

KEFI Minerals

Operational update

Plant capacity expansion beckons

In its quarterly update, released today, KEFI announced that its funding partner, Oryx, is actively implementing finance closing (scheduled this quarter) and has also agreed to expand its proposed finance facility for Tulu Kapi from US\$135m to US\$140m to allow an increase in ore processing capacity from 1.5-1.7Mtpa to 1.9-2.1Mtpa (depending on ore hardness). This will take plant capacity back to that proposed in Nyota's 2012 definitive feasibility study – albeit at a reduced capital cost.

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 and exceptional items.

Creates flexibility while capex cost mitigated

Increasing capacity will bring production and cash-flows forward by mitigating the build-up of ore stockpiles that would otherwise exceed two years of production. It will also allow faster mining of the pit (even to the point of bulk mining when appropriate) and create flexibility for the development of either satellite deposits and/or the proposed underground mine at Tulu Kapi. As such, the expansion provides more upside leverage as well as more protection on the downside. In addition to being financed by Oryx, the increase in capital required to fund the capacity expansion will be partially offset by savings in other aspects of the construction budget, such as converting KEFI's commercial agreement with Lycopodium from an engineering, procurement and construction (EPC) contract to an engineering, procurement, construction and management (EPCM) one.

Valuation: 90% premium to the current share price

A number of details remain unknown regarding the expansion, such as the effect on pit sequencing, unit costs and tailings development. As such, the following valuation is indicative, rather than definitive. Otherwise, our forecasts have been updated to reflect KEFI's recent H117 interim results, a lower share price and a higher cable rate. Nevertheless, once it is finalised at the higher throughput rate, we estimate that Tulu Kapi should be capable of generating average cash flows from operations of c £47.2m pa (cf £44.4m previously), which we value at £218.9m (or 29.6p per fully diluted share, attributable) at the start of production in 2020, or £59.7m (or 13.5p per existing share, attributable) pre-capex using a 10% discount rate. Note that £218.9m compares with KEFI's updated (unleveraged) internal project value estimate of US\$337m at an 8% discount rate. Fully diluted on this basis at an assumed share price of 4.5p (vs 5.4p previously), we estimate that these potential dividends have a net present value of 8.55p/share. This valuation increases to 15.15p in 2023 and further, to 19.76p, in the event that KEFI is able to successfully leverage its cash flow from Tulu Kapi into other development assets in the region. In the meantime, the company is trading on a resource multiple of just US\$8.54/oz cf an estimated global average cost of discovery US\$10.16/oz.

Metals & mining

9 October 2017

Price **4.33p**
Market cap **£14m**

US\$1.3204/£

Net cash (£m) as 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	(11.9)	(11.8)	(40.9)
Rel (local)	(11.2)	(9.7)	(46.2)
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 Q417

Community resettlement Q417

Breaking ground Q417

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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)	(2,593)
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)	(8,182)
Profit Before Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(10,775)
Profit Before Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(10,775)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(10,774)
Profit After Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(10,775)
Average Number of Shares Outstanding (m)		29.0	56.0	92.8	194.9	375.2**	538.1
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.) (%)		-	-	-	-	-	-
BALANCE SHEET							
Fixed Assets		7,152	9,299	11,926	14,053	34,285	95,954
Intangible Assets		6,900	9,139	11,845	13,992	15,856	15,642
Tangible Assets		252	160	81	61	18,183	80,066
Investments		0	0	0	0	246	246
Current Assets		4,014	1,061	1,012	3,561	122,322	38,166
Stocks		0	0	0	0	0	0
Debtors		655	335	358	3,056	247	247
Cash		3,279	640	562	410	121,980	37,824
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	(116,631)	(104,046)
Long term borrowings		0	0	0	0	(102,242)	(90,146)
Other long term liabilities		0	0	0	0	(14,390)	(13,900)
Net Assets		7,803	7,158	10,943	15,547	37,909	28,007
CASH FLOW							
Operating Cash Flow		(1,424)	(2,006)	(2,729)	(2,211)	(1,670)	(2,538)
Net Interest		4	(413)	(319)	(136)	(189)	(8,182)
Tax		0	0	0	0	0	0
Capex		(877)	(3,133)	(3,507)	(3,014)	(20,501)	(61,937)
Acquisitions/disposals		(1,083)	(750)	0	16	0	0
Financing		4,735	3,663	6,480	5,192	27,299	1,087
Dividends		0	0	0	0	0	0
Net Cash Flow		1,355	(2,639)	(75)	(153)	4,938	(71,570)
Opening net debt/(cash)		(1,924)	(3,279)	(640)	(562)	(410)	(5,348)
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)	(5,348)	66,222

Source: Company sources, Edison Investment Research. Note: *Reflects H117 change in value of financial assets at fair value through profit & loss plus share-based payments. **Assumes final parent company equity financing in Q417.

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