KEFI Gold and Copper

Dotting the i's and crossing the t's

Since our last note in April, KEFI has 1) completed its financing of Tulu Kapi by replacing its three-year, US$15m working capital facility with US$10m of additional royalty financing and US$5m in additional Ethiopian preference shares, 2) announced its financial results for FY25 (including a restatement of FY24's results, principally around the accounting relating to its share of the loss of its GMCO associate in Saudi Arabia and its gain on the dilution of the same investment), 3) signed a US$400m mining contract with BCM, for the provision of services over Tulu Kapi's initial nine-year mine life, which will enable it to proceed with the deployment of a Caterpillar mining fleet in-country, 4) concluded its AGM and 5) provided an operational update to the market on 4 August. Although its achievements have been somewhat overshadowed by the 28.4% decline in the gold price from its record high of US$5,589/oz on 28 January, it is worth noting that KEFI's share price has declined by only 39.8% in US dollar terms over the same time frame (ie less than the 2x gearing often invoked for junior explorers) and closely in line with the 38.4% decline in the Van Eck Junior Gold Miners Fund (GDXJ), despite executing a major fund-raising.

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/24	0.0	(8.9)	(0.10)	0.00	N/A	N/A
12/25	0.0	(9.3)	(0.10)	0.00	N/A	N/A
12/26e	0.0	(11.4)	(0.09)	0.00	N/A	N/A
12/27e	0.0	(12.2)	(0.08)	0.00	N/A	N/A

Note: PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Valuation: 6.29p/share on an unrisked EV/NPV basis

KEFI recently calculated an updated project NPV_5 for Tulu Kapi of c US$1,286m at construction start at a long-term gold price of US$3,000/oz, of which KEFI's c 86% share is worth US$1,106m pro rata, or £826m (6.00p/share). Jibal Qutman and Hawiah potentially add a further 0.29p/share to this number on the same (unrisked) basis, taking the total to 6.29p/share, to which KEFI's shares are trading at an 83.6% discount, despite Tulu Kapi now being fully funded.

Valuation: 5.33p/share at the current gold price

At Edison's long-term gold price of US$1,941/oz (in real, 2026 US dollar terms cf US$1,866/oz in real, 2025 US dollar terms previously), we calculate that Tulu Kapi (plus its 13% interest in Saudi Arabian joint venture GMCO) is capable of generating average annual free cash flows to KEFI of c £123.7m in FY29–32, making average (maximum potential) dividends of 0.32p/share per year possible. Discounting to present value at a discount rate of 10% per year, this flow of dividends indicates a valuation for KEFI of 1.29p/share (cf 1.25p/share previously). As such, KEFI's share price may be considered to be discounting current development plans at a long-term gold price of less than US$1,941/oz. This valuation rises to 5.33p/share at a long-term gold price of US$4,000/oz, offering investors in the shares at the current price an internal rate of return (IRR) of 39.6% over the next 14 years to FY37 (when we now expect Hawiah to cease operations) in sterling terms. Including silver, copper and zinc at current prices as well, our valuation rises to 5.48p/share currently and ultimately to 7.23p/share in FY29.

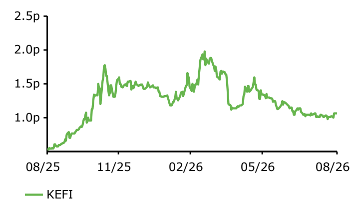
Tulu Kapi funded and launched

Metals and mining

4 August 2026

Price	**1.07p**
Market cap	**£147m**
	US$1.3388/£
Net cash/(debt) at end-December 2025	£8.6m
Shares in issue	13,772.0m
Free float	92.3%
Code	KEFI
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	2.1	(19.5)	96.3
52-week high/low		2.1p	0.5p

Business description

KEFI Gold and Copper is an exploration and development company focused on gold and copper deposits in the highly prospective Arabian-Nubian Shield – namely the Tulu Kapi project in Ethiopia (projected 86% interest) and the Hawiah and Jibal Qutman projects (13%) held via its associate GMCO in Saudi Arabia.

Next events

Tulu Kapi mining commissioning	Q128
First gold	Q228

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Edison profile page

KEFI Gold and Copper is a research client of Edison Investment Research Limited

Recent developments

Since our last note on the company, on 14 April, KEFI has:

- Completed its financing of Tulu Kapi by replacing its three-year, US$15m working capital facility with US$10m of additional royalty financing (which we assume is at a cost of a 2.4% royalty pro rata with the initial US$20m of royalty financing at the cost of a 4.8% royalty) and US$5m in additional Ethiopian preference shares (increasing that part of the capital deck to US$11m).
- Announced results for FY25, including a restatement of FY24's results, principally around the accounting relating to its share of the loss of its GMCO associate in Saudi Arabia (by writing off all exploration costs, which is KEFI's policy) and its gain on the dilution of its investment.
- Signed a US$400m mining contract with its mining contractor, BCM, for the provision of services over the initial nine-year mine life of Tulu Kapi. The award of this contract follows BCM's mobilisation to Ethiopia and enables it to proceed with the ordering and deployment of the Caterpillar mining fleet required for full-scale mining operations.
- Concluded its AGM on 29 June.
- Provided an operational update to the market on 4 August, highlighting:
  - Phase 1 of the Resettlement Action Plan (RAP) at Tulu Kapi, clearing the mining licence area for the installation of initial infrastructure, is well advanced, with 100% of compensation agreements now completed. Preparations for Phase 2 of the RAP, covering the open pit mining and plant areas, are now underway.
  - Project equipment procurement continues as planned, with more than 50% of major equipment already ordered or ready for ordering.
  - Contractors Lycopodium, EEP, ERA and BCM are in the process of installing their own personnel, subcontractors and systems at Tulu Kapi.
  - Physical progress on the ground at Tulu Kapi to date includes the construction of houses away from the mining licence area, installation of an electrical substation and a new access road from the bitumen highway to site.
  - The Tulu Kapi Charitable Endowment has started several community initiatives designed to complement the project and support long-term local sustainable enterprises and agricultural projects.
  - All key project milestones at Tulu Kapi are tracking on schedule, with commissioning targeted to commence in late 2027 for full production in mid-2028 from the open pit and process plant.
  - Development planning teams in Ethiopia and Saudi Arabia are focused on production growth in both countries, which is intended to be self-funding, and a re-assembled exploration team has started to evaluate and prioritise opportunities across now-familiar and highly prospective geological terranes in Ethiopia and the wider region.

