

KEFI Minerals

Share placing

Steady as she goes

KEFI has raised £3.8m (gross) in equity, via the issue of 761.9m shares yesterday at a price of 0.5p per share. Notably, Odey Asset Management subscribed above its pro rata shareholding to increase its interest in KEFI to 29.5%. Odey is also reported to have offered to underwrite the placing, although this was rendered superfluous by the level of demand from other investors. Ausdrill (a contractor and existing shareholder) subscribed to maintain its shareholding at 7.31%. KEFI's share price closed at 0.565p on Monday 25 July (the day before the placing was announced), on which basis its theoretical ex-placing price should be 0.552p.

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	(6.6)	(0.2)	0.0	N/A	N/A

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

On target for 2017 commissioning

KEFI anticipates executing syndicated financing documentation at the end of Q316, paving the way for construction later in the year, commissioning towards end-FY17 and commercial production in H118 (Edison forecast). KEFI's latest thinking on funding is that it will fund the US\$175m required to bring Tulu Kapi into production with senior secured debt (US\$85m), contractors (US\$50m), the Ethiopian government (US\$20m) and KEFI (US\$20m in either mezzanine or equity form). In the aftermath of yesterday's US\$5m raising, this equity/mezzanine tranche reduces to US\$15m (which was the assumption in [our last note](#), dated 7 June).

Valuation: 1.71-2.45p/share depending on financing

At the time of our last [note](#) in June, we valued KEFI at 2.64p/share, rising to c 4.35p/share in FY22 (based on our long-term gold price assumptions and a 10% discount rate), assuming no additional equity/mezzanine funding. Assuming additional equity and/or mezzanine finance (in the form of a convertible with a conversion price of 0.6p per share – ie around the equity price at the time), the resulting dilution (assuming full conversion) reduced our valuation from 2.64p to 1.84p/share. In the aftermath of yesterday's equity raising, our headline valuation moderates from 2.64p per share to 2.45p/sh – a 0.51p/sh decline on account of the associated dilution being substantially offset by a 0.30p/sh rise on account of the decline in the value of sterling, post-Brexit. In the event of an additional US\$15m in mezzanine finance at the current share price, this valuation moderates further, to 1.71p/sh (vs 1.84p/sh), albeit attended by proportionally less financial risk in the form of a decreased peak net debt funding requirement of £59.3m (US\$77.8m) in FY18, compared to £71.0m (US\$93.0m) in the event of no additional mezzanine financing. Note that 2.45p/sh and 1.71p.sh rise to 3.94p/sh and 2.73p/sh in FY21, respectively. If KEFI is successfully able to leverage its cash flow from Tulu Kapi into other development assets in the region, however, this valuation rises further, to 5.85p, which would put it on a contemporary P/E ratio of 9.9x in FY21e.

Metals & mining

27 July 2016

Price **0.55p**

Market cap* **£17m**

US\$1.3123/£

Net cash (£m) at 31 Dec 2015 0.6m

Shares in issue* 3,121.0m

*Will be 3.9m post raise

Free float 89.5%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 2.8 26.7 (27.3)

Rel (local) (5.5) 19.8 (28.3)

52-week high/low 0.83p 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 Outman project in Saudi Arabia.

Next event

Financing completed H216

Analyst

Charles Gibson +44 (0)20 3077 5724

mining@edisongroup.com

[Edison profile page](#)

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Exhibit 1: Financial summary

	£'000s	2013	2014	2015	2016e	2017e
December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		0	0	0	0	0
Cost of Sales		(927)	(2,071)	(1,634)	(1,971)	(1,971)
Gross Profit		(927)	(2,071)	(1,634)	(1,971)	(1,971)
EBITDA		(927)	(2,071)	(1,634)	(1,971)	(1,971)
Operating Profit (before amort. and except.)		(927)	(2,189)	(1,724)	(2,052)	(6,473)
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)	(2,052)	(6,473)
Net Interest		4	(413)	(319)	8	(80)
Profit Before Tax (norm)		(923)	(2,602)	(2,043)	(2,044)	(6,554)
Profit Before Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(2,044)	(6,554)
Tax		0	0	0	0	0
Profit After Tax (norm)		(923)	(2,602)	(2,043)	(2,044)	(6,554)
Profit After Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(2,044)	(6,554)
Average Number of Shares Outstanding (m)		493.4	952.4	1,577.7	3,127.4	3,882.9
EPS - normalised (p)		(0.4)	(0.4)	(0.2)	(0.1)	(0.2)
EPS - normalised and fully diluted (p)		(0.4)	(0.4)	(0.2)	(0.1)	(0.2)
EPS - (IFRS) (p)		(0.3)	(0.3)	(0.2)	(0.1)	(0.2)
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
BALANCE SHEET						
Fixed Assets		7,152	9,299	11,926	15,612	74,496
Intangible Assets		6,900	9,139	11,845	11,110	10,375
Tangible Assets		252	160	81	4,502	64,121
Investments		0	0	0	0	0
Current Assets		4,014	1,061	1,012	450	2,309
Stocks		0	0	0	0	0
Debtors		655	335	358	358	2,217
Cash		3,279	640	562	0	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	(730)	(53,221)
Long term borrowings		0	0	0	(730)	(53,221)
Other long term liabilities		0	0	0	0	0
Net Assets		7,803	7,158	10,943	13,332	21,284
CASH FLOW						
Operating Cash Flow		(1,424)	(2,006)	(2,729)	(1,966)	(3,530)
Net Interest		4	(413)	(319)	8	(80)
Tax		0	0	0	0	0
Capex		(877)	(3,133)	(3,507)	(4,502)	(64,121)
Acquisitions/disposals		(1,083)	(750)	0	0	0
Financing		4,735	3,663	6,480	5,168	15,240
Dividends		0	0	0	0	0
Net Cash Flow		1,355	(2,639)	(75)	(1,292)	(52,491)
Opening net debt/(cash)		(1,924)	(3,279)	(640)	(562)	730
HP finance leases initiated		0	0	0	0	0
Other		0	0	(3)	0	(0)
Closing net debt/(cash)		(3,279)	(640)	(562)	730	53,221

Source: Company sources, Edison Investment Research

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