

# KEFI Minerals

Another piece falls into place

**KEFI has announced that it has selected its preferred lenders for Tulu Kapi and that the lenders have indicated non-binding terms for project finance including senior secured project loans of US\$60m, with an average tenor of six years. With five of six key partners pre-engaged in the project, only a streaming partner now remains outstanding.**

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/13	0.0	(0.9)	(0.4)	0.0	N/A	N/A
12/14	0.0	(2.6)	(0.4)	0.0	N/A	N/A
12/15e	0.0	(1.8)	(0.1)	0.0	N/A	N/A
12/16e	0.0	(6.3)	(0.3)	0.0	N/A	N/A

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

## Funding proceeding as expected

In December 2013, KEFI shareholders approved the acquisition of Tulu Kapi with a target of producing >80koz Au pa from 2017. Based on progress over the past two years, this target looks achievable. KEFI's most recent announcement on funding progress follows the government of Ethiopia's formal confirmation of its intention to invest US\$15-20m in return for a 20-25% interest in the project. In conjunction with KEFI's confirmation of a total project funding requirement of US\$120m (excluding financing costs and cost overrun facilities), this suggests a balance of US\$40m to be secured in the form of a 'streaming' deal (vs our US\$45m assumption). As is common to such financings, one of the conditions of the syndicate is a degree of hedging, although this has been limited to 100koz. Moreover, while details are not yet available, this is believed to be in the form of a 'squirrelling' arrangement, ie KEFI has the option, but not the obligation, to use the hedge and can roll forward any unused hedge into the future. As expected, a formal due diligence process is underway. In addition, it is understood that a syndicate of Far Eastern investors is interested in investing in KEFI and/or that raising funds in the form of a corporate bond issue also remains a possibility.

## Valuation: Up 14.4% at 2.39p and reduced risk

In our [note](#) of 1 December 2015, we valued KEFI at 2.09p/sh. This rises to 2.17p/sh as a result of recent sterling weakness and 2.39p/sh as 2015 segues into 2016. Albeit the detailed terms of the related hedging are not yet known, financing is currently proceeding very much in line with our expectations, and each new tranche self-evidently removes a degree of risk from the valuation. Ceteris paribus, the valuation should rise to c 3.18p/sh in FY19 (vs 3.05p/sh previously), equating to a (depleted) resource multiple of US\$69.83/oz cf estimated costs of discovery of less than US\$5/oz in Ethiopia and US\$10/oz overall. Management has indicated that it is progressing a number of initiatives in Ethiopia and Saudi Arabia to be advanced during the construction of Tulu Kapi to leverage off its cash flows once debt is paid down and dividends are feasible. We estimate that successful execution of this strategy could result in a valuation as high as 5.22p in FY19 (vs 5.01p previously), which would put KEFI on a modest contemporary P/E ratio of 4.9x FY19e EPS.

Preferred banks selected

Metals & mining

11 February 2016

Price **0.34p**

Market cap **£9m**

US\$1.4481/£

Net cash (£m) at 30 June 2015 1.0

Shares in issue 2,621.6m

Free float 89.5%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (1.5) (15.0) (69.1)

Rel (local) 3.4 (6.1) (63.6)

52-week high/low 1.33p 0.28p

## 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

JORC resource update Q116

Complete financing syndicate June 2016

## Analyst

Charles Gibson +44 (0)20 3077 5724

[mining@edisongroup.com](mailto:mining@edisongroup.com)

[Edison profile page](#)

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**Exhibit 1: Financial summary**

£'000s	2013	2014	2015e	2016e	2017e
December	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue	0	0	0	0	42,976
Cost of Sales	(927)	(2,071)	(1,697)	(1,971)	(33,397)
Gross Profit	(927)	(2,071)	(1,697)	(1,971)	9,578
EBITDA	(927)	(2,071)	(1,697)	(1,971)	9,578
Operating Profit (before amort. and except.)	(927)	(2,189)	(1,857)	(5,908)	2,964
Intangible Amortisation	0	0	0	0	0
Exceptionals	(442)	(379)	(200)	0	0
Other	0	0	0	0	0
Operating Profit	(1,369)	(2,568)	(2,057)	(5,908)	2,964
Net Interest	4	(413)	10	(367)	(3,595)
Profit Before Tax (norm)	(923)	(2,602)	(1,847)	(6,275)	(631)
Profit Before Tax (FRS 3)	(1,365)	(2,981)	(2,047)	(6,275)	(631)
Tax	0	0	0	0	0
Profit After Tax (norm)	(923)	(2,602)	(1,847)	(6,275)	(631)
Profit After Tax (FRS 3)	(1,365)	(2,981)	(2,047)	(6,275)	(631)
Average Number of Shares Outstanding (m)	493.4	952.4	1,928.5	2,621.6	2,621.6
EPS - normalised (p)	(0.4)	(0.4)	(0.1)	(0.3)	(0.0)
EPS - normalised and fully diluted (p)	(0.4)	(0.4)	(0.1)	(0.3)	(0.0)
EPS - (IFRS) (p)	(0.3)	(0.3)	(0.1)	(0.2)	(0.0)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	-	-	-	-	22.3
EBITDA Margin (%)	-	-	-	-	22.3
Operating Margin (before GW and except.) (%)	-	-	-	-	6.9
<b>BALANCE SHEET</b>					
Fixed Assets	7,152	9,299	15,849	63,918	83,194
Intangible Assets	6,900	9,139	10,688	9,800	8,912
Tangible Assets	252	160	3,937	52,894	73,058
Investments	0	0	1,224	1,224	1,224
Current Assets	4,014	1,061	508	3,854	7,200
Stocks	0	0	0	1,791	3,581
Debtors	655	335	422	1,977	3,532
Cash	3,279	640	0	0	0
Other	80	86	86	86	86
Current Liabilities	(3,363)	(3,202)	(2,296)	(2,300)	(2,583)
Creditors	(3,363)	(3,202)	(2,296)	(2,300)	(2,583)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	0	0	(3,339)	(48,102)	(71,959)
Long term borrowings	0	0	(3,339)	(17,027)	(42,430)
Other long term liabilities	0	0	0	(31,075)	(29,530)
Net Assets	7,803	7,158	10,721	17,370	15,851
<b>CASH FLOW</b>					
Operating Cash Flow	(1,424)	(2,006)	(2,690)	(5,313)	6,515
Net Interest	4	(413)	10	(367)	(3,595)
Tax	0	0	0	0	0
Capex	(877)	(3,133)	(7,598)	(52,894)	(26,778)
Acquisitions/disposals	(1,083)	(750)	0	0	0
Financing	4,735	3,663	6,299	13,811	0
Dividends	0	0	0	0	0
Net Cash Flow	1,355	(2,639)	(3,979)	(44,763)	(23,857)
Opening net debt/(cash)	(1,924)	(3,279)	(640)	3,339	48,102
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	0
Closing net debt/(cash)	(3,279)	(640)	3,339	48,102	71,959

Source: Company sources, Edison Investment Research

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