These developments followed a frenetic prior six months in which KEFI successfully concluded two equity financings (effectively raising £51.5m, or US$68.0m gross) and broke ground at Tulu Kapi. While the refinancing of the working capital facility does not change the overall amount raised by KEFI for the development of the mine, it does replace US $15m of short-term working capital funding with US$15m of long-term subsidiary level equity ranking capital and thereby provides it with greater balance sheet flexibility:

Exhibit 1: Tulu Kapi funds raised and committed

Item	Last published (April 2026)		Current				
	US$m	£m**	US$m	Change (%)	Change (US$m)	£m**	Percent of total (%)
Senior secured debt	240.0	181.8	240.0	0.0	0.0	179.3	67.6
Working capital facility	15.0	11.4	0.0	(100.0)	(15.0)	0.0	0.0
Ethiopian government participation at project level	20.0	15.1	20.0	0.0	0.0	14.9	5.6
Royalty	20.0	15.1	30.0	50.0	10.0	22.4	8.5
Preference shares and equity risk notes	6.0	4.5	11.0	83.3	5.0	8.2	3.1
Sub-total	**301.0**	**228.0**	**301.0**	**0.0**	**0.0**	**224.8**	**84.8**
Parent company level equity*	54.0	40.9	54.0	0.0	0.0	40.3	15.2
Total	**355.0**	**268.9**	**355.0**	**0.0**	**0.0**	**265.2**	**100.0**

Source: KEFI Gold and Copper, Edison Investment Research. Note: *Includes US$10m raised in December 2025 and expended since 1 January 2026. **Converted at US$1.3204/£ in April 2026 and US$1.3388/£ currently.

The US$355.0m that has now been raised by KEFI, or has been committed by its funding partners, compares with the most recent, initial US$355.6m in capex required to develop Tulu Kapi (unchanged since our last note):

Exhibit 2: Tulu Kapi capex breakdown (US$m)

(US$m unless otherwise indicated)	2017 KEFI plan	Final project models	May 2019 estimates	June 2021 estimates	November 2021 estimates	November 2022 estimates	Current	Change
Date	**Jul-17**	**Apr-18**	**May-19**	**Jun-21**	**Nov-21**	**Nov-22**	**Apr-26**	**(%)**
Mining	15.8	28.6	28.6	26.7	29.4	36.1	37.2	3.0
Processing	75.9	100.1	100.1	111.8	140.0	161.8	161.4	(0.2)
Infrastructure	15.7	15.7	15.7	20.0	20.0	20.0	20.0	0.0
Tailings	18.7	14.9	14.9	32.3	10.8	15.2	9.3	(39.1)
Indirect	1.8	0.0	0.0	1.8	1.8	1.8	3.9	117.4
Owner's costs	13.7	14.7	14.7	18.5	24.1	25.8	43.7	69.3
Community relocation etc	10.0	13.5	13.5	23.0	25.3	24.7	27.4	10.7
Environmental management	1.1	1.3	1.3	1.5	1.1	1.1	1.9	71.2
Further contingency	3.3	12.7	3.3	0.0	0.0	0.0	5.6	N/A
Other	(15.7)	(20.7)	(15.0)	(16.2)	3.6	(0.8)	(9.8)	1,124.2
Additional funding-related costs	15.6	0.0	0.0	0.0	0.0	0.0	0.0	N/A
Subtotal	**155.8**	**180.7**	**177.1**	**219.4**	**256.1**	**285.8**	**300.5**	**5.1**
Additional funds required for project funding*	37.0	58.7	17.6	8.8	29.9	27.7	55.2	143.1
Totals	**192.8**	**239.4**	**194.7**	**228.2**	**286.0**	**313.5**	**355.6**	**13.4**
Assumed throughput rate (Mtpa)	1.7	1.9–2.1	1.9–2.1	1.9–2.1	1.9-2.1	1.9-2.1	2.4	0.0
Capital intensity (US$ per annual tonne)	**113.41**	**119.70**	**97.35**	**114.10**	**143.00**	**156.75**	**148.19**	**(5.5)**

Source: KEFI Gold and Copper, Edison Investment Research.
Note: *Includes lenders' upfront fees, interest payable during the construction period, consultant legal and advisory fees, commitment fees on undrawn amounts etc as well as US$15m in the form of a cost overrun cash reserve.

Together with its US$15m equity-funded cost overrun cash reserve, these two final financing elements mean that Tulu Kapi is now fully funded. Note that the US$9.8m in expected additional capital cost savings anticipated by KEFI relates mainly to vehicle leasing (cf purchasing).

