

MINING FLASHNOTE

KEFI Minerals (KEFI LN)

05 May 2017

Stock Data

Share Price:	5.75p
Market Cap (M):	£19.1

Price Chart



52 Week Range

3.99p	5.75p
11.305p	

Company Summary

KEFI Minerals is an exploration company focused on the discovery and development of vein-hosted gold and volcanogenic copper-zinc mineralisation in the Arabian Nubian Shield.

MAIN SHAREHOLDERS HOLDING

Lanstead Capital LP	25.99%
Capita Financial Managers	13.29%
Odey Asset Management	12.65%
Hargrave Lansdown Asset	6.74%
JM Morgan Chase & Co	5.57%

Source: Bloomberg

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KEFI Announces the Signing of Shareholder Agreement with Government of Ethiopia for Tulu Kapi Gold Mines Share Company Limited

Event

KEFI has announced that its wholly-owned subsidiary KEFI Minerals (Ethiopia) Limited ("KME") and the Federal Democratic Republic of Ethiopia have signed the shareholders' agreement (the "Shareholders' Agreement") and other foundation documentation for the incorporation, ownership and operation of Tulu Kapi Gold Mines Share Company Limited, ("TKM") which will result in TKM owning 100% of the Tulu Kapi Gold Project. The exploration projects outside the Tulu Kapi Mining Lease area are not part of TKM and remain 100% owned by KEFI.

The Shareholders' Agreement sets out the parties' respective commitments to invest equity capital in TKM and the mechanisms for control of the development and operation of the Tulu Kapi Gold Project

Comment

This agreement formalises the creation of TKM, with KEFI owning 75% and the balance of 25% being owned by the Ethiopian Government. The Ethiopian Government's shareholding is based on receiving 20% of the equity in return for its US\$20M investment in the project with the additional 5% being free carry in accordance with agreement between the Company and the Government.

We perceive this as a very good deal for KEFI. In many developing countries, the government takes an interest of up to 25% and pays for this from the cash flows from the project. In this instance, the monies, in the form of essential infrastructure for the project will be delivered upfront, and reducing the amount of money that KEFI has to raise to fund the project.

This comes off the back of a flurry of information, namely the VAT rebate and the update on legal proceedings where the claim has been reduced from US\$12M to US\$600K, and the lower amount is subject to further legal proceedings. This emphasises the high level of support from the Ethiopian Government for the Tulu Kapi project.

Today's step represents an important initial formality within the timetable allowing the Company to start development activities in H2-17. This will follow financing and community resettlement, both of which the Company is actively implementing and will report progress as other milestones are met.

This is a very good outcome for KEFI. It originally paid £6M for 100% of the Tulu Kapi project, in 2 tranches, and has now sold 20% of the project for £15.9M. Further, raising money for the infrastructure in this manner is far less dilutive than using equity. This effectively values KEFI's 75% of the project at ~£60M which compares very favourably with KEFI's market capitalisation of £19M. Additionally, KEFI retains a 100% interest in the exploration areas outside the Tulu Kapi Mining Lease Area where we see significant potential upside in the long term.

Research Disclosures

Peter Rose

Peter has 31 years' experience in equities as a resources analyst; he has been at Brandon Hill Capital for 10 years, after having spent 11 years with Deutsche Bank in Australia. Prior to this he spent 2 years with Prudential Bache and 6 years with James Capel. Peter's industry experience includes 16 years as a metallurgist, 3 years with De Beers in South Africa and 9 years in the uranium industry, six of which were spent at the Ranger Uranium mine. Peter holds a BSc degree in Applied Mineral Science from Leeds University UK and a Bachelor of Commerce from the University of South Africa. Peter is also a member of the Institute of Materials, Mining & Metallurgy and a chartered engineer.

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Sell	Recommendation implies that expected total return expected over 12 months between current and analysts' target price is negative.

Research Disclaimers

Research disclosure as of 05 May 2017

Company Name	Disclosure
KEFI Minerals (KEFI LN)	1, 2, 7, 8, 9

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