

KEFI Minerals

Equity funding

One more down

KEFI's announcement that it has conditionally placed 877.2m shares at 0.3p/share to raise US\$4.0m (£2.6m) substantially completes the company's planned equity funding ahead of the development of the Tulu Kapi project. The fund-raising was notable for the commitment shown by directors, management, contractors (Ausdrill) and Odey Asset Management (which has now increased its shareholding in KEFI to 26%).

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 intangible amortisation and exceptional items.

Four out of six partners committed...

The news of KEFI's equity fund-raising follows that of the government of Ethiopia confirming its plan to invest US\$15-20m at the project level in return for an additional 20-25% interest in the project, leaving US\$105-110m to be financed from debt and streaming. As such, four of KEFI's six key partners (equity shareholders, Ausdrill, Sedgman and the government of Ethiopia) are now committed to the project, with a remaining two expected to be named before the year end. On the basis of these assumptions, we estimate that KEFI will have a maximum funding requirement of £41.1m (vs £39.7m previously) in FY17. Streaming will create an additional contingent liability in KEFI's accounts of c £28.5m at its maximum extent in FY17. However, streaming is not considered as debt by the lending banks as it has neither associated debt-service covenants nor a fixed repayment schedule.

Valuation: Equity IRR 44.1% vs 43.6% previously

In our [note](#) of 11 November, we valued KEFI at 2.34p/sh, based on the net present value of (maximum potential) dividends payable to shareholders as a result of an investment into the company at the prevailing share price, discounted at 10% pa. However, this was based on an assumed US\$5m raise and with the government of Ethiopia taking an additional 16.67% interest for its additional US\$20m investment. Adjusting for the updated parameters above, our valuation moderates to 2.09p/share in FY15. However, the equity IRR rises from 43.6% to 44.1% in sterling terms over 12 years. Moreover, the equity fund-raising self-evidently removes one element of risk from the valuation. Hereafter, the valuation should continue to rise, to an estimated 3.05p/sh in FY19, when the first potentially substantive dividend is payable. This 3.05p valuation equates to a resource multiple of US\$58.26 per attributable in-situ resource ounce. However, KEFI estimates that its cost of discovery of resource ounces is less than US\$10/oz overall and less than US\$5/oz in Ethiopia. As such, its strategy is to selectively leverage its cash flow into exploration. Contingent on its being successful, we estimate that KEFI's valuation could rise as high as 5.01p in FY19 (which would put it on an undemanding contemporary P/E ratio of 3.0x FY19 EPS and an average of 4.4x FY18-26 EPS).

Metals & mining

1 December 2015

Price **0.33p**
Market cap **£6m**

US\$1.5009/£

Net cash (£m) at 30 June 2015 1.0

Shares in issue (post funding) 2,621.6m

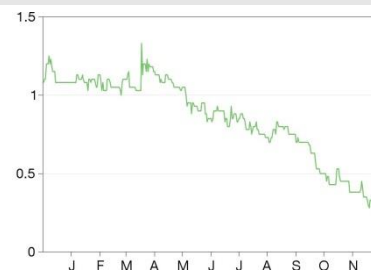
Free float 89.5%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(13.3)	(56.7)	(70.5)
Rel (local)	(13.5)	(57.4)	(69.6)

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

Financing details	December
JORC resource update	December
Jibal Qutman mining licence application	December

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[Edison profile page](#)

Exhibit 1: Financial summary

£000s	2013	2014	2015e	2016e	2017e
Year-end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	0	0	0	0	41,464
Cost of Sales	(927)	(2,071)	(1,697)	(1,971)	(32,292)
Gross Profit	(927)	(2,071)	(1,697)	(1,971)	9,172
EBITDA	(927)	(2,071)	(1,697)	(1,971)	9,172
Operating Profit (before amort. and except.)	(927)	(2,189)	(1,857)	(5,908)	2,652
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)	2,652
Net Interest	4	(413)	10	(367)	(3,489)
Profit Before Tax (norm)	(923)	(2,602)	(1,847)	(6,275)	(838)
Profit Before Tax (FRS 3)	(1,365)	(2,981)	(2,047)	(6,275)	(838)
Tax	0	0	0	0	0
Profit After Tax (norm)	(923)	(2,602)	(1,847)	(6,275)	(838)
Profit After Tax (FRS 3)	(1,365)	(2,981)	(2,047)	(6,275)	(838)
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 (%)	-	-	-	-	22.1
EBITDA Margin (%)	-	-	-	-	22.1
Operating Margin (before GW and except.) (%)	-	-	-	-	6.4
BALANCE SHEET					
Fixed Assets	7,152	9,299	15,849	62,057	80,485
Intangible Assets	6,900	9,139	10,688	9,800	8,912
Tangible Assets	252	160	3,937	51,033	70,349
Investments	0	0	1,224	1,224	1,224
Current Assets	4,014	1,061	508	3,729	6,949
Stocks	0	0	0	1,728	3,455
Debtors	655	335	422	1,915	3,408
Cash	3,279	640	0	0	0
Other	80	86	86	86	86
Current Liabilities	(3,363)	(3,202)	(2,296)	(2,300)	(2,492)
Creditors	(3,363)	(3,202)	(2,296)	(2,300)	(2,492)
Short term borrowings	0	0	0	0	0
Long Term Liabilities	0	0	(3,339)	(46,602)	(69,784)
Long term borrowings	0	0	(3,339)	(16,620)	(41,293)
Other long term liabilities	0	0	0	(29,982)	(28,491)
Net Assets	7,803	7,158	10,721	16,884	15,158
CASH FLOW					
Operating Cash Flow	(1,424)	(2,006)	(2,690)	(5,188)	6,143
Net Interest	4	(413)	10	(367)	(3,489)
Tax	0	0	0	0	0
Capex	(877)	(3,133)	(7,598)	(51,033)	(25,836)
Acquisitions/disposals	(1,083)	(750)	0	0	0
Financing	4,735	3,663	6,299	13,325	0
Dividends	0	0	0	0	0
Net Cash Flow	1,355	(2,639)	(3,979)	(43,263)	(23,182)
Opening net debt/(cash)	(1,924)	(3,279)	(640)	3,339	46,602
HP finance leases initiated	0	0	0	0	0
Other	0	0	0	0	(0)
Closing net debt/(cash)	(3,279)	(640)	3,339	46,602	69,784

Source: Company sources, Edison Investment Research

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