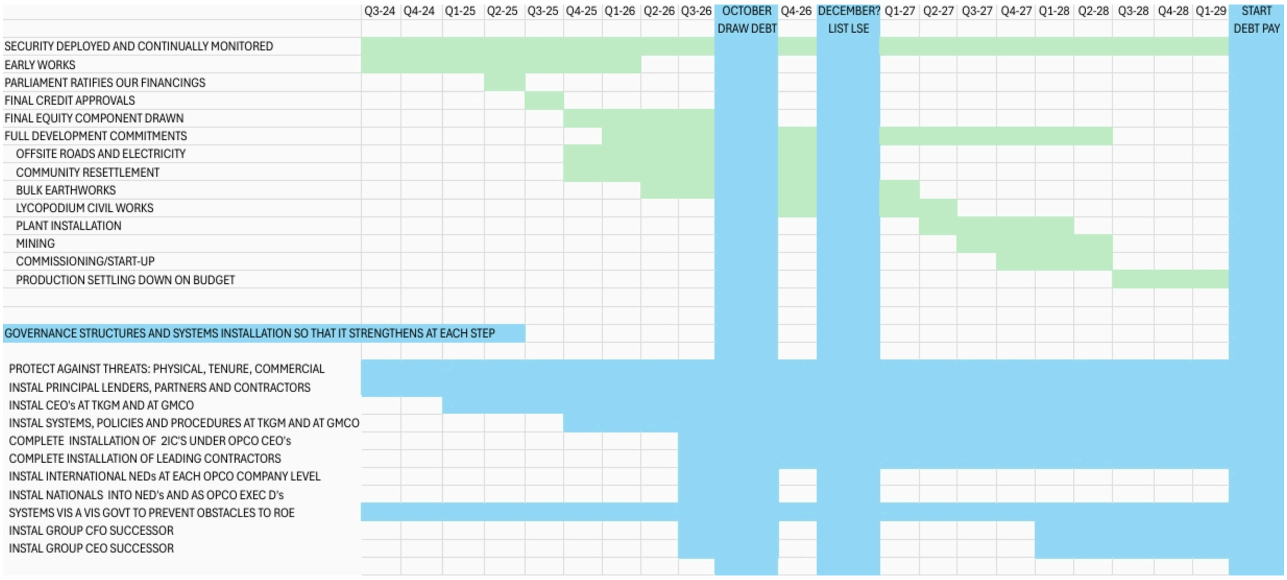
In the meantime, the government's policy directive requiring a maximum 50% debt gearing (defined as debt/[debt +equity]) for new projects has been waived in the case of Tulu Kapi, which has prior approval to expand the debt portion of its funding requirement to 80% of the total. Furthermore, clarification received from the regulator (the National Bank of Ethiopia) indicates that historical exploration spend on the project of c US$120m will be deemed to contribute towards equity for the purposes of this determination, thereby putting the project well within the limit at c 67% debt ([120+54]/[120+54+355]=33% equity).

As such, the funding stage of Tulu Kapi's development is now complete, with KEFI now focusing on clearing the final procedures for drawdown of bank debt.

A Gantt chart of the project's updated schedule is provided below, with the major differences from our April note being:

- Early works being completed one quarter early in Q126.
- Community resettlement being extended by one quarter to Q426.

Exhibit 3: Tulu Kapi project summary schedule



Source: KEFI Gold and Copper

We note that if the project were in a mature mining jurisdiction, it would probably have a much shorter development timeline. However, being the first internationally financed project in Ethiopia has required it and principal contractor, Lycopodium, to install buffers and flexibility within the schedule.

AGM matters arising

KEFI's AGM on 29 June threw up a number of issues that bear further clarification:

- Chief among these was the issue of splitting the roles of chairman and chief executive, which have been combined since the death of Mark Wellesley-Wood in 2019 and retained throughout the turbulent in-country conditions of the period since and now the critical start-up phase for the first mine. The fact that the two roles have not already been split then resulted in proxy advisory firm Institutional Shareholder Services (ISS) recommending that shareholders vote against the resolution to adopt the financial statements of the company for FY25 as it is not considered best corporate governance practice. Although this resolution was ultimately passed, it did so with only 57.7% of the votes cast versus 42.3% against the resolution, which was in stark contrast to the remainder of the resolutions, which were passed with at least 88% of votes in favour (12% against). There are many reasons why the roles of chairman and CEO have been combined at KEFI over the past seven years, including expediency and efficiency for a cash-conscious junior mining explorer listed on AIM. Management explained in some detail at the AGM that the combination of the role and the intensity of the front-line leadership helped to protect the company 'on the ground' through Ethiopia's recent turbulent years and, in doing so, helped to create its foundation relationships with key stakeholders putting up over 80% of the development capital. However, management has made it clear that what was necessary at that time for an aspiring developer-financier is not necessarily appropriate for a settled-down producer on the Main Board of the London Stock Exchange. More important perhaps is that KEFI's existing board and management are already in the process of restructuring for the next chapter and their explanations at the AGM demonstrate that they are fully conversant with the arguments to split the roles and (as shown in the Gantt chart above) specifically plan to separate them within the next two years, by which time Tulu Kapi should be in the process of commissioning and starting production.
- The second issue was the timing of KEFI's placing, subscription and retail offering to raise £35.8m at a price of 1.2p/share, announced on 20 March. In this respect, it is worth noting that the start of the Iran war on 28 February created a major risk for KEFI. It is also worth noting that its shares declined by 35.5% in US dollar terms between the start of the war on 28 February and the conclusion of its equity fund-raising on 20 March. However, this compared favourably to the Van Eck Junior Gold Miners Fund (GDXJ), which is denominated in US dollars and acts as a proxy for the performance of junior gold explorers generally, which declined by 32.9% (ie KEFI's share price declined almost exactly in line with its peers during this period, despite a major fund-raising).

- The third issue was the relatively late-stage expansion of the Ethiopian preference shares (Ethio prefs) funding. We note that KEFI's Ethiopian preference shares are denominated in Ethiopian birr (ETB159.8423/US$) and can only be used carefully so as to match the timing of birr disbursements. Among other things, this creates a potential foreign exchange risk were KEFI to retain birr deposits for an undue length of time. In addition, there has been an element of local Ethiopian investors being reticent to invest in a novel instrument in a technical sector at a geopolitically uncertain time before the involvement of mining professionals. KEFI has referred to plans to further expand the use of this source of non-ownership-dilutive local capital by US$50m over time, so as to provide funding capacity for risk mitigation and for potential opportunities (see KEFI's presentation of 7 April 2026, slide 4). Overall it has negligible impact on financial leverage and the Ethio prefs are fully subordinated and repayment is after bank debt.
- The final issue highlighted during the AGM was that of funding KEFI's Saudi Arabian interests. KEFI's partner in Saudi Arabia, which funds 87% of all equity requirements at its Saudi operating company, GMCO, is the Al Rashid family (a Fortune 100 family), with which KEFI has agreed a broadly similar funding approach to that at Tulu Kapi where it will use the cash flow of the first development (the open pit) to fund the second (the underground mine). In Saudi Arabia, the first development will be Jibal Qutman gold open pit on the oxide ore and its cash flows will then be used to fund the second (Hawiah gold open pit on the oxide ore) and so on for the Hawiah underground polyletallic ore (copper, gold, zinc, silver). At the same time, the Saudi sovereign wealth fund's Saudi Investment Development Fund has publicly stated its priority to provide up to 75% project debt for new mine developments. Accordingly, KEFI's equity share of the development requirements for Hawiah and Jibal Qutman should be just 3.25% (13% of 25%) of combined capital expenditure of both of US$334m (US$295m for Hawiah plus US$39m for Jibal Qutman, based on past disclosures) – that is, just c US$11m (£8.2m). This broadly clear approach will obviously be refined as to timing of project developments and financing sources for each stage, as project studies are finalised.

