

KEFI Minerals

Up to 90% of the way there

KEFI has announced that it has made “considerable progress” in finalising the US\$140m infrastructure lease facility for the development of Tulu Kapi in Ethiopia. The announcement follows the release of KEFI’s updated financial projections for Tulu Kapi in late October, based (for the first time) on a c 25% increase in ore processing capacity to 1.9-2.1Mtpa. It has also reconfirmed the project’s timeline, with construction anticipated in FY18-19 and commissioning at the end of 2019, and a residual equity/mezzanine requirement of US\$20m (in line with our expectations).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/15	0.0	(2.0)	(3.0)	0.0	N/A	N/A
12/16	0.0	(2.5)	(1.6)	0.0	N/A	N/A
12/17e	0.0	(2.9)	(0.8)	0.0	N/A	N/A
12/18e	0.0	(10.7)	(1.5)	0.0	N/A	N/A

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

Advancing methodically

KEFI will now be in a position in which it is permanently analysing and finessing the application and source of funds required to develop Tulu Kapi, but will not necessarily be at liberty to comment on its findings publicly. However, draft finance documentation has been lodged with the Ethiopian government for approval so that issuance of the listed bonds can proceed. Reading between the lines, the placing of the listed bonds to finance Oryx (and thereby Tulu Kapi) will commence once documentation has been approved by Ethiopia’s central bank, with drawdown expected about three months later, around the end of Q118. The drawdown timetable is timed to coincide with community and contractor preparations, but cannot start until the central bank approves it. Significantly, stimulation of mining activity was made a specific aim of the government’s 2015-20 Growth & Transformation Plan II and the minister of finance and economic development is understood to have recently formalised budget approval for the government to proceed with its construction and investment role in the project – beginning with infrastructure development and community resettlement.

Valuation: Current resource multiple just US\$6.48/oz

All other things being equal and once in production, we estimate that Tulu Kapi should be capable of generating average cash flows from operations of c £45.4m pa (cf £45.7m estimate in our [note](#) of 2 November – the difference being solely occasioned by the £/US\$ rate). We value these at £208.3m (cf £209.6.9m) or 24.4p per fully diluted share, attributable (cf 28.0p) at the start of production in 2020, or £70.2m, 15.8p per existing share, attributable currently (vs £70.7m and 15.9p on 2 November) using a 10% discount rate. Fully diluted on this basis at an assumed share price of 3.50p (vs 4.375p earlier in the month), our valuation of KEFI is 7.68p/share (cf 8.79p on 2 November), based on the net present value of expected future dividends, discounted at 10% per annum. This valuation then increases to 13.50p in 2024 and further, to 16.77p, in the event that KEFI is successfully able to leverage its cash flow from Tulu Kapi into other development assets in the region.

Funding update

Metals & mining

28 November 2017

Price **3.50p**

Market cap **£12m**

US\$1.3350/£

Net cash (£m) at 30 June 2017 1.6

Shares in issue 332.7m

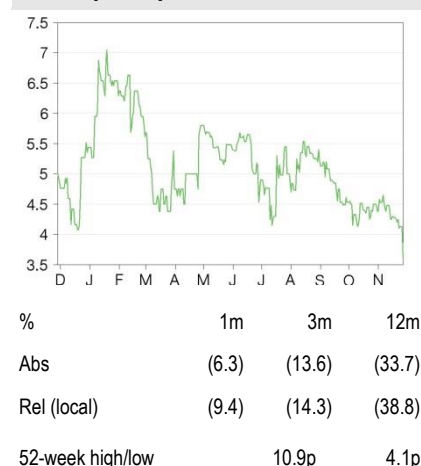
Free float 89.5%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

Share price performance



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

Final project financing	Q417
Community resettlement	Q417
Breaking ground	Q417

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	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		0	0	0	0	0	0
Cost of Sales		(927)	(2,071)	(1,634)	(2,260)	(2,692)	(2,538)
Gross Profit		(927)	(2,071)	(1,634)	(2,260)	(2,692)	(2,538)
EBITDA		(927)	(2,071)	(1,634)	(2,260)	(2,692)	(2,538)
Operating Profit (before amort. and except.)		(927)	(2,189)	(1,724)	(2,315)	(2,747)	(2,593)
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		(442)	(379)	(428)	1,944	(1,900)	0
Other		0	0	0	0	0	0
Operating Profit		(1,369)	(2,568)	(2,152)	(371)	(4,647)	(2,593)
Net Interest		4	(413)	(319)	(136)	(189)	(8,151)
Profit Before Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(10,744)
Profit Before Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(10,744)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(923)	(2,602)	(2,043)	(2,451)	(2,936)	(10,743)
Profit After Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(507)	(4,836)	(10,744)
Average Number of Shares Outstanding (m)		29.0	56.0	92.8	194.9	387.8	563.4
EPS - normalised (p)		(7.4)	(6.2)	(3.0)	(1.6)	(0.8)	(1.5)
EPS - normalised and fully diluted (p)		(7.4)	(6.2)	(3.0)	(1.5)	(0.8)	(1.4)
EPS - (IFRS) (p)		(4.7)	(5.1)	(2.7)	(0.3)	(1.2)	(1.4)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		-	-	-	-	N/A	N/A
EBITDA Margin (%)		-	-	-	-	N/A	N/A
Operating Margin (before GW and except.) (%)		-	-	-	-	N/A	N/A
BALANCE SHEET							
Fixed Assets		7,152	9,299	11,926	14,053	17,809	75,346
Intangible Assets		6,900	9,139	11,845	13,992	15,856	15,642
Tangible Assets		252	160	81	61	1,707	59,458
Investments		0	0	0	0	246	246
Current Assets		4,014	1,061	1,012	3,561	141,048	59,054
Stocks		0	0	0	0	0	0
Debtors		655	335	358	3,056	247	247
Cash		3,279	640	562	410	140,706	58,712
Other		80	86	92	95	95	95
Current Liabilities		(3,363)	(3,202)	(1,995)	(2,067)	(2,067)	(2,067)
Creditors		(3,363)	(3,202)	(1,995)	(2,067)	(2,067)	(2,067)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		0	0	0	0	(119,101)	(104,606)
Long term borrowings		0	0	0	0	(104,869)	(90,374)
Other long term liabilities		0	0	0	0	(14,232)	(14,232)
Net Assets		7,803	7,158	10,943	15,547	37,689	27,727
CASH FLOW							
Operating Cash Flow		(1,424)	(2,006)	(2,729)	(2,211)	(1,670)	(2,538)
Net Interest		4	(413)	(319)	(136)	(189)	(8,151)
Tax		0	0	0	0	0	0
Capex		(877)	(3,133)	(3,507)	(3,014)	(4,025)	(57,806)
Acquisitions/disposals		(1,083)	(750)	0	16	0	0
Financing		4,735	3,663	6,480	5,192	27,079	996
Dividends		0	0	0	0	0	0
Net Cash Flow		1,355	(2,639)	(75)	(153)	21,194	(67,499)
Opening net debt/(cash)		(1,924)	(3,279)	(640)	(562)	(410)	(21,604)
HP finance leases initiated		0	0	0	0	0	0
Other		0	0	(3)	1	0	0
Closing net debt/(cash)		(3,279)	(640)	(562)	(410)	(21,604)	45,894

Source: KEFI Minerals sources, Edison Investment Research

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