

KEFI Gold and Copper

Swapping assets for cash

Exiting Saudi Arabia

Metals and mining

13 November 2024

Price **0.62p**

Market cap **£37m**

US\$1.29/£

Net debt at end June 2024 £2.0m

Shares in issue 6,059.1m

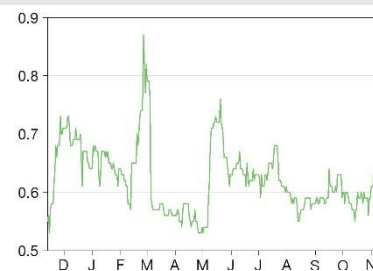
Free float 92.3%

Code KEFI

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 8.8 8.4 7.8

Rel (local) 11.7 10.7 (1.9)

52-week high/low 0.87p 0.53p

Business description

KEFI Gold and Copper is an exploration and development company focused on gold and copper deposits in the highly prospective Arabian-Nubian Shield – namely the Tulu Kapi project in Ethiopia (projected 70% interest) and the Hawiah and Jibal Qutman projects (currently 25%) in Saudi Arabia.

Next events

Tulu Kapi project launch Late 2024

Tulu Kapi commissioning Late 2026

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This morning, KEFI Gold and Copper (KEFI) announced it is in talks with its Saudi joint venture partner, ARTAR, to exit its Saudi Arabian joint venture, G&M. The exit will remove KEFI's obligation to pay US\$10m to maintain its beneficial interest in G&M at 25% (cf 15% otherwise).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
12/22	0.0	(3.3)	(0.2)	0.0	N/A	N/A
12/23	0.0	(4.6)	(0.2)	0.0	N/A	N/A
12/24e	0.0	(17.0)	(0.4)	0.0	N/A	N/A
12/25e	0.0	(4.5)	(0.1)	0.0	N/A	N/A

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

G&M worth more than its book value

Removing KEFI's obligation to pay US\$10m to maintain its stake in G&M at 25% will be a welcome relief for the company. However, the impression that this values the remainder of the stake at US\$15m is misleading, as the shareholders' agreement regarding dilution for contributions/non-contributions between the founding shareholders is based on historical costs of investment, whereas the sale of a shareholding to a partner or a third party is on an open market basis. Our last valuation of KEFI in March 2024 was 2.21p per share. Adjusting for the interim passage of time, one year's delay to Tulu Kapi, one year's gold price inflation and slightly different financing terms, our updated valuation (all else being equal) would be 2.31p. Reducing KEFI's interest in G&M to 15% lowers this to 2.15p. Selling its residual interest for US\$15m would reduce it further to 2.02p per share. However, using a long-term copper price of US\$10,000/t, we calculate a value for KEFI's 15% stake in Hawiah (based on potential dividends discounted at 10% pa) of US\$32.0m and one for Jibal Qutman of US\$17.2m, for a total of US\$49.2m, or 0.62p per KEFI share, while still leaving its interest in Tulu Kapi intact. A discount may be applied to this total to reflect the projects' stages of development, although this remains to be seen and depends upon the partners' confidence in the project. Our financial forecasts are based on KEFI maintaining a 15% interest in G&M but will be revised as soon as a deal is concluded.

Valuation: Potential 48.9% internal rate of return

We calculate that KEFI's residual assets could generate average free cash flow of c £82.4m in FY27–32 (almost unchanged from £82.3m previously), making average (maximum potential) dividends of 0.59p per share in FY28–34 possible and valuing KEFI at 2.15p per share (cf 2.21p/share previously) fully diluted. At current metals prices, however, this valuation increases to 6.33p now and to 9.27p in FY28 (plus a potential further c 2.25p per share for Guji-Komto), implying an internal rate of return of 48.9% in sterling terms over the next 13 years. Our timing assumes Tulu Kapi starts commissioning in late 2026.

