

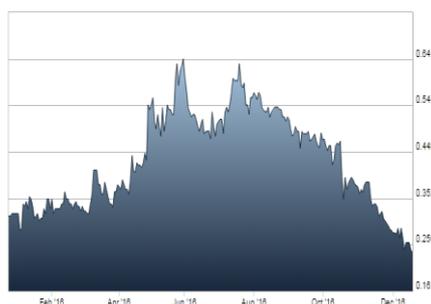
High quality construction-ready gold project

Under review

Price: 0.24p
 Target Price: N/A
 Sector: Metals & Mining

Yesterday KEFI published an operational update with a useful summary of its overall situation; project economics at a range of gold prices, the improving Ethiopian political situation, encouraging Saudi developments and corporate matters. It also reported it has “received formal confirmation its [£2.5m] refund is due for payment” from the Ethiopian tax authorities, this will be useful working capital.

Share Price Performance



Source: London Stock Exchange

KEFI has been very unfortunate in 4Q17 with the double whammy of political volatility and a weak gold price. However, in 2017 we anticipate these dynamics to improve, for its share price to recover, and for financing to be achieved. We currently have our price target Under Review until there is more clarity on the political situation. However, based on a range of scenarios, once the state of emergency has been lifted, we anticipate a price target above 0.75p with significant further upside once financing is in place.

Based on this update and our recent visit to Tulu Kapi, our main takeaways are:

1. Ethiopia is a relatively well developed African country with excellent infrastructure including power, roads and significant sovereign funding capacity
2. The political situation is improved and the president has made some major changes to ensure stability e.g. wholesale ministerial reshuffle in November
3. We expect the state of emergency to end in April, if not before
4. Tulu Kapi is high quality project which should become at least a 1.5Moz (current reserves c. 1Moz) gold mine
5. KEFI has an excellent owner’s team, based in country, and with the requisite experience to deliver operationally
6. KEFI has tier one contractors (Lycopodium & Ausdrill) whose involvement and investments in KEFI shares demonstrate the feasibility of Tulu Kapi

Key Data

Market: London (AIM)
 TIDM: [KEFI.L](#)
 1 Year Hi/Lo: 0.67p/0.23p
 Existing Shares: 3883m
 Market Cap: £9.08m
 ISIN: GB00B1HNYB75
 SEDOL: B1HNYB7
 Co. Website: www.kefi-minerals.com

Gold price outlook – positive medium term

We have a positive medium term outlook due to the global cost of production, which means that very few miners can justify expansion or new mine development at current prices. We also recognise the potential for U.S. economic slowdown and a pause or reversal of the new hawkish interest rate policy. We have a medium term (2-5y) gold price forecast of \$1250/oz.

Ethiopia visit – relatively well developed

We visited Tula Kapi last month and are impressed by the country, the project and KEFI’s project team (owner’s team). We saw no impact of the emergency in Addis or on site although clearly the situation delays closing project finance, at least from purely financial mining/project funds.

Valuation and recommendation

We have our target price Under Review but will update in 1Q17 when we have more clarity on the political situation. However, based on a range of scenarios we anticipate an initial price target above 0.75p with further upside post financial close.

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Introduction

KEFI's Tulu Kapi is one of the few decent sized construction-ready gold projects, not just in Africa but globally. The key to KEFI's progress has been a much more accurate resource model, a more selective mining method and a better mine schedule. KEFI has also more than halved previous owner Nyotas's project capex estimates.

So near yet so far....

In 2H16 KEFI had been heading towards financial close when it was scuppered by a state of emergency in Ethiopia followed by a softening gold price. Financing had also been delayed in 1H16 when the chosen funding partner decided to exit from the mining sector. It has been a very challenging year for management and the company's directors were paid in shares for 4Q16.

Q416 update

Yesterday KEFI published an operational update with a comprehensive overview of the situation. The main issues are the state of emergency in Ethiopia and the gold price impact on project economics. KEFI also reported the Ethiopian tax authorities have agreed in writing to reimburse KEFI £2.5m in Tax (VAT).

Ethiopia – KEFI's update details multiple positives about Ethiopia. We recently visited the country and were impressed by the sophistication and level of development.

KEFI's highlights include (1) Ethiopia has maintained 7-10% annual GDP growth for 15 years (2) since the public protests, changes include new federal and regional cabinets and a new Independent Agency for Land Compensation (3) the Government has recently started lifting some of the restrictions of the State of Emergency and has publicly indicated its possible end ahead of schedule.

Gold price impact – The update also includes this table outlining the impact of a lower gold price. KEFI notes that IRRs remain very attractive due to the reduced equity component (now expected to be circa \$20m).

Gold Price US\$/oz	NPV(8%) Open Pit & Underground - US\$m	NPV(8%) Open pit only - US\$m	IRR Open pit only - %
1,150	74	56	37
1,200	100	77	47
1,250	126	98	56
1,300	151	119	65
1,350	178	140	72

Summary

KEFI's management has no control over the gold price or Ethiopian politics, and both issues have had a serious negative impact. However, we believe KEFI's technical work has unlocked Tulu Kapi's value and that Ethiopia should soon become stable and investable for a wider range of funds. We expect management to deliver on its targets, and hope uncontrollable factors start to move in a better direction.

Recommendation Breakdown

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