

## MINING FLASHNOTE

# KEFI Minerals (KEFI LN)

20 October 2016

### Stock Data

Share Price:	0.35p
Market Cap (M):	£13.6
EV (M):	£13.7

### Price Chart



### 52 Week Range

0.26p		0.35p
0.665p		

### 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

Odey Asset Management	19.36%
Capita Financial Managers	15.63%
JM Morgan Chase & Co	10.20%
Hargrave Lansdown Asset	9.81%
Ausdrill International	7.25%
Barclays PLC	6.13%

Source: Bloomberg

**Peter Rose**

Tel: +44 (0)20 3463 5034

Peter.Rose@brandonhillcapital.com

www.brandonhillcapital.com

## Tulu Kapi Gold Project Update

### Event

KEFI Minerals has announced that the capital estimate for the Tulu Kapi Project has increased to between US\$150 and 160M due to revised capital estimates and contingencies and provisions for non-Tulu Kapi costs. Further, KEFI has issued a revised the start-up date of mid-2018.

### Comment

This is a disappointing announcement from KEFI, for two reasons.

Firstly, it was only on the 5th September in an operational update that KEFI reported "No slippage in KEFI's estimate of total capital requirement of c. US\$130-140 million, inclusive of financing costs and an allowance for contingencies". Costs have ballooned by 15% in 7 weeks. Part of this is due to a stronger Australian dollar which has caused the cost of Lycopodium's proposed fixed cost Engineering Procurement and Design contract to increase by 4%. This is the largest single component of the total Tulu Kapi capital expenditure at US\$68M. Whilst it appears that the contingencies and provisions for non-Tulu Kapi costs have risen significantly this increase may be explained with three separate issues. Following due diligence by the new non-executive directors, an additional contingency of US\$5M has been added. Some grade control drilling, amounting to US\$4M has been brought forward from operating costs to capital costs to overcome some concerns relating to grade and the approach taken by Nyota. Lastly, US\$5M covers corporate costs and exploration costs in Saudi Arabia, and will avoid KEFI having to come back to the market for the next 2 years. There are also some minor amounts as previous estimates for expenditures are converted into hard numbers. The good news is that most currency forecasters believe that the Australian dollar is significantly overvalued and expect it to depreciate against the US\$ over the course of 2017, which is expected to lower capital costs.

The revised estimated funding requirement is fully covered by the financing proposals being considered.

Secondly, the start-up date for production has been revised to mid-2018. This is six months later than we had in our model and still appears a little ambitious to us. Hot commissioning is expected to occur in August 2018, with production shortly after.

Whilst we have yet to complete the remodelling of the Tulu Kapi mine, the combination of higher capital expenditure, increased debt and delayed start-up of production is inevitably going to lead to a lower net present value when expressed in US\$ but with the decline in the value of sterling, this will mitigate or perhaps compensate for the fall. We will comment on the valuations once we have remodelled Tulu Kapi.

## Research Disclosures

### Peter Rose

Peter has 29 years' experience in equities as a resources analyst; he has been at Brandon Hill Capital for 8 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.

**Tel: +44 (0)20 3463 5034**

**Peter.Rose@brandonhillcapital.com**

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Research disclosure as of 20 October 2016

<u>Company Name</u>	<u>Disclosure</u>
KEFI Minerals (KEFI LN)	1, 2, 7, 8, 9

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## Brandon Hill Contact List

### International Sales

**Oliver Stansfield**

Tel: +44 20 3463 5061

Email: [oliver.stansfield@brandonhillcapital.com](mailto:oliver.stansfield@brandonhillcapital.com)**Alex Walker**

Tel: +44 20 3463 5018

Email: [alex.walker@brandonhillcapital.com](mailto:alex.walker@brandonhillcapital.com)**Pierre Iseux**

Tel: +44 20 3463 5024

Email: [pierre.iseux@brandonhillcapital.com](mailto:pierre.iseux@brandonhillcapital.com)

### Research

**Peter Rose**

Tel: +44 20 3463 5034

Email: [peter.rose@brandonhillcapital.com](mailto:peter.rose@brandonhillcapital.com)**William Arnstein**

Tel: +44 20 3463 5020

Email: [william.arnstein@brandonhillcapital.com](mailto:william.arnstein@brandonhillcapital.com)

### Corporate Finance & Broking

**Jonathan Evans**

Tel: +44 20 3463 5016

Email: [jonathan.evans@brandonhillcapital.com](mailto:jonathan.evans@brandonhillcapital.com)**Wei Jiao**

Tel: +44 20 3463 5019

Email: [wei.jiao@brandonhillcapital.com](mailto:wei.jiao@brandonhillcapital.com)**Robert Beenstock**

Tel: +44 20 3463 5023

Email: [robert.beenstock@brandonhillcapital.com](mailto:robert.beenstock@brandonhillcapital.com)