KEFI Gold and Copper

Effectively fully funded

Re-evaluated

Metals and mining

14 April 2026

Since our note in October, KEFI has provided nine business updates to the market, broken ground at Tulu Kapi and successfully concluded two equity financings (effectively raising £51.5m, or US$68.0m gross). While its March equity financing of £35.8m (gross) was not fully anticipated by the market, it was reported by management to be strongly supported by institutions and was (according to our records) KEFI's largest since at least 2013 – indicating a good relationship with the broader equity market in London and evident support for the company reducing the potential impact of risks raised in the past month from the Middle East war. More importantly, on the back of today's overwhelming shareholder approvals at the general meeting, the placing brings funds raised or committed to US$355.0m compared with Tulu Kapi's financing requirement of US$355.6m (see Exhibit 1), meaning it is now effectively fully funded, with the balance being easily covered by a reported US$50m in additional funding that has been variously offered to KEFI in the form of royalties and preference shares, but not yet accepted. We have also brought our financial model on KEFI up to date.

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/23	0.0	(4.6)	(0.21)	0.00	N/A	N/A
12/24	0.0	(8.9)	(0.21)	0.00	N/A	N/A
12/25e	0.0	(5.7)	(0.07)	0.00	N/A	N/A
12/26e	0.0	(10.8)	(0.09)	0.00	N/A	N/A

Note: PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Valuation: 6.40p/share on un-risked EV/NPV basis

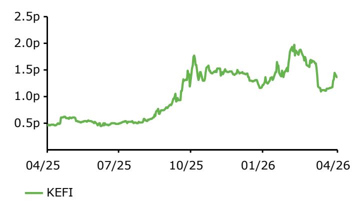
KEFI recently calculated an updated project NPV_5 for Tulu Kapi of c US$1,286m at construction start at a long-term gold price of US$3,000/oz, of which KEFI's c 86% share is worth US$1,106m pro rata, or £838m (6.11p/share). Jibal Qutman and Hawiah potentially add a further 0.30p/share to this number on the same (un-risked) basis, to take the total to 6.40p/share, to which KEFI's shares are trading at a 79.4% discount, despite Tulu Kapi's now being effectively fully funded.

Valuation: 6.61p at the current gold price

At Edison's long-term gold price of US$1,866/oz (in real, 2025 US$ terms), we calculate that Tulu Kapi (plus its 13% interest in Saudi Arabian joint venture, GMCO) is capable of generating average annual free cash flows to KEFI of c £121.5m in FY29–32, making average (maximum potential) dividends of 0.31p/share per year possible. Discounting this flow of dividends to present value at a discount rate of 10% per year indicates a valuation for KEFI of 1.25p/share. This is almost exactly what would be expected relative to our prior equivalent valuation of 1.79p/share (including the underground mine) once adjusted for 44.5% more shares in issue (1.79/1.445=1.24). As such, KEFI's share price may be broadly considered to be discounting current development plans at a long-term gold price of just US$1,866/oz. This valuation rises to 2.61p/share at a long-term gold price of US$2,500/oz and then by 1p/share for every US$500/oz added to the long-term gold price thereafter, such that it reaches 6.61p/share at the currently prevailing gold price of US$4,500/oz, offering investors in the shares at the current price an internal rate of return (IRR) of 38.3% over the next 14 years in sterling terms.

Price	**1.38p**
Market cap	**£150m**
	US$1.3204/£
Net cash/(debt) at end-June 2025	£1.1m
Shares in issue	11,340.0m
Free float	92.3%
Code	KEFI
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(15.7)	11.4	187.6
52-week high/low		2.1p	0.5p

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 80% interest) and the Hawiah and Jibal Qutman projects (13%) held via its associate GMCO in Saudi Arabia.

