

# KEFI Minerals

Operational update

## Maintaining flexibility

KEFI has today issued a quarterly operational update in which it has confirmed the partial lifting of the current conditions of the State of Emergency in Ethiopia plus its expectation that it will be completely lifted around the end of Q117. At this point, KEFI anticipates being able to announce a co-lender to the Development Bank of Ethiopia followed by the start of actual development at Tulu Kapi.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/14	0.0	(2.6)	(0.4)	0.0	N/A	N/A
12/15	0.0	(2.0)	(0.2)	0.0	N/A	N/A
12/16e	0.0	(2.0)	(0.1)	0.0	N/A	N/A
12/17e	0.0	(5.1)	(0.1)	0.0	N/A	N/A

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

## Financing

In addition to a number of western banking consortia, KEFI has demonstrated its characteristic flexibility by broadening its financing discussions to include less geopolitically sensitive non-western banking syndicates as well as exploring other innovative options, such as executing financing at the project level or entering a BOOT (build-own-operate-transfer) agreement in order to minimise dilution at the parent company level. As things stand, management anticipates an additional c US\$20m in equity financing, after taking all components into account, including mezzanine finance. This compares to Edison's expectation of US\$18.5m (see last [note](#)). In the meantime, the directors' aggregate remuneration this quarter will be paid in shares. Finally, KEFI has announced that it has received formal confirmation of its £2.5m (0.06/share) tax refund from the Ethiopian tax authorities.

## Government actions

KEFI has confirmed that its operations have been unaffected by any unrest in Ethiopia. Moreover, the government is reported to have elevated the significance and importance of the mining industry at both the federal and the state level.

## Valuation: 3.2x upside potential plus blue sky

On a fully diluted basis, we estimate that investors in KEFI's shares, at a price of 0.235p/share, may expect EPS in the order of 0.24p/share (vs 0.29p previously) and maximum potential dividends (cash flow after investments and funding) of around 0.33p/share for five years, from FY23 to FY27. These potential dividends have a net present value of 0.76p/share (cf 0.94p previously), rising to 1.33p in 2023, when similarly discounted at 10%. However, if KEFI is able to successfully leverage its cash flow from Tulu Kapi into other development assets in the region, this valuation rises to 1.79p, which would put it on a P/E ratio of 3.7x EPS in FY23e. In the meantime, on a forecast year-end resource multiple of US\$4.65/oz, KEFI is trading at a level that is well below the global average discovery cost of its attributable resource base (estimated at US\$10.16/oz). Alternatively stated, we estimate that an investment in KEFI shares now at a price of 0.235p per share could generate an IRR of 25.9% over the 12 years from 2017 to 2028.

## Metals & mining

21 December 2016

**Price** **0.24p**
**Market cap** **£9m**

US\$1.2379/£

Net cash (£m) at 30 June 2016 (pre July £3.8m placing) 0.1

Shares in issue 3,882.9m

Free float 89.5%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (23.8) (50.5) (25.0)

Rel (local) (26.3) (51.7) (34.2)

52-week high/low 0.64p 0.24p

## 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

Financing completed H117

## Analyst

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**Exhibit 1: Financial summary**

	£'000s	2013	2014	2015	2016e	2017e
December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>						
Revenue		0	0	0	0	0
Cost of Sales		(927)	(2,071)	(1,634)	(1,971)	(3,751)
Gross Profit		(927)	(2,071)	(1,634)	(1,971)	(3,751)
EBITDA		(927)	(2,071)	(1,634)	(1,971)	(3,751)
Operating Profit (before amort. and except.)		(927)	(2,189)	(1,724)	(2,021)	(3,801)
Intangible Amortisation		0	0	0	0	0
Exceptionals		(442)	(379)	(428)	0	0
Other		0	0	0	0	0
Operating Profit		(1,369)	(2,568)	(2,152)	(2,021)	(3,801)
Net Interest		4	(413)	(319)	8	(1,302)
Profit Before Tax (norm)		(923)	(2,602)	(2,043)	(2,013)	(5,103)
Profit Before Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(2,013)	(5,103)
Tax		0	0	0	0	0
Profit After Tax (norm)		(923)	(2,602)	(2,043)	(2,013)	(5,103)
Profit After Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(2,013)	(5,103)
Average Number of Shares Outstanding (m)		493.4	952.4	1,577.7	3,127.4	7,062.6
EPS - normalised (p)		(0.4)	(0.4)	(0.2)	(0.1)	(0.1)
EPS - normalised and fully diluted (p)		(0.4)	(0.4)	(0.2)	(0.1)	(0.1)
EPS - (IFRS) (p)		(0.3)	(0.3)	(0.2)	(0.1)	(0.1)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>						
Fixed Assets		7,152	9,299	11,926	13,541	55,622
Intangible Assets		6,900	9,139	11,845	12,944	12,209
Tangible Assets		252	160	81	87	42,903
Investments		0	0	0	510	510
Current Assets		4,014	1,061	1,012	1,822	271
Stocks		0	0	0	0	0
Debtors		655	335	358	358	179
Cash		3,279	640	562	1,372	0
Other		80	86	92	92	92
Current Liabilities		(3,363)	(3,202)	(1,995)	(2,000)	(2,300)
Creditors		(3,363)	(3,202)	(1,995)	(2,000)	(2,300)
Short term borrowings		0	0	0	0	0
Long Term Liabilities		0	0	0	0	(16,162)
Long term borrowings		0	0	0	0	(16,162)
Other long term liabilities		0	0	0	0	0
Net Assets		7,803	7,158	10,943	13,363	37,431
<b>CASH FLOW</b>						
Operating Cash Flow		(1,424)	(2,006)	(2,729)	(1,966)	(3,272)
Net Interest		4	(413)	(319)	8	(1,302)
Tax		0	0	0	0	0
Capex		(877)	(3,133)	(3,507)	(2,400)	(42,866)
Acquisitions/disposals		(1,083)	(750)	0	0	0
Financing		4,735	3,663	6,480	5,168	29,905
Dividends		0	0	0	0	0
Net Cash Flow		1,355	(2,639)	(75)	810	(17,534)
Opening net debt/(cash)		(1,924)	(3,279)	(640)	(562)	(1,372)
HP finance leases initiated		0	0	0	0	0
Other		0	0	(3)	0	0
Closing net debt/(cash)		(3,279)	(640)	(562)	(1,372)	16,162

Source: Company sources, Edison Investment Research

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