

MINING FLASHNOTE

KEFI Minerals (KEFI LN)

Stock Data	
Share Price:	0.40p
Market Cap (M):	£10.6M
EV (M):	£9.5M

Price Chart



52 Week Range

0.26p
1.35p

0.40p

Company Summary

KEFI Minerals is an exploration company focused on the discovery and development of vein-hosted gold and volcanogenic copper-zinc mineralisation in the Arabian Nubian Shield.

MAIN SHAREHOLDERS	HOLDING
Odey Asset Management	19.54%
Capita Financial Managers	9.33%
TD Direct Investing	4.61%
Barclays PLC	4.47%
Hargreaves Lansdowne Asset	4.25%

Source: Bloomberg

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Potential Underground Mine Could Lift Production to 150,000oz pa.

The Event

KEFI Minerals has announced that the Tulu Kapi Gold Project in Ethiopia could be expanded from the initial 115k oz pa to around 150k oz pa by developing the underground potential of the project.

Comment

The underground resource has long been known but in the quest to simplify the project the initial focus has been on the open-pittable material. The underground ore is the material below the 1,400RL and is currently calculated to be an indicated and inferred resource of 1.65Mt grading 6.26g/t for 330k oz of gold in-situ using a cut-off grade of 3.5g/t.

It is planned to develop this ore via a decline off the open pit at an estimated cost of US\$37M. The open pit is planned to commence production in 2018, so it would probably be 2020 or 2021 before the decline commenced, suggesting underground production from 2022 onwards. In the press release KEFI said that the contemplated production would commence after Tula Kapi has commenced producing positive cashflows and repaying its development finance, with a view to production between years 2 and 4.

Modelling of mineable stopes resulted in a conversion rate of 76% of the resource to give potential reserves of 1.3Mt at 5.17g/t Au. A production rate of 325,000 tonnes pa for an initial four-year life of mine results in total recovered 206k oz Au at a rate of circa 50k oz Au pa, after accounting for dilution, ore losses and metallurgical recovery.

By replacing the open pit ore with higher grade underground ore, total gold production would increase to an estimated 150k oz pa. Apart from the grade effect, one would expect a higher recovery due to the higher grade but the underground ore is also harder so it may not be possible to replace open pit tonnes with underground tonnes on a one for one basis. However, the net impact of treating higher grade ore, after allowing for higher mining costs would lead to a significant reduction in the cash costs of production, estimated to be US\$664/oz and the all-in sustaining costs of US\$845/oz.

This will increase the NPV of Tula Kapi. KEFI believes that this increase will be US\$44M using a US\$1,250/oz gold price, an 8% discount rate and after tax and applying KEFI's 75% interest in the project and costing based on estimates made in February 2016. This figure may also be assumed to be on the low side as the underground resource is open in more than one direction. This would increase KEFI's share of the project NPV to US\$150M.

Research Disclosures

Peter Rose

Peter has 29 years' experience in equities as a resources analyst; he has been at Brandon Hill Capital for 8 years, after having spent 11 years with Deutsche Bank in Australia. Prior to this he spent 2 years with Prudential Bache and 6 years with James Capel. Peter's industry experience includes 16 years as a metallurgist, 3 years with De Beers in South Africa and 9 years in the uranium industry, six of which were spent at the Ranger Uranium mine. Peter holds a BSc degree in Applied Mineral Science from Leeds University UK and a Bachelor of Commerce from the University of South Africa. Peter is also a member of the Institute of Materials, Mining & Metallurgy and a chartered engineer.

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Sell	Recommendation implies that expected total return expected over 12 months between current and analysts' target price is negative.

Research Disclaimers

Research disclosure as of 08 March 2016

<u>Company Name</u>	<u>Disclosure</u>
KEFI Minerals (KEFI LN)	1, 2, 7, 8, 9

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