Exhibit 1: Financial summary

	£000s	2020	2021	2022	2023	2024e	2025e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		0	0	0	0	0	0
Cost of Sales		(2,663)	(2,257)	(2,744)	(3,527)	(6,548)	(1,000)
Gross Profit		(2,663)	(2,257)	(2,744)	(3,527)	(6,548)	(1,000)
EBITDA		(2,663)	(2,257)	(2,744)	(3,527)	(6,548)	(1,000)
Operating profit (before amort. and excepts.)		(2,706)	(2,274)	(2,768)	(3,556)	(6,566)	(1,018)
Intangible Amortisation		0	0	0	0	0	0
Exceptionals		174	(47)	(268)	1,623	893	0
Other		0	0	0	0	0	0
Operating Profit		(2,532)	(2,321)	(3,036)	(1,933)	(5,673)	(1,018)
Net Interest		(100)	(1,121)	(527)	(1,000)	(10,404)	(3,444)
Profit Before Tax (norm)		(2,806)	(3,395)	(3,295)	(4,556)	(16,970)	(4,462)
Profit Before Tax (FRS 3)		(2,632)	(3,442)	(3,563)	(2,933)	(16,077)	(4,462)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(2,806)	(3,395)	(3,295)	(4,556)	(16,970)	(4,462)
Profit After Tax (FRS 3)		(2,632)	(3,442)	(3,563)	(2,933)	(16,077)	(4,462)
Minority interests		0	0	0	0	0	892
Net income (normalised)		(3,894)	(4,877)	(6,087)	(9,519)	(21,448)	(3,569)
Net income (FRS3)		(2,632)	(3,442)	(3,563)	(2,933)	(16,077)	(3,569)
Average Number of Shares Outstanding (m)		1,663.2	2,178.9	3,537.3	4,508.2	5,876.8	6,059.1
EPS - normalised (p)		(0.2)	(0.2)	(0.2)	(0.2)	(0.4)	(0.1)
EPS - normalised and fully diluted (p)		(0.2)	(0.2)	(0.1)	(0.2)	(0.3)	(0.0)
EPS - (IFRS) (p)		(0.2)	(0.2)	(0.1)	(0.1)	(0.3)	(0.1)
Dividend per share (p)		0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							
Fixed Assets		24,545	28,424	31,481	34,816	38,798	131,699
Intangible Assets		24,510	28,361	31,356	34,716	38,716	42,716
Tangible Assets		35	63	125	100	82	88,983
Investments		0	0	0	0	0	0
Current Assets		1,817	685	683	720	6,425	1,475
Stocks		0	0	0	0	0	0
Debtors		448	291	463	528	1,155	578
Cash		1,315	394	220	192	4,373	0
Other		54	0	0	0	897	897
Current Liabilities		(3,125)	(6,791)	(5,182)	(9,420)	(13,560)	(9,046)
Creditors		(3,125)	(5,556)	(4,002)	(7,307)	(9,029)	(4,515)
Short term borrowings		0	(1,235)	(1,180)	(2,113)	(4,531)	(4,531)
Long Term Liabilities		0	0	0	0	(4,478)	(101,404)
Long term borrowings		0	0	0	0	0	(96,926)
Other long term liabilities		0	0	0	0	(4,478)	(4,478)
Net Assets		23,237	22,318	26,982	26,116	27,185	22,723
CASH FLOW							
Operating Cash Flow		(2,092)	(329)	(2,634)	(861)	(5,457)	(4,937)
Net Interest		(100)	(1,121)	(527)	(1,000)	(10,404)	(3,444)
Tax		0	0	0	0	0	0
Capex		(4,389)	(3,064)	(5,245)	(3,257)	(4,000)	(92,919)
Acquisitions/disposals		0	54	0	0	0	0
Financing		6,996	826	6,405	2,550	21,624	0
Dividends		0	0	0	0	0	0
Net Cash Flow		415	(3,634)	(2,001)	(2,568)	1,763	(101,299)
Opening net debt/(cash)		814	(1,315)	841	960	1,921	158
HP finance leases initiated		0	0	0	0	0	0
Other		1,714	1,478	1,882	1,607	0	0
Closing net debt/(cash)		(1,315)	841	960	1,921	158	101,457

Source: Company sources, Edison Investment Research

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