

KEFI Minerals

Reduced funding requirement

Reduced capex estimate

Metals & mining

Since our last [update note](#) on 10 March, KEFI has announced a £1.75m equity raising; confirmation that the Ethiopian government is to take an additional 20% interest in Tulu Kapi in return for a US\$20m funding commitment relating to infrastructure (vs our prior expectation of 25%); a reduced capex estimate and modified funding requirement mix; and, replaced the construction contractor with market leader Lycopodium.

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)	(0.2)	0.0	N/A	N/A
12/16e	0.0	(2.0)	(0.1)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items. **FY15 results were released 7 June and close to our estimates.

Capex down, funding down

In its announcement of 2 June, KEFI confirmed an initial capex estimate for Tulu Kapi of US\$108.8m, which is 19.5% below that based on the definitive feasibility study of 2015 (although comparable with our more recently updated estimate of US\$110.3m). As a result, the company calculates a reduced net funding requirement of US\$130m vs US\$145m previously. Moreover, whereas this had previously been presumed to include up to US\$35-40m in streaming finance, it is now assumed to include a US\$20m increase in senior secured debt (US\$85m vs US\$65m previously) and a subordinated convertible note of up to US\$10m.

Valuation: Swings and roundabouts

KEFI anticipates executing syndicated financing documentation at the end of Q316, paving the way for construction later in the year and commissioning towards end-FY17. As a result, we now expect commercial production in H118 (vs H217 previously). In the immediate aftermath of its March equity raise, we valued KEFI at 2.55p/share, rising to c 3.69p/share in FY20 (based on our long-term gold price assumptions and a 10% discount rate). Assuming that the debt characteristics of any subordinated convertible note approximate those of the senior secured debt, the decline in value resulting from our revised commercial production date is more than offset by the removed streaming finance (which was assumed to be expensive relative to debt). Including forex and capex reduction assumptions, our valuation rises to 2.64p/share (on a like-for-like basis) and then increases to 4.35p/share in FY22, when the first substantive dividend is potentially payable (equivalent to US\$128.44 per depleted resource oz). In the event that KEFI is successfully able to leverage its cash flow from Tulu Kapi into other development assets in the region, our valuation rises further, to 6.37p, putting it on a contemporary P/E ratio of 7.2x in FY22e. Note that if the convertible has a conversion price of 0.6p per share (ie around the current equity price) and it is fully converted, the resulting equity dilution reduces our valuation from 2.64p to 1.84p/share (rising to 2.96p/share in FY21), although this is also accompanied by proportionately less financial risk in the form of a reduced peak (net debt) funding requirement of £58.8m (US\$84.9m) in FY18.

7 June 2016

Price **0.6p**

Market cap **£19m**

US\$1.4440/£

Net cash (£m) at 30 June 2015 1.0

Shares in issue 3,121.0m

Free float 89.5%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 1.0 55.9 (41.0)

Rel (local) (1.5) 53.9 (36.6)

52-week high/low 0.93p 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 events

Complete financing H216

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[Edison profile page](#)

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Exhibit 1: Financial summary

	£'000s	2013	2014	2015e**	2016e	2017e
December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		0	0	0	0	0
Cost of Sales		(927)	(2,071)	(1,697)	(1,971)	(1,971)
Gross Profit		(927)	(2,071)	(1,697)	(1,971)	(1,971)
EBITDA		(927)	(2,071)	(1,697)	(1,971)	(1,971)
Operating Profit (before amort. and except.)		(927)	(2,189)	(1,815)	(2,013)	(6,063)
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)	(2,015)	(2,013)	(6,063)
Net Interest		4	(413)	10	9	(402)
Profit Before Tax (norm)		(923)	(2,602)	(1,805)	(2,004)	(6,465)
Profit Before Tax (FRS 3)		(1,365)	(2,981)	(2,005)	(2,004)	(6,465)
Tax		0	0	0	0	0
Profit After Tax (norm)		(923)	(2,602)	(1,805)	(2,004)	(6,465)
Profit After Tax (FRS 3)		(1,365)	(2,981)	(2,005)	(2,004)	(6,465)
Average Number of Shares Outstanding (m)		493.4	952.4	1,583.0	2,996.2	3,121.0
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)	(0.1)	(0.1)	(0.2)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		-	-	-	-	-
EBITDA Margin (%)		-	-	-	-	-
Operating Margin (before GW and except.) (%)		-	-	-	-	-
BALANCE SHEET						
Fixed Assets		7,152	9,299	11,954	15,116	68,409
Intangible Assets		6,900	9,139	10,688	9,800	8,912
Tangible Assets		252	160	42	4,092	58,273
Investments		0	0	1,224	1,224	1,224
Current Assets		4,014	1,061	1,105	297	86
Stocks		0	0	0	0	0
Debtors		655	335	422	211	0
Cash		3,279	640	597	0	0
Other		80	86	86	86	86
Current Liabilities		(3,363)	(3,202)	(2,296)	(2,300)	0
Creditors		(3,363)	(3,202)	(2,296)	(2,300)	0
Short term borrowings		0	0	0	0	0
Long Term Liabilities		0	0	0	(3,658)	(52,543)
Long term borrowings		0	0	0	(3,658)	(52,543)
Other long term liabilities		0	0	0	0	0
Net Assets		7,803	7,158	10,763	9,455	15,952
CASH FLOW						
Operating Cash Flow		(1,424)	(2,006)	(2,690)	(1,756)	(4,060)
Net Interest		4	(413)	10	9	(402)
Tax		0	0	0	0	0
Capex		(877)	(3,133)	(3,661)	(4,092)	(58,273)
Acquisitions/disposals		(1,083)	(750)	0	0	0
Financing		4,735	3,663	6,299	1,584	13,850*
Dividends		0	0	0	0	0
Net Cash Flow		1,355	(2,639)	(43)	(4,255)	(48,885)
Opening net debt/(cash)		(1,924)	(3,279)	(640)	(597)	3,658
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(3,279)	(640)	(597)	3,658	52,543

Source: Company sources, Edison Investment Research. Note: *Assumed Ethiopian government contribution to infrastructure investment. **FY15 results were released 7 June and close to our estimates.

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