

KEFI Minerals

Fund-raising

Securing Lanstead: Tulu Kapi financing underway

This morning, KEFI announced it is to raise £5.62m (gross) via the issue of 1.7bn shares at a price of 0.33p, including £4.62m from Lanstead. The majority of the funds raised will be expended on the development of Tulu Kapi over the next 12 months, with the next largest segment being directed towards exploration and the balance to corporate costs. Directors and contractors have supported the fund-raising by subscribing for c £0.4m. Afterwards, a 17:1 consolidation of the shares has been proposed (to be voted on, among other things, at a General Meeting of the company's shareholders on 1 March).

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	(5.1)	(0.1)	0.0	N/A	N/A

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

Lanstead agreement provides for higher share price

In common with its working practices, the Lanstead agreement involves the issuance of a fixed number of shares and is governed according to a 'sharing agreement' and structured relative to a benchmark price, which has been set at 0.44p/share, such that KEFI may receive more than £4.62m if the share price exceeds this level and vice versa if it does not. To this end, £0.693m will be contributed immediately by Lanstead, with the balance being paid in equal instalments of £0.218m per month (subject to adjustment upwards or downwards) for 18 months from shareholder authorisation of the deal. In its aftermath, Lanstead will be KEFI's largest single shareholder, with approximately 25% of its issued capital, ahead of Odey with c 20%. Note that all of our forecasts continue to be conducted on a pre-consolidation basis.

Valuation: Up to 1.01p as confidence returning

This financing may be seen within the context of our estimate that KEFI will require c US\$18.5m equity funding to develop Tulu Kapi within reasonable gearing constraints (see our [21 November note](#)). Fully diluted on this basis at an assumed share price of 0.40p/share, we estimate that investors in KEFI's shares may expect EPS in the order of 0.46p/share (vs 0.24p previously) and maximum potential dividends (cash flow after investments and funding) of around 0.44p/share for five years, from FY23 to FY27. These potential dividends have a net present value of 1.01p/share (cf 0.76p previously), rising to 1.76p in 2023, when similarly discounted at 10%. However, if KEFI is able to successfully leverage its cash flow from Tulu Kapi into other development assets in the region, this valuation rises to 2.38p, which would put it on a P/E ratio of 4.8x EPS in FY23e. In the meantime, on a forecast FY16 year-end resource multiple of US\$8.58/oz, KEFI is trading at a 15.6% discount to the global average discovery cost of its attributable resource base (estimated at US\$10.16/oz). Alternatively stated, we estimate an investment in KEFI shares now at an assumed price of 0.40p per share could generate an IRR to investors of 22.3% in sterling terms over the 12 years from 2017 to 2028.

Metals & mining

13 February 2017

Price **0.40p**
Market cap **£16m**

US\$1.2499/£

Net cash (£m) at 30 June 2016 (pre July £3.8m placing) 0.1

Shares in issue 3,882.9m

Free float 89.5%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (3.7) 1.3 14.7

Rel (local) (3.8) (4.7) (9.5)

52-week high/low 0.6p 0.2p

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

General meeting 28 February 2017

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KEFI Minerals is a research client of Edison Investment Research Limited

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)	(3,751)
Gross Profit		(927)	(2,071)	(1,634)	(1,971)	(3,751)
EBITDA		(927)	(2,071)	(1,634)	(1,971)	(3,751)
Operating Profit (before amort. and except.)		(927)	(2,189)	(1,724)	(2,021)	(3,801)
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)	(2,021)	(3,801)
Net Interest		4	(413)	(319)	8	(1,302)
Profit Before Tax (norm)		(923)	(2,602)	(2,043)	(2,013)	(5,103)
Profit Before Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(2,013)	(5,103)
Tax		0	0	0	0	0
Profit After Tax (norm)		(923)	(2,602)	(2,043)	(2,013)	(5,103)
Profit After Tax (FRS 3)		(1,365)	(2,981)	(2,471)	(2,013)	(5,103)
Average Number of Shares Outstanding (m)		493.4	952.4	1,577.7	3,127.4	5,509.9
EPS - normalised (p)		(0.4)	(0.4)	(0.2)	(0.1)	(0.1)
EPS - normalised and fully diluted (p)		(0.4)	(0.4)	(0.2)	(0.1)	(0.1)
EPS - (IFRS) (p)		(0.3)	(0.3)	(0.2)	(0.1)	(0.1)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		-	-	-	-	#DIV/0!
EBITDA Margin (%)		-	-	-	-	#DIV/0!
Operating Margin (before GW and except.) (%)		-	-	-	-	#DIV/0!
BALANCE SHEET						
Fixed Assets		7,152	9,299	11,926	13,541	55,210
Intangible Assets		6,900	9,139	11,845	12,944	12,209
Tangible Assets		252	160	81	87	42,491
Investments		0	0	0	510	510
Current Assets		4,014	1,061	1,012	1,822	271
Stocks		0	0	0	0	0
Debtors		655	335	358	358	179
Cash		3,279	640	562	1,372	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	0	(17,680)
Long term borrowings		0	0	0	0	(17,680)
Other long term liabilities		0	0	0	0	0
Net Assets		7,803	7,158	10,943	13,363	35,502
CASH FLOW						
Operating Cash Flow		(1,424)	(2,006)	(2,729)	(1,966)	(3,272)
Net Interest		4	(413)	(319)	8	(1,302)
Tax		0	0	0	0	0
Capex		(877)	(3,133)	(3,507)	(2,400)	(42,454)
Acquisitions/disposals		(1,083)	(750)	0	0	0
Financing		4,735	3,663	6,480	5,168	27,976
Dividends		0	0	0	0	0
Net Cash Flow		1,355	(2,639)	(75)	810	(19,052)
Opening net debt/(cash)		(1,924)	(3,279)	(640)	(562)	(1,372)
HP finance leases initiated		0	0	0	0	0
Other		0	0	(3)	0	0
Closing net debt/(cash)		(3,279)	(640)	(562)	(1,372)	17,680

Source: Company sources, Edison Investment Research

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