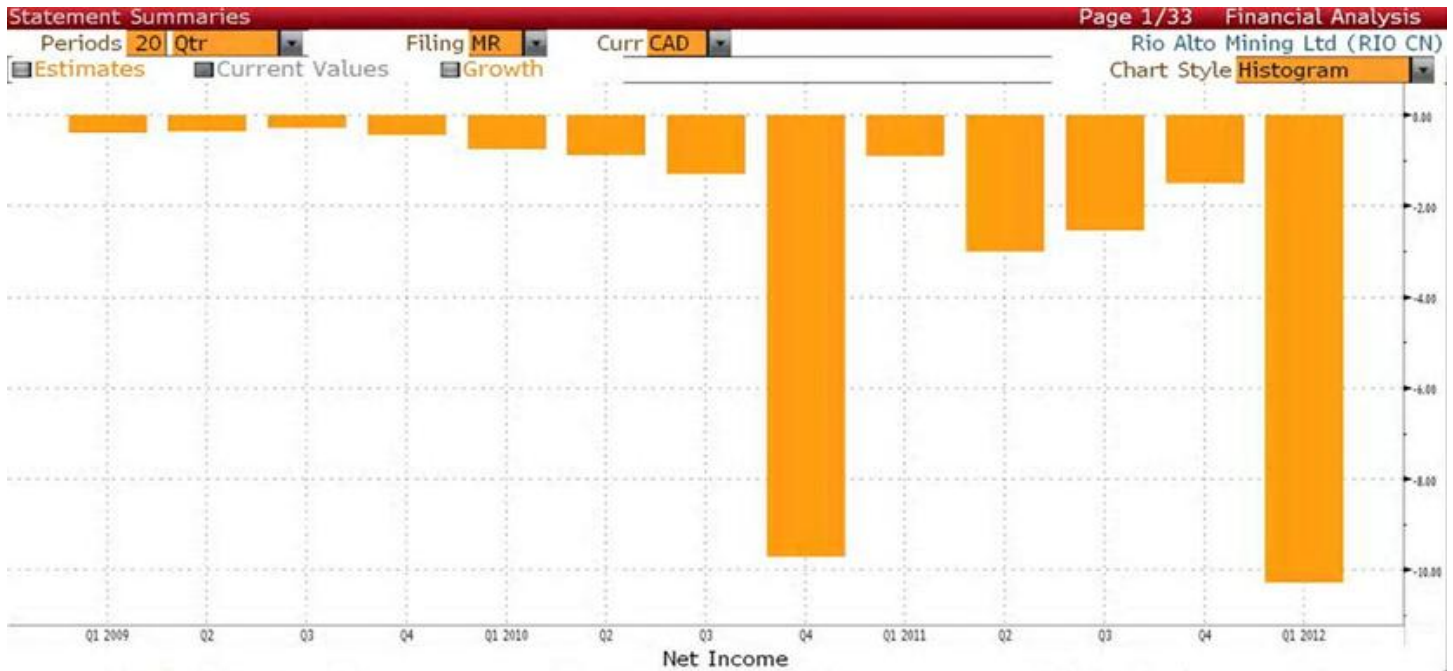
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Annual Net Income