Next events

Tulu Kapi mining commissioning	Q128
First gold	Q228

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Recent developments

Since our last note on 21 October, KEFI has provided the market with nine business updates, broken ground at its Tulu Kapi mine in Ethiopia, successfully concluded two equity financings (effectively raising £51.5m, or US$68.0m gross at prevailing forex rates) and received shareholder approval at a general meeting (primarily to dis-apply pre-emption rights relating to the second equity financing) on 14 April. At the same time, Edison has brought its financial model comprehensively up to date to fully reflect recent changes in timings, costings and financing arrangements at Tulu Kapi.

While its March equity financing of £35.8m (gross) was not fully anticipated by the market, it was reported (by management) to be strongly supported by institutions and was (according to our records) KEFI's largest since at least 2013 – indicating a good relationship with the broader equity market in London in particular. Arguably more importantly, it effectively brings funds raised to the level required to fully finance Tulu Kapi, excepting just a very small US$0.6m (0.2%) shortfall that we deem a) immaterial and b) easily covered by a reported US$50m in additional funding that has been variously offered to KEFI in the form of royalties and preference shares, but not yet accepted.

Having adjusted our financial model to fully reflect interim price changes, our updated estimate for the capital expenditure required to bring Tulu Kapi into production is US$355.6m. This is 13.4% (US$42.1m) higher than our last, formal comprehensive estimate from November 2022. However, it may be seen from the table below that the vast majority (65%) of the increase is attributable to 'additional funds required for project funding'. As well as lenders' upfront fees, interest payable during the construction period, consultant, legal and advisory fees and commitment fees on undrawn amounts etc, this now also includes an equity-funded cost overrun cash reserve of US$15m (as opposed to a structured facility) in order to allow full launch commitment as well as being more prudent within the context of unforecastable global risks.

Exhibit 1: Updated Tulu Kapi financing requirement (US$m)

(US$m unless otherwise indicated)	2017 KEFI plan	Final project models	May 2019 estimates	June 2021 estimates	November 2021 estimates	November 2022 estimates	Current*	Change
Date	**Jul-17**	**Apr-18**	**May-19**	**Jun-21**	**Nov-21**	**Nov-22**	**Apr-26**	**(%)**
Mining	15.8	28.6	28.6	26.7	29.4	36.1	37.2	3.0
Processing	75.9	100.1	100.1	111.8	140.0	161.8	161.4	(0.2)
Infrastructure	15.7	15.7	15.7	20.0	20.0	20.0	20.0	0.0
Tailings	18.7	14.9	14.9	32.3	10.8	15.2	9.3	(39.1)
Indirect	1.8	0.0	0.0	1.8	1.8	1.8	3.9	117.4
Owner's costs	13.7	14.7	14.7	18.5	24.1	25.8	43.7	69.3
Community relocation etc	10.0	13.5	13.5	23.0	25.3	24.7	27.4	10.7
Environmental management	1.1	1.3	1.3	1.5	1.1	1.1	1.9	71.2
Further contingency	3.3	12.7	3.3	0.0	0.0	0.0	5.6	N/A
Other	(15.7)	(20.7)	(15.0)	(16.2)	3.6	(0.8)	(9.8)	1,124.2
Additional funding-related costs	15.6	0.0	0.0	0.0	0.0	0.0	0.0	N/A
Subtotal	**155.8**	**180.7**	**177.1**	**219.4**	**256.1**	**285.8**	**300.5**	**5.1**
Additional funds required for project funding*	37.0	58.7	17.6	8.8	29.9	27.7	55.2	143.1
Totals	**192.8**	**239.4**	**194.7**	**228.2**	**286.0**	**313.5**	**355.6**	**13.4**
Assumed throughput rate (Mtpa)	1.7	1.9–2.1	1.9–2.1	1.9–2.1	1.9-2.1	1.9-2.1	2.4	0.0
Capital intensity (US$ per annual tonne)	**113.41**	**119.70**	**97.35**	**114.10**	**143.00**	**156.75**	**148.19**	**(5.5)**

Source: KEFI Gold and Copper, Edison Investment Research.
Note: *Includes lenders' upfront fees, interest payable during the construction period, consultant legal and advisory fees, commitment fees on undrawn amounts etc as well as US$15m in the form of a cost overrun cash reserve.