Exhibit 4: KEFI group's Saudi assets' funding requirement and financing assumptions, by project (US$m)

Project	Jibal Qutman	Hawiah	Total
Assumed KEFI equity interest (%)	**13**	**13**	
Start year	**2026**	**2026**	
Funding requirement	39	295	334
Less senior debt	29	221	250
Equity risk capital requirement	**10**	**74**	**84**
G&M share subscriptions at project level	9	64	73
KEFI project level capital liability	**1**	**10**	**11**

Source: KEFI Gold and Copper, Edison Investment Research. Note: Totals may not add up owing to rounding.

For the purposes of our valuation (below), Edison has assumed that KEFI will maintain its 13% interest in GMCO and that an aggregate equity contribution of US$11m will be funded via debt rather than equity financing.

Valuation

Relative to our previous note in April 2026, we have adjusted our current valuation for four principal factors:

- An additional US$10m in royalty funding (at an assumed royalty rate of 2.4% such that it is pro rata to the initial US $20m in royalty funding at a royalty rate of 4.8%).
- FY25 results and FY24 restatements (largely relating to the value of KEFI's investment in its GMCO associate in Saudi Arabia).
- We have put back production from Jibal Qutman and Hawiah from FY27 to early FY28.
- Foreign exchange, from US$1.3204/£ to US$1.3388/£.

Company valuation based on project NPVs

KEFI most recent calculated project NPV_5 for Tulu Kapi remains US$1,286m at construction start at a long-term gold price of US$3,000/oz (the same as that at the time of our last note in April 2026), of which KEFI's c 86% share is US $1,106m, or £826m (cf £838m previously, with the difference solely the consequence of forex considerations). Taken together with the equivalent valuations for Hawiah and Jibal Qutman (unchanged from the time of our last note), these translate into valuations per currently outstanding KEFI share – on both a risked and an unrisked basis – as shown in Exhibit 5 below:

Exhibit 5: KEFI project-based valuations (US cents and pence per KEFI share)

Assets	Tulu Kapi	Hawiah	Jibal Qutman	Total
Stage of development	**BFS**	**PFS**	**Internal PEA**	
Gold price (US$/oz)	**3,000**	**1,989**	**1,850**	
NPV (US$m)	1,286	300	113	
KEFI interest (%)	86	13	13	
Attributable NPV (US$m)	1,106	39	15	1,160
Ditto (£m)	826	29	11	866
US cents per share	8.03	0.28	0.11	8.42
Pence per share	6.00	0.21	0.08	6.29
Percentage valuation for risk-adjusted stage of development (%)	30.9	9.9	11.7	
Implied valuation (US cents per share)	2.48	0.03	0.01	2.52
Ditto (pence per share)	1.85	0.02	0.01	1.88

Source: KEFI Gold and Copper, Edison Investment Research

Note that our risk-adjusted valuation factors, of 30.9% of enterprise value (EV) for a project at bankable feasibility study (BFS) stage of development, 9.9% for a project at pre-feasibility study (PFS) stage of development and 11.7% for a project at preliminary economic assessment (PEA) stage of development, are derived from our report Gold stars and black holes (see Exhibit 166 on page 82), published in January 2019. Post-funding and now that the project has been launched, these risk-adjusted EV/NPV percentages should be expected to jump materially. Pre-production, they should be expected to jump materially again.

Company valuation including corporate functions

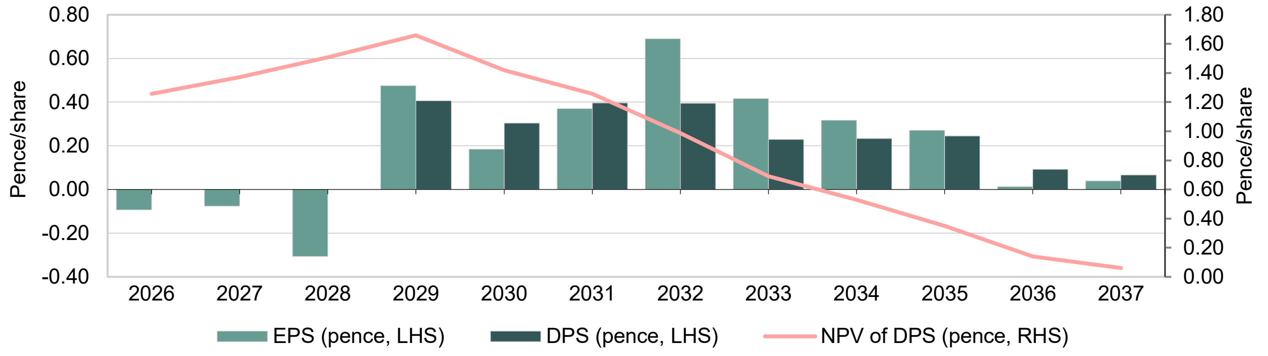
Edison's valuation of single asset mining companies at pre-production stage is typically based on the value of dividends that a shareholder could expect to earn from their investment if they were to hold their shares from the moment of purchase until the end of the life of the mine, discounted to present value. Discretionary exploration investment is ordinarily excluded from the financial forecasts when this method is used, as it is presumed to be at least value adding. In practice therefore, the dividends in question are 'maximum potential dividends' (subject to assumptions about precious metals prices and the discount rate being applied). However, the resulting net present value (NPV) should be considered a conservative valuation since it omits the optionality of blue-sky exploration success during the operation of the mine. This method was typically used by the consensus analyst community to value South African mines that were listed in London, such as Driefontein, Kloof, Vaal Reefs, Beatrix and Western Deep Levels, etc (albeit with different accounting practices), prior to 1995 when the South African mining house system of mine financing began to evolve.