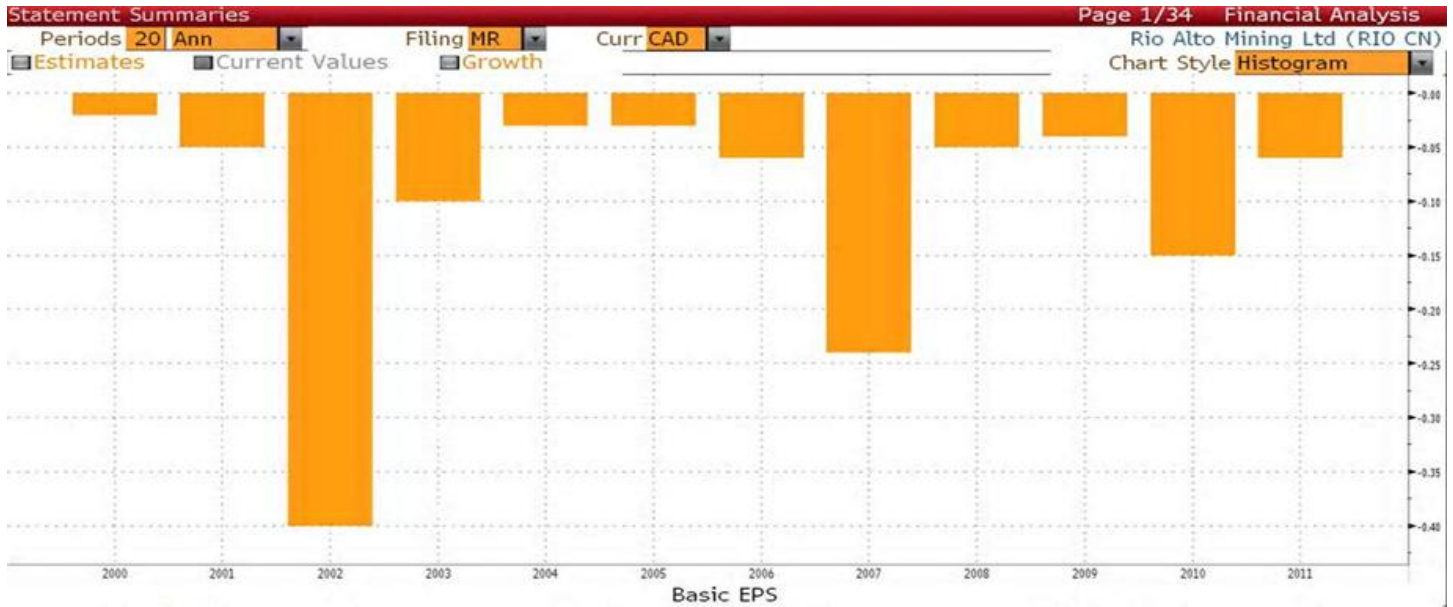
Quarterly Net Income



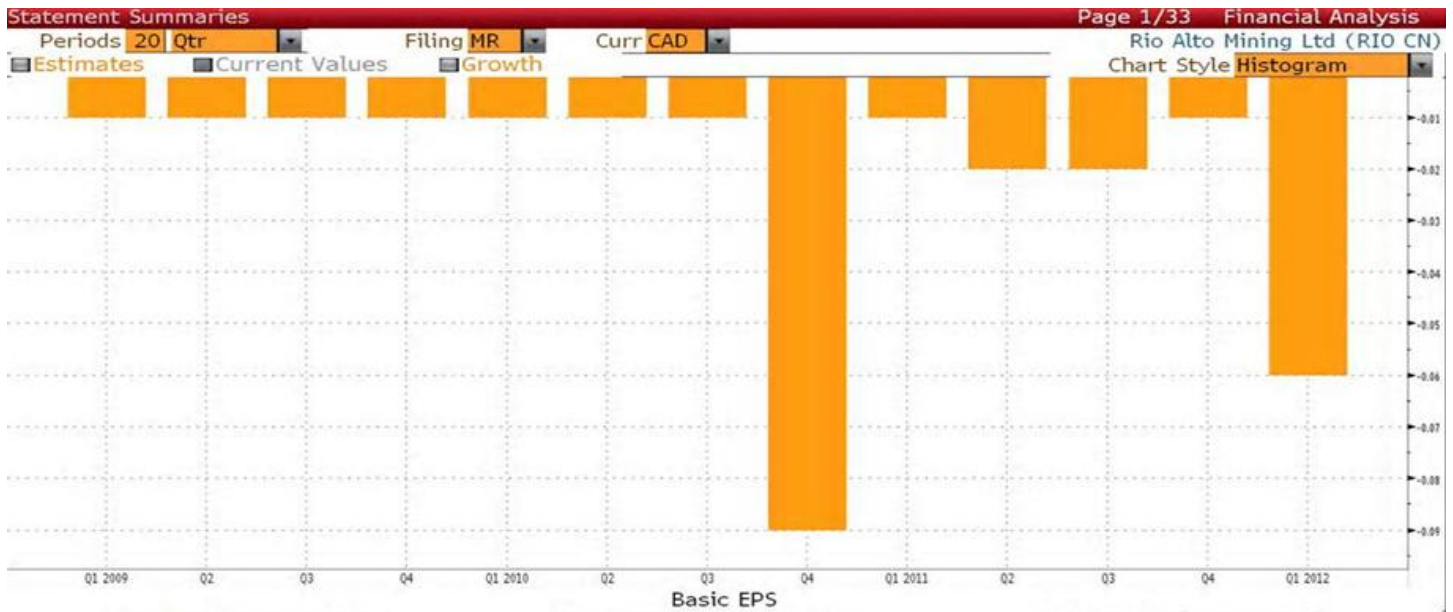
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Annual EPS