Note that the US$9.8m in expected additional capital cost savings that KEFI anticipates relates mainly to vehicle leasing (cf purchasing). Otherwise, the underlying 5.1% increase in capital expenditure (the 'Subtotal' line in Exhibit 1, above, before the US$15m cost overrun cash reserve) compares favourably with the 10.9% increase in prices recorded by the US Consumer Price Index for All Urban Consumers (CPI-U, source: US Department of Labor Bureau of Labor Statistics) from November 2022 until March this year (the last month for which data is available).

This US$355.6m funding requirement compares with the cumulative US$355.0m that we estimate has now been raised by KEFI or has been committed by its funding partners – ie it is now effectively fully funded:

Exhibit 2: Tulu Kapi funds raised and committed

Item	Last published (July 2025)		Current				
	US$m	£m**	US$m	Change (%)	Change (US$m)	£m**	Percent of total (%)
Senior secured debt	240.0	178.9	240.0	0.0	0.0	181.8	67.6
Working capital facility	0.0	0.0	15.0	N/A	15.0	11.4	4.2
Ethiopian government participation at project level	20.0	14.9	20.0	0.0	0.0	15.1	5.6
Royalty	0.0	0.0	20.0	N/A	20.0	15.1	5.6
Preference shares and equity risk notes	50.0	37.3	6.0	(88.0)	(44.0)	4.5	1.7
Sub-total	**310.0**	**231.1**	**301.0**	**(2.9)**	**(9.0)**	**228.0**	**84.8**
Parent company level equity*	10.0	7.5	54.0	440.0	44.0	40.9	15.2
Total	**320.0**	**238.6**	**355.0**	**10.9**	**35.0**	**268.9**	**100.0**

Source: KEFI Gold and Copper, Edison Investment Research. Note: *Includes US$10m raised in December 2025 and expended since 1 January 2026. **Converted at US$1.3413/£ in July 2025 and US$1.3204/£ currently.

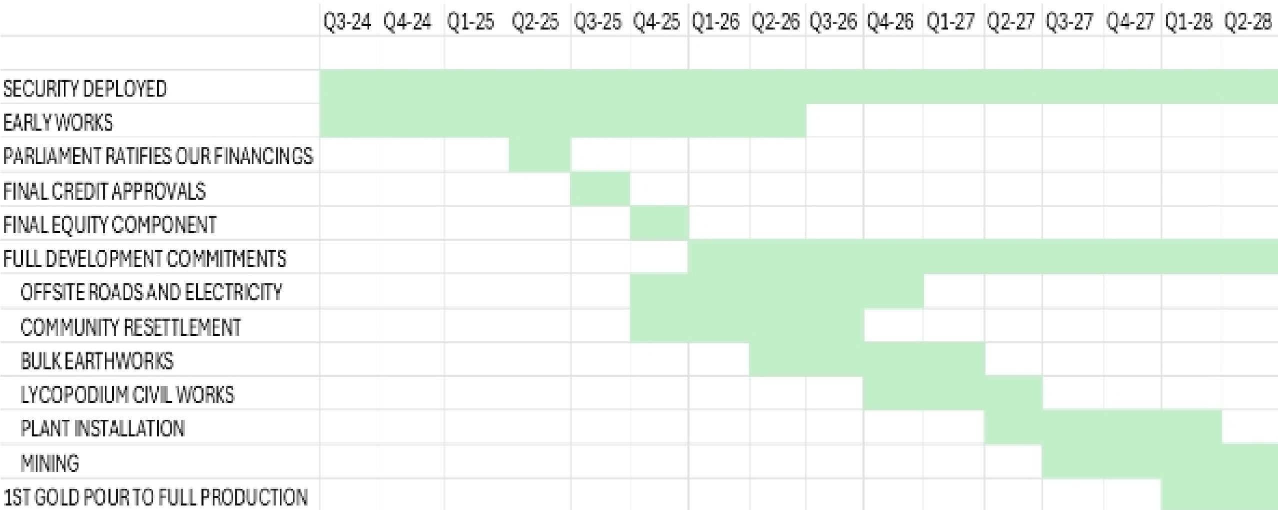
The government's policy directive requiring a maximum 50% debt gearing (defined as debt/[debt+equity]) for new projects has been waived in the case of Tulu Kapi, which has prior approval to expand the debt portion of its funding requirement to 80% of the total. In addition, clarification received from the regulator (the National Bank of Ethiopia) indicates that historical exploration spend on the project of c US$120m will be deemed to contribute towards equity for the purposes of this determination, thereby putting the project well within the limit at c 63% debt ([120+54]/[120+355]=37% equity).