Compared with the alternative discounted cash flow (DCF) method of analysis, the discounted dividend approach more purely reflects the returns that an equity shareholder may expect to receive. Hence, it is possible to calculate an IRR pertaining to an investment in a company's equity at any particular share price and any particular point in time, rather than calculating an IRR for a project as a whole (which typically aggregates debt and equity returns and is therefore independent of a company's share price). In its application it can also be made to naturally accommodate future equity dilution in calculating returns to shareholders. Being based on only one unit of measurement (forecast future dividends), it is also relatively simple to estimate a value (and hence share price) at some point in the future in comparison with a DCF valuation, which typically requires three inputs (namely, forecast future cash flows, net debt/cash and minority ownership).

Within the context of our valuation of KEFI, it is worth noting that the company's financing arrangements will leave it with zero debt at the parent company level, with group subsidiaries directly servicing any senior and/or mezzanine debt. As a result, dividends to KEFI shareholders from as early as FY29 should be possible. For these purposes, we have assumed KEFI will distribute 60% of group cash flow in FY29–33, of which 86% (less a 10% Ethiopian dividend withholding tax) will be attributable to KEFI shareholders, followed by the maximum possible thereafter.

Based on our updated long-term gold price assumption of US$1,941/oz in real 2026 money terms (cf US$1,866/oz in real 2025 money terms previously), we calculate that all three of its projects are capable of generating a combined free cash flow to KEFI of c £123.7m per year for four years, from 2029 to 2032 (cf £121.5m previously). This, in turn, will allow average (maximum potential) dividends to shareholders of 0.32p/share for the period FY29–35 (cf 0.31p/share previously) after the deduction of a 14% minority interest and implies a valuation for KEFI of 1.29p/share fully diluted (cf 1.25p/share previously) when discounted back to FY26 at Edison's customary rate of 10% per year. This valuation then rises to a peak of 1.70p/share (cf 1.66p/share previously) on the cusp of KEFI's first (assumed) material dividend to shareholders in FY29, as shown below:

Exhibit 6: Edison estimate of life of mine KEFI EPS and maximum potential DPS (pence/share), FY25–37e

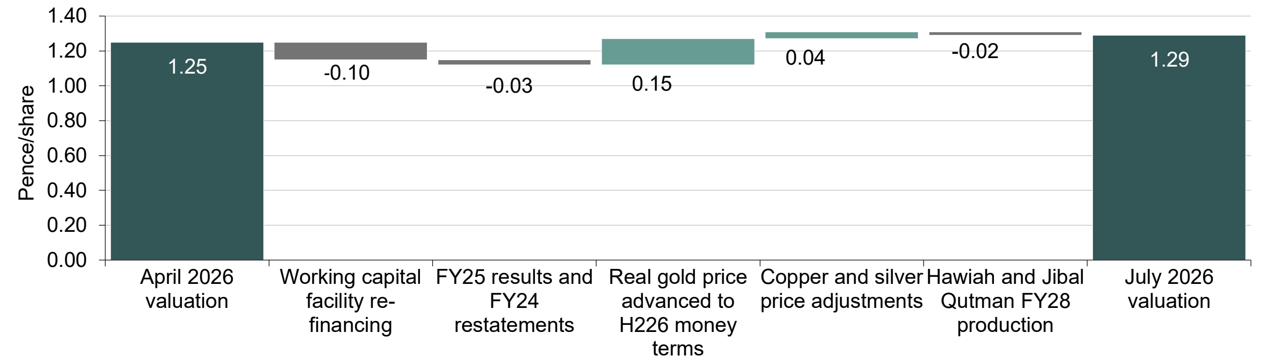


Source: Edison Investment Research.

Our estimate of KEFI's peak earnings of 0.69p/share in FY32 (cf 0.65p/share previously) would put it on a P/E ratio of just 1.5x at its current share price.

A bridge chart of the change in our 'base case' valuation of KEFI, by component, is provided in the Exhibit below:

Exhibit 7: Bridge chart of KEFI valuation change, by component (pence/share)

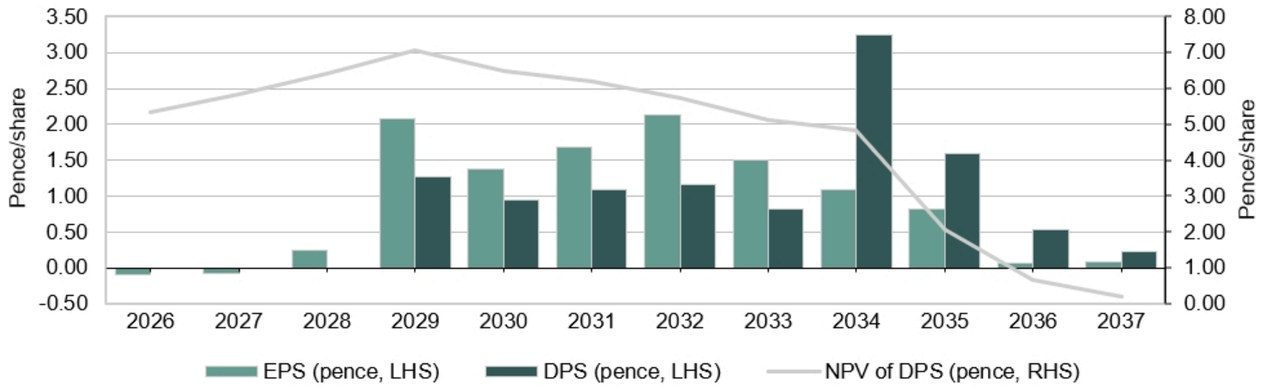


Source: Edison Investment Research

Sensitivities

Quantitatively, KEFI's most significant valuation sensitivity is towards the gold price. Whereas our valuation is 1.29p at Edison's long-term gold price of US$1,941/oz (real, 2026 US dollars), it quadruples to 5.33p/share at the currently prevailing gold price of US$4,000/oz. Moreover, this 5.33p/share valuation itself rises to a peak of 7.06p/share in FY29, as shown in the graph below (directly comparable to Exhibit 6, above):

Exhibit 8: KEFI life of mine EPS and maximum potential DPS (pence/share) at US$4,000/oz Au, FY26 to FY37



Source: Edison Investment Research.