Quarterly EPS



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FUNDAMENTAL RATIO ANALYSIS

The ROE and ROA ratios are negative because there is no net income over the most recent quarters. With likely increases in production, a more useful gauge of return on equity and assets can be measured. The current ratio at 1.31 demonstrates Rio Alto's ability to meet its short-term obligations. On the other hand, the quick ratio of 0.14 demonstrates that Rio Alto has insufficient near cash assets to meet these obligations. Since the capital structure for Rio Alto is 100% equity and 0% debt, short or long-term financing could be secured using leverage. The low price/book ratio of 6.18 indicates that the stock might be undervalued.

Revenue Growth	ROE	Current Ratio	Price/Book
N/A	-26.42%	1.31	6.18
Gross Margin	ROA	Quick Ratio	
N/A	-17.69	0.14	
Profit Margin	P/E	Debt/Capital	
N/A	N/A	0%	

CASH FLOW ANALYSIS

There has been a decrease in cash and cash equivalents from \$11.52 million on May 31st, 2011 to \$2.57 million on Aug. 31st, 2011. The decrease in net cash position has been offset by a \$5.7 million increase in inventories over the same period, and a \$3 million increase in IGV receivable (a goods and services tax refund for Peruvian miners that enter commercial production and export the refined commodity). This tax benefit is extremely beneficial for Rio Alto as they entered commercial production towards the end of 2011. Earnings for the remainder of 2011 will provide a better indication of cash flows from operations for the near future. As Rio Alto enters into the production phase, cash flows from operations are expected to become positive.

Net Cash Position	Dividend	Div. Growth Rate	Price/Cash Flow
\$2.57M	\$0	0%	N/A
FCF Per Share	Dividend Yield	Cash from Operation	
-0.09	0%	-\$15.21M	
FCF Yield	Dividend Payout		
-6.10%	N/A		

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TECHNICAL ANALYSIS

Bollinger Bands



Bollinger bands are currently widening, which implies increased volatility. Price is trading above the moving average line closer to the upper band.

MACD



The MACD line is crossing over the signal line which is a bearish indicator. It is likely that there will be some downward pressure on prices in the short-term.

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Simple Moving Average (50, 100, 200) – Top
 RSI (56.64) – Bottom



The 50 day MA is above its 100 day MA and 200 day MA. The teal trend line indicates a positive upward trend over the past year. RSI is slightly on the overbought side at 56.64.

SELECTION METHODOLOGY

Rio Alto Mining is located in a very promising mining district that is close to other large deposits such as Barrick Gold's Lagunas Norte Mine and Newmont's Yanacocha Mine. The updates in mineral resources at La Arena indicate that there is significant potential for more gold/copper resources and they provide the backbone for production in 2012. Rio Alto has outperformed its peers over the past year and momentum continues to trend upwards. The price target of \$4.50 is based on the release of production guidance for 2012, the transition from an exploration company to a producing company and an expected graduation to the senior exchange in early 2012.

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