As such, the funding stage of Tulu Kapi's development is now effectively complete.

A Gantt chart of the project's schedule in the light of this milestone is provided below, with the major differences from our July 2025 note being:

- Security being deployed over an extended period of time.
- Early works being extended from Q225 to Q226.
- Community resettlement being extended by one quarter to Q326.
- Civil works being contracted from six quarters into three, but still finishing in Q227.
- Plant installation being contracted from seven quarters into four and finishing one quarter later in Q128.
- The start of mining being delayed by three quarters to Q327.
- First gold being delayed by one quarter to Q128.

Exhibit 3: Tulu Kapi project summary schedule



Source: Kefi Gold and Copper

Edison recently visited site and met senior government leaders, received briefings from the senior management team and reviewed the weekly project monitoring schedule against the summary schedule published herein. As a consequence, we have updated our assumptions to those now shown in Exhibit 4, below. However, whereas we used to consider the Tulu Kapi mine plan as an open pit operation with the option to bring in an underground mine in FY29, we now assume that it will be developed as an integrated open pit and underground mine from the outset (which we understand to be consistent with KEFI management's current thinking). This gives the impression, among other things, that mining costs have increased by 26.0% in aggregate terms over the life of the mine, whereas, in fact, they have increased by less than 1.0% on an integrated basis when underground and open pit costs are considered together.

Exhibit 4: Edison operational and financial assumptions for Tulu Kapi, 2028–35

	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e
Current									
Waste (kt)		11,179	18,564	20,316	19,859	19,827	16,105	7,277	1,807
Stripping ratio		5.9	5.0	9.8	7.5	8.7	6.4	4.9	4.6
Ore processed (kt)		1,200	2,400	2,400	2,400	2,400	2,300	2,200	1,683
Grade (g/t)		1.96	3.05	2.39	2.77	3.02	2.25	1.54	1.48
Contained gold (koz)		75.6	235.1	184.8	213.9	233.1	166.6	108.6	80.0
Recovery (%)		75.55	93.90	93.80	93.87	93.90	93.87	99.25	100.00
Recovered gold (koz)		57.1	220.8	173.3	200.8	218.9	156.4	107.8	80.0
Operating costs (US$/t processed unless otherwise indicated)									
Mining (US$/t mined)*		4.45	4.69	5.53	5.87	6.22	6.06	7.35	14.32
Milling (oxide, US$/t)		8.45	11.03	11.06	11.18	11.15	11.17	11.23	13.02
Milling (fresh ore, US$/t)		8.60	9.95	9.99	10.03	10.07	10.12	10.17	48.57
Milling (hard ore, US$/t)		13.52	12.07	12.10	12.15	12.22	12.27	12.34	12.40
Total (US$/t)		63.62	60.55	69.03	72.73	75.79	68.16	48.71	43.28
Gold price (US$/oz)	2,068	1,863	1,727	1,866	1,866	1,866	1,866	1,866	1,866
Sustaining capex (US$000s)	0	8,458	9,566	2,233	4,390	3,222	2,497	3,270	1,153
Previous									
Waste (kt)		18,600	19,500	20,500	19,600	18,600	11,600	5,000	0
Stripping ratio		5.7	5.6	9.8	6.3	7.6	4.7	3.5	N/A
Ore processed (kt)		2,000	2,000	2,000	2,000	2,000	2,000	2,000	0
Grade (g/t)		2.33	2.86	2.40	3.10	2.77	2.69	2.45	0.00
Contained gold (koz)		149.7	184.2	154.3	199.2	178.2	173.2	157.4	0.0
Recovery (%)		83.16	93.88	93.80	93.91	93.87	93.85	93.78	0.00
Recovered gold (koz)		124.5	172.9	144.7	187.0	167.2	162.5	147.6	0.0
Operating costs (US$/t processed unless otherwise indicated)									
Mining (US$/t mined)*		3.82	4.22	4.77	5.04	5.09	5.37	6.44	0.00
Milling (oxide, US$/t)		10.75	13.75	13.79	0.00	13.90	13.93	14.01	0.00
Milling (fresh ore, US$/t)		10.54	11.54	11.59	11.65	11.70	11.76	11.81	0.00
Milling (hard ore, US$/t)		0.00	13.75	13.79	13.85	13.92	13.99	14.07	0.00
Total (US$/t)		57.92	67.79	73.56	76.63	73.96	57.58	40.75	N/A
Gold price (US$/oz)	2,068	1,863	1,727	1,866	1,866	1,866	1,866	1,866	1,866
Sustaining capex (US$000s)	0	12,195	13,393	7,915	8,917	5,470	2,630	3,144	0

