

Edison Issues Outlook on KEFI Minerals (KEFI)

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LONDON, September 30, 2020 - Since our last note, KEFI has continued to advance towards its goal of achieving production in FY22. Among other things, this has included raising £3.7m in equity in May and establishing early-stage mining specialist, RAB Capital, as a cornerstone investor. More recently, it has also announced a maiden mineral resource at Hawiah (in Saudi Arabia) of 19.3Mt at a grade of 1.86% copper equivalent containing 359kt CuE (or 1.2Moz AuE) and a corresponding preliminary economic assessment (PEA), which confirms it as a high priority target. The company has consistently maintained its goal of formally agreeing its full funding structure with all participants in October 2020, ahead of construction in FY21 and first gold in FY22 and, to this end, development activities have continued unabated, despite COVID-19.

We calculate that Tulu Kapi is capable of generating free cash flow of c £65.2m a year (cf £48.8m previously) for seven years, from 2022 to 2028 inclusive. This, in turn, drives average (maximum potential) dividends of 1.62p/share for the four years from 2025 to 2028, which values KEFI at 4.05p/share when discounted back to FY20 at a 10% discount rate. This confirms a current value for KEFI of £75.6m or US\$97.0m (cf £46m and US\$59m previously), based on Tulu Kapi alone. However, it excludes any beneficial interest for KEFI in TKGM above the originally planned 45% and also the value of the pipeline of targets in the KEFI portfolio. In the event that KEFI is ultimately successful in increasing its beneficial interest in TKGM or leveraging its cash flow from the open-pit mine into the underground deposit and its other assets in the region, our valuation increases to up to 8.18p/share. We estimate that Saudi Arabian and other 'next level' assets potentially add a further 5.38-17.8c (4.19-13.87p) to this. In the meantime, investing in KEFI at 1.99p should generate an IRR to investors of 25.6% pa over nine years in sterling terms.

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