

MINING FLASHNOTE

KEFI Minerals (KEFI LN)

31 October 2017

Stock Data

Share Price:	4.475p
Market Cap (M):	£14.9
EV (M):	£13.4

Price Chart



52 Week Range

3.995p	4.475p
7.395p	

Company Summary

KEFI Minerals is an exploration company focused on the discovery and development of vein-hosted gold and volcanogenic copper-zinc mineralisation in the Arabian Nubian Shield.

MAIN SHAREHOLDERS HOLDING

Lanstead Capital LP	23.57%
Odey Asset Management	13.29%
Capita Financial Managers	13.29%
Hargrave Lansdown Asset	8.37%
Barclays PLC	6.42%

Source: Bloomberg

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KEFI Releases Projections for the Expanded Production Scenario

Event

KEFI has released updated financial projections reflecting the recently announced plans to expand production. The production plans have been re-cast and the average annual gold production in years 1-3 is estimated to expand from 116,000 ounces to 144,000 ounces per annum

Comment

The key aspects of revised production plan are that the proposed increase in gold production is that the forecast has been driven by management in consultation with its advisers and will continue to be refined as the start-up is approached during the 2018 Operational Readiness phase along with detailed engineering and procurement. The key assumptions have been changed from a proposed fixed price lump sum plant construction contract to an open book incentivised target schedule and cost model.

This requires about an additional \$12M in capital expenditure for the expanded plant and infrastructure. This cost has been met with savings elsewhere and an expansion of the Oryx facility from US\$135 to US\$140M.

The mine plans have been redrawn to allow for faster mining, intensified in-fill drilling and flexibility to switch between bulk and selective mining as is most appropriate.

The increase in the mill size will give the ability to obtain quicker cash flow from the higher production and the capacity to process additional ore from targeted satellite deposits greater production from against downside risks by facilitating faster processing of lower grade ore from the open pit.

Overall the key difference is that this has brought forward cash flows for the first three years whilst cash costs are virtually unchanged.

However, whilst cash operating costs and all-in-sustaining costs are virtually unchanged, the all-in-costs have increased from US\$933/oz to US\$1,051/oz, including debt-service. This has resulted in the IRR increasing to 60% whilst the NPV (8%) at the start of construction has dropped from US\$97M to US\$74M.

All these figures are based on a life of mine operation and an 8% discount rate on an after tax basis. The full comparative for the most recent scenario with the two previous scenarios are overleaf. BHC will remodel the mine using the new assumptions and issue more definitive critique in due course.

Key Points of the Tulu Kapi Expansion Plan (100% of Kapi Gold Project-Open Pit only)

	2017 2Mt Expansion Leveraged	2017 DFS Update Unleveraged	2015 DFS Unleveraged
Average head grade	2.1g/t gold	2.1g/t gold	2.1g/t gold
Total gold production	980K oz	980K oz	961K oz
Ore processing rate	1.9-2.1Mtpa	1.5-1.7Mtpa	1.2Mtpa
Annual gold production (1st 3 years)	144K oz pa	116K oz pa	98K oz pa
Cash Operating Costs	US\$685/oz	US\$684/oz	US\$661/oz
All-in Sustaining Costs (excluding initial capex & debt service)	US\$773/oz	US\$777/oz	US\$780/oz
All-in Costs (including initial capex & debt service)	US\$1,051/oz	US\$933/oz	US\$906/oz
IRR	60%	22%	28%
NPV at start of construction (8% real after tax discount rate)	US\$74M	US\$97M	US\$125M
NPV at start of production (8% real after tax discount rate)	US\$131M	US\$272M	US\$256M
Payback	3 years	3 years	2.5 years
Net Operating Cash Flow (same as EBITDA) (average for first 3 years)	US\$74M p.a.	US\$62M p.a.	US\$50M p.a.

Source: Kefi Minerals

Research Disclosures

Peter Rose

Peter has 31 years' experience in equities as a resources analyst; he has been at Brandon Hill Capital for 10 years, after having spent 11 years with Deutsche Bank in Australia. Prior to this he spent 2 years with Prudential Bache and 6 years with James Capel. Peter's industry experience includes 16 years as a metallurgist, 3 years with De Beers in South Africa and 9 years in the uranium industry, six of which were spent at the Ranger Uranium mine. Peter holds a BSc degree in Applied Mineral Science from Leeds University UK and a Bachelor of Commerce from the University of South Africa. Peter is also a member of the Institute of Materials, Mining & Metallurgy and a chartered engineer.

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Sell	Recommendation implies that expected total return expected over 12 months between current and analysts' target price is negative.

Research Disclaimers

Research disclosure as of 31 October 2017

<u>Company Name</u>	<u>Disclosure</u>
KEFI Minerals (KEFI LN)	1, 2, 7, 8, 9

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