Source: Edison Investment Research, KEFI Gold and Copper. Note: *Includes waste.

Additional costs include a 7% government mining royalty, a 4.8% US$20m funding royalty with Chancery, US$9.97/oz in off-site refining, insurance and transport costs, US$18.00/oz in off-take costs and a US$15.8m closure provision (cf US$11.6m previously). On-site general and administrative costs are forecast to be US$90.6m (cf US$68.6m previously), albeit these now include a full US$10.6m allocation for a regional Addis Ababa office. Overall, therefore, we calculate an average cash cost per ounce for Tulu Kapi of US$1,127/oz over the life of the project (cf an equivalent figure of US$956/oz previously).

At the corporate level, we continue to assume unchanged head office costs of £1.0m per year (note that the majority of centralised costs will now be charged to the project during development and execution). A carried-forward tax loss of US $120m has also been applied to future pre-tax profits before tax is payable.

Valuation

Relative to our previous note in October 2025, we have adjusted our current valuation for four principal factors:

- The mine schedule and costings (as discussed above).
- An increase in the number of KEFI's shares in issue from 9,489.4m to 13,715.2m, being an increase of 44.5% to reflect the company's equity fund raisings in December 2025 and March 2026 (and successful disapplication of pre-emption rights at its general meeting on 14 April).
- US$20m in royalty funding (in return for KEFI's paying a 4.8% royalty to Chancery).
- An increase in KEFI's ownership of Tulu Kapi from 83% to 86% to reflect both the increased royalty funding (and therefore reduced equity funding at the subsidiary level) and recent fluctuations in the birr/dollar exchange rate.

Company valuation based on project NPVs

This month, KEFI calculated an updated project NPV_5 for Tulu Kapi of c US$1,286m at construction start at a long-term gold price of US$3,000/oz (cf US$690m at a gold price of US$2,400oz at the time of our July 2025 note), of which KEFI's c 86% share is US$1,106m, or £838m. Taken together with the equivalent valuations for Hawiah and Jibal Qutman (unchanged from the time of our last note), these translate into valuations per currently outstanding KEFI share – on both a risked and an unrisked basis – as shown in Exhibit 5 below:

Exhibit 5: KEFI project-based valuations (US cents and pence per KEFI share)

