

KEFI Minerals

Greater exposure to gold price beckons

On 1 February, KEFI announced the appointment of David Munro, former MD of Billiton, and his two partners at International Mining Performance, to the senior management team as a prelude to triggering development and operations. This followed the announcement on 18 January that KEFI had terminated, by mutual agreement, its relationship with Oryx relating to its funding plans. Simultaneously, in its quarterly operational update, it reported that the funding approach remains unchanged, albeit with a simplified structure. KEFI also released the results of the final Tulu Kapi project models agreed by the consortium (and uploaded into the formal financing data rooms), which demonstrated some value improvements for shareholders compared with recent guidance.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	0.0	(2.0)	(3.0)	0.0	N/A	N/A
12/16	0.0	(2.5)	(1.6)	0.0	N/A	N/A
12/17e	0.0	(2.9)	(0.9)	0.0	N/A	N/A
12/18e	0.0	(2.8)	(0.4)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Like-for-like project NPV₈ up 15-18%

Compared to its earlier guidance of a project NPV₈ of US\$74m at US\$1,250/oz Au and US\$92m at US\$1,300/oz at the start of construction, KEFI's models now indicate a value of US\$109m at US\$1,300/oz. At the start of production, they indicate a value of US\$175m at US\$1,300/oz Au vs US\$131m at US\$1,250/oz Au and US\$152m at US\$1,300/oz, previously. The models reflect a two-year schedule set out with the contractors, to start construction in 2018, mining in 2019 and gold production in 2020.

Greater exposure to gold price upside beckons

Management advises that the simplification of the funding structure reduces operating costs, as does the honing of the project plans and management structure. These refinements are reflected in improved cash flows and NPVs.

Valuation: Clear roadway to value uplift

Our funding assumptions for KEFI remain unchanged. Otherwise, updating our financial model for these new factors (as well as our updated gold price forecasts – see [Mining overview: Unlocking the price to NPV discount](#), published in November 2017), we estimate that Tulu Kapi is capable of generating average cash flows from operations of c £42.4m pa (vs £45.4m previously), which we value at £194.6m (cf £208.3m) or 22.0p per fully diluted share (attributable) at the start of production in 2020, or £61.6m, 13.9p per existing share, currently, using a 10% discount rate. Fully diluted at a share price of 3.75p (vs 3.50p previously), our valuation is 8.26p/share (cf 7.68p previously), based on the net present value of expected future dividends, discounted at 10% pa. This valuation then increases to 13.3p in 2023 and further, to 17.87p, in the event that KEFI is successfully able to leverage its cash flow from Tulu Kapi into other development assets in the region.

Development preparations

Metals & mining

1 February 2018

Price **3.62p**

Market cap **£12m**

US\$1.4033/£

Net cash (£m) at 30 June 2017 1.6

Shares in issue 332.7m

Free float 89.5%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 19.1 (21.3) (51.5)

Rel (local) 16.4 (23.4) (55.2)

52-week high/low 10.9p 4.1p

Business description

KEFI Minerals is an exploration and development company focused on gold and copper deposits in the highly prospective Arabian-Nubian Shield, principally the 95%-owned Tulu Kapi project in Ethiopia and, to a lesser extent, the 40%-owned Jibal Qutman project in Saudi Arabia.

Next events

Final project financing Q118

Community resettlement Q218

Breaking ground Q218

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Exhibit 1: Financial summary

	£'000s	2013	2014	2015	2016	2017e	2018e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		0	0	0	0	0	0
Cost of Sales		(927)	(2,071)	(1,634)	(2,260)	(2,692)	(2,538)
Gross Profit		(927)	(2,071)	(1,634)	(2,260)	(2,692)	(2,538)
EBITDA		(927)	(2,071)	(1,634)	(2,260)	(2,692)	(2,538)
Operating Profit (before amort. and except.)		(927)	(2,189)	(1,724)	(2,315)	(2,747)	(2,578)
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		(442)	(379)	(428)	1,944	(1,900)	0
Other		0	0	0	0	0	0
Operating Profit		(1,369)	(2,568)	(2,152)	(371)	(4,647)	(2,578)
Net Interest		4	(413)	(319)	(136)	(189)	(242)
Profit Before Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(2,820)
Profit Before Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(2,820)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(2,819)
Profit After Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(2,820)
Average Number of Shares Outstanding (m)		29.0	56.0	92.8	194.9	332.7	498.6
EPS - normalised (p)		(7.4)	(6.2)	(3.0)	(1.6)	(0.9)	(0.4)
EPS - normalised and fully diluted (p)		(7.4)	(6.2)	(3.0)	(1.5)	(0.9)	(0.4)
EPS - (IFRS) (p)		(4.7)	(5.1)	(2.7)	(0.3)	(1.5)	(0.4)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		-	-	-	-	-	-
EBITDA Margin (%)		-	-	-	-	-	-
Operating Margin (before GW and except.) (%)		-	-	-	-	-	-
BALANCE SHEET							
Fixed Assets		7,152	9,299	11,926	14,053	16,142	77,957
Intangible Assets		6,900	9,139	11,845	13,992	15,856	15,856
Tangible Assets		252	160	81	61	40	61,855
Investments		0	0	0	0	246	246
Current Assets		4,014	1,061	1,012	3,561	342	59,976
Stocks		0	0	0	0	0	0
Debtors		655	335	358	3,056	247	247
Cash		3,279	640	562	410	0	59,634
Other		80	86	92	95	95	95
Current Liabilities		(3,363)	(3,202)	(1,995)	(2,067)	(2,067)	(2,067)
Creditors		(3,363)	(3,202)	(1,995)	(2,067)	(2,067)	(2,067)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		0	0	0	0	(2,203)	(99,765)
Long term borrowings		0	0	0	0	(2,203)	(99,765)
Other long term liabilities		0	0	0	0	0	0
Net Assets		7,803	7,158	10,943	15,547	12,214	36,102
CASH FLOW							
Operating Cash Flow		(1,424)	(2,006)	(2,729)	(2,211)	(1,670)	(2,538)
Net Interest		4	(413)	(319)	(136)	(189)	(242)
Tax		0	0	0	0	0	0
Capex		(877)	(3,133)	(3,507)	(3,014)	(2,358)	(61,855)
Acquisitions/disposals		(1,083)	(750)	0	16	0	0
Financing		4,735	3,663	6,480	5,192	1,604	26,708
Dividends		0	0	0	0	0	0
Net Cash Flow		1,355	(2,639)	(75)	(153)	(2,613)	(37,927)
Opening net debt/(cash)		(1,924)	(3,279)	(640)	(562)	(410)	2,203
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	(3)	1	0	0
Closing net debt/(cash)		(3,279)	(640)	(562)	(410)	2,203	40,130

Source: Company sources, Edison Investment Research

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