In this case (US$4,000/oz Au), we estimate that an investment in KEFI shares in FY26 at a price of 1.07p would generate an IRR for investors of 39.6% over the 14 years to 2040 in sterling terms. Note that the dividend spike in FY34 in Exhibit 8, above, is a direct consequence of management's assumed policy of paying out 60% of cash flow in dividends up to that point in time, thus building up a cash balance, which is then released in FY34 when total distributable funds are paid out (NB this also has the unintended consequence of depressing the valuation of the shares as more dividends would otherwise be distributable earlier).

Compared with our valuation of 5.33p/share at the current gold price of US$4,000/oz, our valuation if all four metals (gold, silver, copper and zinc) are set at current levels is 5.48p/share (ie demonstrating that KEFI's valuation is materially more sensitive to the long-term gold price assumed compared with other metals prices). A sensitivity analysis of our valuation of KEFI shares at different long-term gold prices (only) is as follows:

Exhibit 9: Edison valuation of KEFI at varying long-term gold prices

Gold price (US$/oz)	Valuation (pence/share)
Edison	1.29
2,500	2.45
3,000	3.41
3,500	4.37
4,000	5.33
4,500	6.28
5,000	7.24
5,500	8.19

Source: Edison Investment Research

A note on gold prices

The average gold price in CY25 was US$3,445/oz (source: Bloomberg). Consistent with our general policy, our gold price forecast for CY26 now assumes that the current spot price of US$4,000/oz will prevail for the remainder of the calendar year, before reverting to long-term levels as follows:

Exhibit 10: Forecast Edison gold prices, real and nominal (US$/oz)

Calendar year	2027	2028	2029	2030
Real price (US$/oz)	2,151	1,938	1,796	*1,941
Nominal price (US$/oz)	2,239	2,098	2,023	2,274

Source: Edison Investment Research. Note: *Long-term price. Real US dollars expressed in H226 terms.

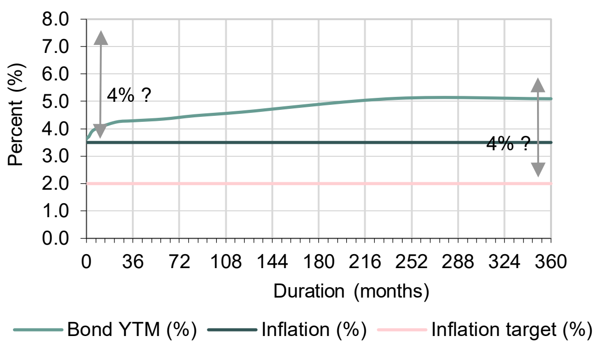
The gold prices in Exhibit 10 are derived with respect to historical precedent. However, almost the only modern precedent to today's market is that of 1970–81 when gold rose from its post-war currency peg of US$35/oz to a peak of US$850/oz in January 1980 before falling by more than 60% in the following two years. The analysis above implicitly assumes a repeat of the same pattern, with 2026 being an analogue to 1980 and 2027 being an analogue to 1981. However, there are material differences between the two periods of time. The biggest is that, in 1980 the US was still the world's largest creditor nation, and what suddenly reversed gold's fortunes was the policy adopted by the then-new

Federal Reserve chairman, Paul Volcker, to 'defend the value of the US dollar.' That entailed sharply raising real interest rates from near zero to around 4% (among other things, causing a sharp recession in the US and most other western countries in the early 1980s) where they remained for most of the next two decades. However, now the US is the world's largest debtor nation and no one in either the US administration or the Federal Reserve (not even Kevin Warsh) is talking about the defence of the dollar. In fact, quite the opposite: what is being talked about is allowing the dollar to find a level at which US exports can compete on world markets and stimulating the domestic economy with real interest rates as low as possible. Hence, all the forces that have pushed gold to its recent peak over US$5,000/oz are still pushing it in the same direction (ie upwards).

President Trump's nomination for the next chairman of the Federal Reserve, Kevin Warsh, appeared to the be catalyst for the start of gold's sell-off from its recent record highs since March. He is reported to be in alignment with Mr Trump in wanting to shrink the Fed's balance sheet at the same time as cutting rates dramatically, thus effectively steepening the yield curve. In themselves, neither a steepening of the yield curve nor cuts to the Fed's balance sheet are traditionally positive harbingers for gold. However, lower short-term rates (and lower short-term real rates, in particular) potentially are positive. In order to make bank reserves currently deposited with the Federal Reserve available for investment in Treasuries, Mr Warsh is assumed to be contemplating redefining inflation in such a manner as to obviate the traditional interest rate response, with a focus on trend rates, rather than the specific rate at any particular point in time. In theory, this should allow him to reduce short-term interest rates even in circumstances in which inflation appears (temporarily) elevated, as long as the longer-term trend rate remains consistent with the target rate at some point in the future. In theory, this could stimulate a reallocation of bank reserves into longer dated Treasuries. At the same time, management of the long-end by means of a relaxation of the Supplementary Leverage Ratio could limit the degree of steepening and so rein in the cost of borrowing for the Federal government.

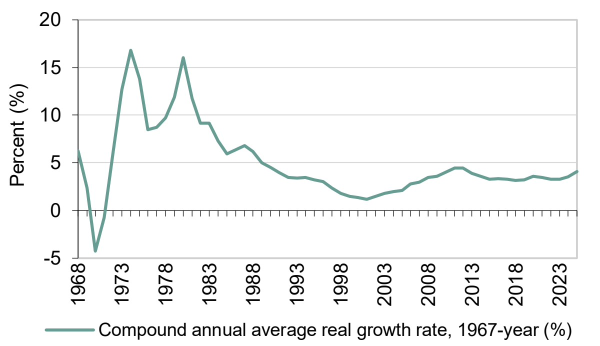
However, it remains to be seen whether cuts to short-term interest rates under a new Treasury-Fed accord can be achieved without reigniting inflation and whether the markets can be convinced that any apparent increase in prices is transient, rather than embedded. Either way, it appears likely that a period of heightened inflation beckons and much will depend on whether investors believe that the Federal Reserve will want to be seen to react hawkishly or dovishly in response. Currently, the market seems to be assuming that a hawkish response is inevitable and hence increases in inflation appear to correlate to increased interest rate expectations and a lower gold price. However, this may change. In his most recent testimony, Mr Warsh vowed to deliver price stability at the same time as saying that he had 'no preferred inflation measure'. As such, the Fed may ultimately come to be seen as a dove in hawk's plumage. In the meantime, neither short-term real interest rates of 0.125% (a Fed Funds rate of 3.5–3.75% minus inflation of 3.5%) nor long-term real interest rates of 1.732% are attractive relative to gold's compound average annual growth rate of 4.1% in real terms since 1967. If nothing else, this will continue to encourage holders of dollars (especially the world's central banks) to convert them into gold – a trend that appears to have reasserted itself after a brief, liquidity-driven interruption in March, at the start of the Iran war.

