

KEFI Minerals (KEFI LN)

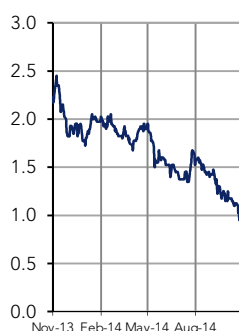
Mining Flashnote

20 November 2014

Stock Data

Share Price:	£0.010
12 M. Target Price:	NA
Market Cap (M):	£10.2
EV (M):	£8.3

Price Chart



52 Week Range

0.925p 1.025p 2.7p

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

Nyota Minerals	10.76%
Capita Financial Managers	10.73%
Odey Asset Mgmt	9.68%
Standard Life Investments	8.37%

Source: Bloomberg

Research:

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Tulu Kapi: Reviewing the Options

Event

In this note on KEFI Minerals we have reviewed a number of options that the company could undertake to enhance the base case valuation. All of these valuations were derived with a flat gold price of US\$1,240/oz, which was the spot gold price when the modelling was conducted and we assumed owner mining. As we expect the capital expenditures will be largely bank financed through debt, we have some gold hedging in the model, but only at US\$1,250/oz, so the impact of this is negligible.

Methodology

In the first pass, we ran our standard model with a flat gold price of US\$1,240/oz over the proposed mine life. This is based only on the current reserves and does not include the underground or any upside for further discoveries. All of this may be seen as blue sky upside.

At a ten per cent discount rate, this gave an NPV of US\$78.37M. We then ran the model with an 8% discount rate to check the model against the latest figures put out by KEFI on the 1st October 2014. The KEFI NPV, at 8% after tax and with a US\$1,250/oz gold price was US\$100M whereas our comparative figure was US\$100.8M, implying that the models are very similar and that there are no major errors in our modelling.

Given that we think that the dilution during mining can be reduced, we increased the grade by 5%, increasing the average head grade milled to 2.51g/t from 2.39g/t. This raised the NPV (10%) to US\$105.8M.

In the KEFI press release, the initial capex for processing is US\$71M. We have assumed that the use of a second hand plant would save US\$15M. Reducing the capex accordingly, raised the NPV (10%) to US\$118M.

We then increased mill throughput by 5% pa and this pushed the NPV (10%) to US\$133.1M although it did shorten the mine life by six months. This should lead to a reduction in milling costs, which were reduced by 2%. This raised the NPV (10%) to US\$134.1M.

As the consultants who reviewed the cost estimates had not reviewed the geotechnical drill holes, they had flattened the pit walls. We reverted to the original plan, assuming that they could be steeper, effectively reducing the strip ratio by 1. This raised the NPV (10%) to US\$153.1M.

Comment

The way we have calculated the NPV's is on a cumulative basis and all the decisions were arbitrarily made by Fox-Davies Capital. We are aware that KEFI is looking at a second hand mill, but have no idea as to size or cost. These figures do however serve to show the upside potential to the project, independent of a rising gold price. The underground Indicated and Inferred resource is 1.63Mt grading 5.81g/t which would almost certainly be mined and processed, extending the mine life by over one year and further boosting the NPV. If all the assumptions we made are possible, it has the potential to reduce cash operating costs by US\$109/oz. This is the potential saving from the total operating costs of US\$626/oz reported in the independently reviewed cost estimates for Tulu Kapi reported on 1 October 2014.

Research Disclosures

Peter Rose

Peter has 27 years' experience in equities as a resources analyst; he has been at Fox-Davies Capital for 6 years, after having spent 11 years with Deutsche Bank in Australia. Prior to this he spent 3 years with Prudential Bache and 5 years with James Capel. Peter's industry experience includes 16 years as a metallurgist, 3 years with De Beers in South Africa and 8 years in the uranium industry, five 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 20 November 2014

Company Name	Disclosure
KEFI Minerals (KEFI LN)	1, 2, 8

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