

MINING FLASHNOTE

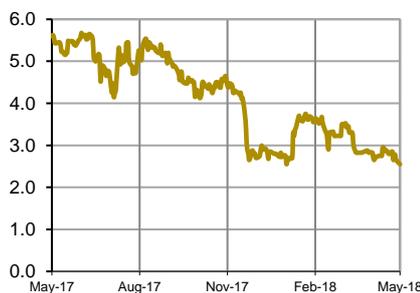
KEFI Minerals (KEFI LN)

08 May 2018

Stock Data

Share Price:	2.55p
Market Cap (M):	£8.5
EV (M):	£6.9

Price Chart



52 Week Range

2.50p	2.55p	5.70p
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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	16.96%
Capita Financial Managers	13.29%
Hargrave Lansdown Asset	11.74%
Interactive Invest Trade Ltd	9.84%
Ausdrill International Ltd	4.98%

Source: Bloomberg

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KEFI Mandates Bond Arranger

Event

KEFI has announced that it has formally mandated its bond arranger for the placement of US\$160M of Listed Infrastructure Bonds ("Bonds").

Comment

This is another key step forward acknowledging that the due diligence and documentation for the financing are advancing well, as are preparations for implementation at the organisational and Tulu Kapi community levels. "To provide additional cash reserves for the development and start-up, KEFI has increased the funding plan to US\$160M of bond-financed on-site infrastructure and US\$50M of project-level equity (of which US\$20M has been committed from the Government and the balance is under negotiation with third parties). This is in addition to small planned working capital facilities and to the amounts already invested as past equity capital of approximately US\$60M."

There are a number of key points regarding this RNS. The amount of borrowing has been increased, which will enable the size of the processing plant to be modestly expanded, a point we will discuss later in the note. Also, apart from the US\$20M of equity that the Ethiopian Government is committed to, there will be a further injection at the project level of between US\$20 and US\$30M which is being negotiated. This could result in KEFI's beneficial ownership of the Tulu Kapi project dropping to around 55%.

In order to commence implementation for Tulu Kapi, KEFI's senior executive team has recently been expanded and community resettlement preparations have been triggered.

The decision on the size of the plant has always been a trade-off between the need to raise more capital and the amount of cash invested in the low grade stockpiles. Originally this was a concern regarding dilution if more equity had to be raised, but the lenders are now happy to advance a larger sum, and the plant has been marginally expanded. It is now between 1.9 and 2.1Mt pa, which just happens to be the size in the original Nyota feasibility study.

We have included the full criteria for the revised project plan overleaf. By installing a larger plant the average gold production over the first 8 years has increased from 115k oz to 135k oz. This brings forward cashflows and results in a higher NPV, which has increased from US\$69M to US\$115M.

Instinctively, one would think that a larger plant would yield economies of scale and that the cash operating costs would drop. But, they have risen from US\$684/oz to US\$701/oz.

There is a good reason for this. The average grade processed per year will drop, as a much smaller low grade stockpile is built. This does not impact the life of mine head grade, but it does impact the actual grades processed, lowering them in the early years and raising them in the latter years.

To put this in perspective, to build a 1 Mt stockpile will cost approximately US\$30M based on the stripping ratio of 7.4:1 and an average mining cost of US\$3.50/t.

It was always in the plan to mine faster than the milling rate. In part this is an insurance policy against adverse weather conditions such as high rainfall events and possible strikes etc. In the original mine plan, the stockpiles peaked at 2.4Mt which involved a huge tying up of capital. The new plan calls for a much smaller stockpile and a higher milling rate.

However, if the throughput can be lifted above the guaranteed nameplate capacity of 1.9-2.1Mt pa by 10%, which is not unusual for a mineral processing plant, the planned rate of mining can still accommodate the extra tonnage required and gives a significant boost to the NPV.

Another key issue for KEFI is the new Ethiopian Prime Minister. Abiy Ahmed was sworn in on the 2nd April. He is a charismatic young leader, aged 42, who clearly won a secret ballot held by the ruling Ethiopian People's Revolutionary Democratic Front. He will also be the first in modern Ethiopian history to identify as Oromo, from the largest, and lately most rebellious, of the country's ethnic groups. He has called for unity and talks with opposition groups and plans to make peace with Eritrea, Ethiopia's long standing enemy. If he can achieve this along with reuniting the Ethiopian People's Revolutionary Democratic Front and enacting the reforms that have long been promised, Ethiopia should become a much more stable country and the states of emergency that were declared in the country over the past three years should become things of the past. These problems have effectively delayed the Tulu Kapi project by years.

Key Points of the Tulu Kapi 2018 Plan (100% of Kapi Gold Project-Open Pit only)

	2018 Plan At US\$1,300/oz	2017 DFS Update At US\$1,300/oz
Stripping ratio	7.4	7.4
Total ore Processed	15,400kt	15,400kt
LOM Head Grade	2.1g/t	2.1g/t
Gold Recovery	93.3%	93.3%
Total Gold Production	980koz	980koz
Process Plant Throughput	1.9-2.1 Mtpa	1.5-1.7 Mtpa
Avg. Gold Production (first 8 years)	135koz p.a	115koz p.a
Cash Operating Cost	\$701/oz	\$684/oz
All in Sustaining Cost	\$793/oz	\$801/oz
All in Costs (incl. initial capex)	\$973/oz	\$937/oz
NPV at start of construction (8% real discount rate) (after debt)	\$115M/£82M	\$69M
NPV at start of production (8% real discount rate) (after debt)	\$192M/£137M	\$159M
NPV at start of production (8% real discount rate) (before debt)	\$337M	\$289M
Payback Period	3 years	3 years
Net Operating Cash Flow (average for first 8 production years)	\$73M p.a	\$60Mp.a
Lease payments (average for first 8 production years, to underpin principle and interest payments to Bonds)	\$27M p.a	\$27M 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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Research disclosure as of 08 May 2018

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

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