Exhibit 11: US yield curve vs CPI-U inflation rate



Source: Bloomberg, US Department of Labor Bureau of Labor Statistics, Edison Investment Research

Exhibit 12: Gold price compound average annual growth rate, 1967–year



Source: Edison Investment Research (underlying data: Bloomberg, South African Chamber of Mines, US Department of Labor Bureau of Labor Statistics)

While it is tempting to look at recent graphs of the gold price and attempt to call a 'top', investors should beware as many of the forces that drive it are often self-reinforcing, especially the fact that above ground stocks of gold of c 216,000 tonnes dwarf newly mined supply of c 3,700 tonnes per year. Hence, traditional supply and demand analysis often fails in the case of gold, where price discovery tends to occur among existing holders, rather than new buyers and sellers. This means, while the price has appreciated a lot, in the absence of a fundamental shift in macroeconomic policy, there is no reason to suppose that it cannot continue. The following demonstrates the extent to which this is possible:

- The gold price required to cover the total US monetary base is US$21,178/oz (based on May's number). This is analogous to the classical gold standard, according to which the Federal Reserve was required to hold enough gold to redeem all of its liabilities (ie US dollars) that could be in circulation. Although President Nixon formally closed this dollar window in August 1971, in the era of a floating gold price, US gold reserves were nevertheless still able to cover the US total monetary base as recently as 1980.
- The US net international investment position has recently been revised downwards quite substantially, from a net deficit of US$27.54tn, to one of US$21.27tn (nevertheless, still 66% of GDP). As a result, the gold price required to cover the US net international investment position has also fallen from over US$100,000/oz, to US$85,564/oz. Nevertheless, this number is what would theoretically be required to enable the US to cover all of its accumulated deficits since c 1979.
- The gold price required to cover both the US net international investment position and its monetary base is thus US $106,742/oz.

While gold would need to increase c 27 times to get from its level now to US$106,742/oz, it is perhaps worth noting that it has already gone up by 114 times to get from its level of US$35/oz in 1967 to its current price and by almost 16 times since as recently as 2001. Inevitably, few guarantees can be made regarding the future evolution of the world economy. However, the following conjectural sequence of events may perhaps demonstrate a mechanism by which these price levels could be achieved:

- First, the gold price reaches a level of US$21,178/oz, which fully covers the total US monetary base and is therefore comparable to the levels that it reached in 1980. At the current forex rate of CNY6.7795/US$ this would equate to a renminbi price of gold of CNY143,576/oz.
- At the current time, US GDP per capita is US$94,430 according to the IMF, while China's is CNY95,749 per capita, which equates to c US$14,123 per capita at the current exchange rate.
- The Chinese renminbi then appreciates from CNY6.7795/US$ to near parity in the ensuing years (see paragraph below for sterling-dollar precedent). In this case, the renminbi price of gold needs only to be maintained at a flat CNY143,576/oz in order for the US dollar price of gold to reach US$143,576/oz (NB to reach US$106,742/oz the renminbi would only need to appreciate to CNY1.3450/US$).
- At this point in time, not only would the US dollar gold price have reached the levels required to balance its negative net international investment position (as above), but Chinese GDP per head would have increased to match that of the US. At some point in time therefore, we think that it is likely that the People's Bank of China will abandon its currency peg to preserve its citizens' wealth as well as to manage the transition of China's workers from global producers to global consumers, albeit at the cost of accepting a much more competitive US dollar in world markets.

For those wishing to see a precedent to the above, we would point to the fact that the UK was the world's largest creditor nation prior to 1914 (akin to the US in 1980). At that time, the price of gold was £4.4s.11½d per ounce (effectively £4.25/oz in decimalised currency) and US$20.67 per ounce, such that the sterling-dollar (cable) rate was US$4.86/£. After sterling came off the gold standard in 1931 and the US devalued, this rate peaked at just over US$5.00/£ in 1934 during a rush to safety into the world's reserve currency (ie sterling). By 1945, the UK had become the world's largest debtor nation (c 15–25% of GDP), and, in just 40 years, sterling would test parity against the dollar in February/March 1985 (and then again in September 2022). The US, by contrast, became the world's largest debtor nation in 1990, in which case a similar 40-year gap would suggest that it could test parity with the renminbi as early as 2030. A further 37-year gap could see this extended to 2067.

Official financial agencies do not publish a single country's share of the US net international investment position, as complex corporate structures often make it difficult to determine the ultimate beneficial owners of diverse financial instruments. However, analysing the primary, tangible data components tracked by the US Department of the Treasury and the Bureau of Economic Analysis, China may be estimated to own approximately 3–6% (c US$3tn) of total foreign-owned assets in the US, while the US may be estimated to own c US$1tn in assets in China to give the US a net international investment liability of US$2tn at current forex rates. To balance this position would therefore only require the renminbi to move from its current rate of CNY6.7795/US$ to CNY2.2598/US$ (in which case, the gold price would reach a level of US$63,534/oz in the framework outlined above).

As stated previously, few guarantees can be made regarding the future evolution of the world economy. Agreements similar to the 1985 Plaza Accord may attempt to manage global foreign exchange rates in an ordered fashion. However, the numbers calculated demonstrate the extent to which the world has financialised since 1971 to the detriment of real assets. At the same time, this analysis demonstrates that, in the absence of a major policy change from either China or the US, in particular, the bull market for gold may be very far from over.

