

# KEFI Minerals

## Tulu Kapi financial projections update

Expanded production confirmed

Metals & mining

2 November 2017

**Price** **4.38p**

**Market cap** **£15m**

US\$1.3271/£

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 (6.3) (13.6) (33.7)

Rel (local) (9.4) (14.3) (38.8)

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 Q417

Community resettlement Q417

Breaking ground Q417

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The release of KEFI's updated financial projections for Tulu Kapi earlier this week follows the operational update in October in which it first posited a c 25% increase in ore processing capacity from 1.5-1.7Mtpa to 1.9-2.1Mtpa (depending on ore hardness), funded by an expansion of the proposed Oryx financing facility, from US\$135m to US\$140m. The detail provided in the updated projections has allowed us to firm up our forecasts and expectations relative to the indicative estimates presented in our [update note](#) of 9 October.

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)	(0.8)	0.0	N/A	N/A
12/18e	0.0	(10.8)	(1.5)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

### Some costs up, some down

In general, our expectations for pit sequencing on 9 October seem almost exactly in line with those implied by KEFI's projections for expanded production (albeit with c 821kt of additional waste removal over the life of operations) and it was already known that the extra US\$12m funding requirement would be offset by capex savings combined with a US\$5m expansion of the Oryx facility. In this particular case, however, it seems likely that lease payments will increase from US\$7.4m per quarter to US\$8.2m to reflect the increased facility. In addition, it appears as if increased drill and blast intensity will add c US\$13m to operating costs over the life of operations at Tulu Kapi, to reflect the increased rate of mining. In mitigation of these, KEFI has targeted a further US\$23.2m in additional initial capex cost savings via such initiatives as managing stockpiles with a view to reducing them by 25% (saving US\$9.0m) and relying on consignment spare parts, rather than initial ones (saving US\$4.3m).

### Valuation: Immediate 101% upside to the share price

Now that the higher throughput rate has been confirmed, we estimate that Tulu Kapi should be capable of generating average cash flows from operations of c £45.7m pa (cf £47.2m estimate in our note of 9 October and £44.4m previously), which we value at £209.6m (cf £218.9m on 9 October) or 28.0p per fully diluted share, attributable (cf 29.6p) at the start of production in 2020, or £70.7m currently, 15.9p per existing share, attributable (vs £59.7m and 13.5p on 9 October) using a 10% discount rate. Fully diluted on this basis at an assumed share price of 4.375p (vs 4.5p earlier in the month), our valuation is 8.79p/share (cf 8.55p on 9 October), based on the net present value of expected future dividends, discounted at 10% per annum. This valuation then increases to 15.44p in 2024 and further, to 19.19p, in the event that KEFI is successfully able to leverage its cash flow from Tulu Kapi into other development assets in the region. In the meantime, investors can buy shares in the company on a resource multiple of just US\$8.31/oz cf an estimated global average cost of discovery US\$10.16/oz.

**Exhibit 1: Financial summary**

	£'000s	2013	2014	2015	2016	2017e	2018e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
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)	(2,593)
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)	(2,593)
Net Interest		4	(413)	(319)	(136)	(189)	(8,200)
Profit Before Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(10,793)
Profit Before Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(10,793)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(10,792)
Profit After Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(10,793)
Average Number of Shares Outstanding (m)		29.0	56.0	92.8	194.9	378.9	545.6
EPS - normalised (p)		(7.4)	(6.2)	(3.0)	(1.6)	(0.8)	(1.5)
EPS - normalised and fully diluted (p)		(7.4)	(6.2)	(3.0)	(1.5)	(0.8)	(1.5)
EPS - (IFRS) (p)		(4.7)	(5.1)	(2.7)	(0.3)	(1.3)	(1.5)
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.) (%)		-	-	-	-	-	-
<b>BALANCE SHEET</b>							
Fixed Assets		7,152	9,299	11,926	14,053	17,819	75,701
Intangible Assets		6,900	9,139	11,845	13,992	15,856	15,642
Tangible Assets		252	160	81	61	1,717	59,813
Investments		0	0	0	0	246	246
Current Assets		4,014	1,061	1,012	3,561	141,853	59,440
Stocks		0	0	0	0	0	0
Debtors		655	335	358	3,056	247	247
Cash		3,279	640	562	410	141,511	59,098
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	(119,810)	(105,229)
Long term borrowings		0	0	0	0	(105,493)	(90,912)
Other long term liabilities		0	0	0	0	(14,317)	(14,317)
Net Assets		7,803	7,158	10,943	15,547	37,796	27,845
<b>CASH FLOW</b>							
Operating Cash Flow		(1,424)	(2,006)	(2,729)	(2,211)	(1,670)	(2,538)
Net Interest		4	(413)	(319)	(136)	(189)	(8,200)
Tax		0	0	0	0	0	0
Capex		(877)	(3,133)	(3,507)	(3,014)	(4,035)	(58,150)
Acquisitions/disposals		(1,083)	(750)	0	16	0	0
Financing		4,735	3,663	6,480	5,192	27,185	1,057
Dividends		0	0	0	0	0	0
Net Cash Flow		1,355	(2,639)	(75)	(153)	21,291	(67,832)
Opening net debt/(cash)		(1,924)	(3,279)	(640)	(562)	(410)	(21,701)
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)	(21,701)	46,131

Source: Company sources, Edison Investment Research

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