Financials

Including KEFI's Ethiopian preference shares as debt instruments, we forecast a maximum net debt funding requirement overall for the group of £215.0m (cf £206.0m previously) or US$287.8m in FY28, equating to leverage (net debt/[net debt+equity]) of 89.9%. However, we understand that KEFI is considering whether its write-off of nearly all historical expenditure remains appropriate in the light of project development (ie it is possible that its balance sheet may change significantly as project development gets underway). Notably, the TKGM balance sheet (KEFI's operating subsidiary in Ethiopia) is projected to reflect approximately US$175m of shareholders' funds subscribed alongside debt facilities that peak at c US$288m for assets of c US$463m when historical, pre-development spending is also included. This equates to a balance sheet leverage (debt/[debt+equity]) ratio in the order of 62%. Given Tulu Kapi's NPV therefore, management considers that there are ample grounds for a revaluation of the project at the parent company level.

Exhibit 13: Financial summary

£000s	2020	2021	2022	2023	2024	2025	2026e	2027e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue	0	0	0	0	0	0	0	0
Cost of Sales	(2,663)	(2,257)	(2,744)	(3,527)	(6,474)	(6,689)	(3,506)	(1,000)
Gross Profit	(2,663)	(2,257)	(2,744)	(3,527)	(6,474)	(6,689)	(3,506)	(1,000)
EBITDA	(2,663)	(2,257)	(2,744)	(3,527)	(6,474)	(6,689)	(3,506)	(1,000)
Operating profit (before amort. and excepts.)	(2,706)	(2,274)	(2,768)	(3,556)	(6,492)	(6,702)	(3,519)	(1,013)
Intangible Amortisation	0	0	0	0	0	0	0	0
Exceptionals	174	(47)	(268)	1,623	7,214	(405)	0	0
Other	0	0	0	0	0	0	0	0
Operating Profit	(2,532)	(2,321)	(3,036)	(1,933)	722	(7,107)	(3,519)	(1,013)
Net Interest	(100)	(1,121)	(527)	(1,000)	(2,410)	(2,587)	(7,847)	(11,168)
Profit Before Tax (norm)	(2,806)	(3,395)	(3,295)	(4,556)	(8,902)	(9,289)	(11,366)	(12,181)
Profit Before Tax (FRS 3)	(2,632)	(3,442)	(3,563)	(2,933)	(1,688)	(9,694)	(11,366)	(12,181)
Tax	0	0	0	0	0	0	0	0
Profit After Tax (norm)	(2,806)	(3,395)	(3,295)	(4,556)	(8,902)	(9,289)	(11,366)	(12,180)
Profit After Tax (FRS 3)	(2,632)	(3,442)	(3,563)	(2,933)	(1,688)	(9,694)	(11,366)	(12,181)
Minority interests	0	0	0	0	0	0	0	1,705
Net income (normalised)	(3,894)	(4,877)	(6,087)	(9,519)	(6,008)	(9,289)	(11,366)	(10,474)
Net income (FRS3)	(2,632)	(3,442)	(3,563)	(2,933)	(1,688)	(9,694)	(11,366)	(10,476)
Average Number of Shares Outstanding (m)	1,663	2,179	3,537	4,508	5,891	8,865	12,257	13,772
EPS - normalised (p)	(0.23)	(0.22)	(0.17)	(0.21)	(0.10)	(0.10)	(0.09)	(0.08)
EPS - normalised and fully diluted (p)	(0.22)	(0.21)	(0.13)	(0.17)	(0.10)	(0.10)	(0.09)	(0.07)
EPS - (IFRS) (p)	(0.16)	(0.16)	(0.10)	(0.07)	(0.03)	(0.11)	(0.09)	(0.08)
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	-	-	-	-	-	-	-	-
EBITDA Margin (%)	-	-	-	-	-	-	-	-
Operating Margin (before GW and except.) (%)	-	-	-	-	-	-	-	-
BALANCE SHEET								
Fixed Assets	24,545	28,424	31,481	34,816	44,948	52,978	135,339	242,549
Intangible Assets	24,510	28,361	31,356	34,716	44,824	52,852	56,852	60,852
Tangible Assets	35	63	125	100	124	126	78,487	173,540
Investments	0	0	0	0	0	0	0	8,157
Current Assets	1,817	685	683	720	583	11,380	2,608	1,974
Stocks	0	0	0	0	0	0	0	287
Debtors	448	291	463	528	398	2,608	2,608	1,687
Cash	1,315	394	220	192	185	8,772	0	0
Other	54	0	0	0	0	0	0	0
Current Liabilities	(3,125)	(6,791)	(5,182)	(9,420)	(6,454)	(7,155)	(5,055)	(5,661)
Creditors	(3,125)	(5,556)	(4,002)	(7,307)	(5,715)	(6,980)	(4,880)	(5,486)
Short-term borrowings	0	(1,235)	(1,180)	(2,113)	(739)	(175)	(175)	(175)
Long-Term Liabilities	0	0	0	0	0	0	(53,625)	(156,837)
Long-term borrowings	0	0	0	0	0	0	(49,891)	(153,102)
Other long-term liabilities	0	0	0	0	0	0	(3,735)	(3,735)
Net Assets	23,237	22,318	26,982	26,116	39,077	57,203	79,267	82,025
CASH FLOW								
Operating Cash Flow	(2,092)	(329)	(2,634)	(861)	(1,800)	(9,200)	(5,606)	240
Net Interest	(100)	(1,121)	(527)	(1,000)	(955)	(806)	(7,847)	(11,168)
Tax	0	0	0	0	0	0	0	0
Capex	(4,389)	(3,064)	(5,245)	(3,257)	(4,031)	(5,085)	(82,374)	(107,222)
Acquisitions/disposals	0	54	0	0	0	0	0	0
Financing	6,996	826	6,405	2,550	4,427	17,587	33,430	14,939
Dividends	0	0	0	0	0	0	0	0
Net Cash Flow	415	(3,634)	(2,001)	(2,568)	(2,359)	2,496	(62,397)	(103,211)
Opening net debt/(cash)	814	(1,315)	841	960	1,921	554	(8,597)	50,066
HP finance leases initiated	0	0	0	0	0	0	0	0
Other	1,714	1,478	1,882	1,607	3,726	6,655	3,735	0
Closing net debt/(cash)	(1,315)	841	960	1,921	554	(8,597)	50,066	153,277

Source: Company sources, Edison Investment Research

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