Assets	Tulu Kapi	Hawiah	Jibal Qutman	Total
Stage of development	**BFS**	**PFS**	**Internal PEA**	
Gold price (US$/oz)	**3,000**	**1,989**	**1,850**	
NPV (US$m)	1,286	300	113	
KEFI interest (%)	86	13	13	
Attributable NPV (US$m)	1,106	39	15	1,160
Ditto (£m)	838	30	11	878
US cents per share	8.06	0.28	0.11	8.46
Pence per share	6.11	0.22	0.08	6.40
Percentage valuation for risk-adjusted stage of development (%)	30.90	9.90	11.70	
Implied valuation (US cents per share)	2.49	0.03	0.01	2.53
Ditto (pence per share)	1.89	0.02	0.01	1.92

Source: KEFI Gold and Copper, Edison Investment Research

Note that our risk-adjusted valuation factors, of 30.9% of enterprise value (EV) for a project at bankable feasibility stage (BFS) stage of development, 9.9% for a project at PFS stage of development and 11.7% for a project at preliminary economic assessment (PEA) stage of development, are derived from our report Gold stars and black holes (see Exhibit 166 on page 82), published in January 2019. Post-funding and now that the project has been launched, these risk-adjusted EV/NPV ratios may be expected to jump materially. Pre-production, they should be expected to jump materially again.

Company valuation including corporate functions

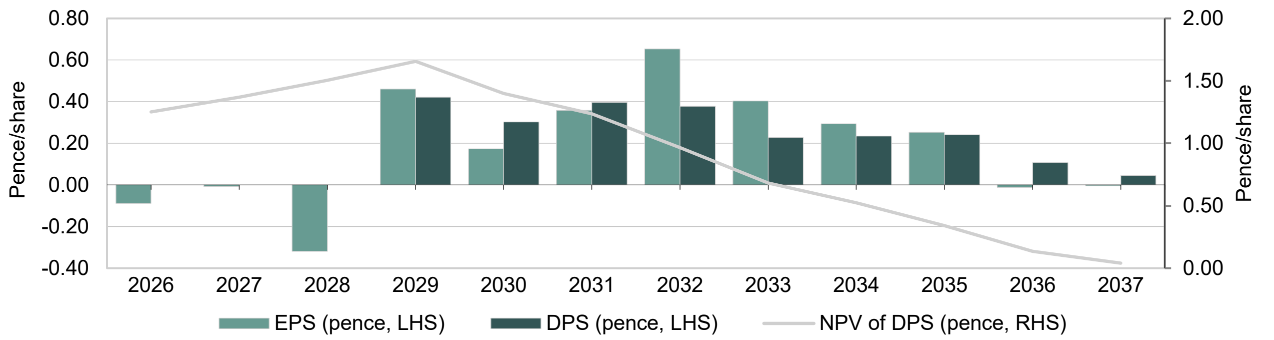
Edison's valuation of single asset mining companies at pre-production stage is typically based on the value of dividends that a shareholder could expect to earn from their investment if they were to hold their shares from the moment of purchase until the end of the life of the mine, discounted to present value. Discretionary exploration investment is ordinarily excluded from the financial forecasts when this method is used, as it is presumed to be at least value adding. In practice therefore, the dividends in question are 'maximum potential dividends' (subject to assumptions about precious metals prices and the discount rate being applied). However, the resulting net present value should be considered a conservative valuation since it omits the optionality of blue-sky exploration success during the operation of the mine. This method was typically used by the consensus analyst community to value South African mines that were listed in London, such as Driefontein, Kloof, Vaal Reefs, Beatrix and Western Deep Levels, etc (albeit with different accounting practices), prior to 1995 when the South African mining house system of mine financing began to change.

Compared with the alternative discounted cash flow (DCF) method of analysis, the discounted dividend approach more purely reflects the returns that an equity shareholder may expect to receive. Hence, it is possible to calculate an internal rate of return (IRR) pertaining to an investment in a company's equity at any particular share price and any particular point in time, rather than calculating an IRR for a project as a whole (which typically aggregates debt and equity returns and is therefore independent of a company's share price). In its application it can also be made to naturally accommodate future equity dilution in calculating returns to shareholders. Being based on only one unit of measurement (forecast future dividends), it is also relatively simple to estimate a value (and hence share price) at some point in the future in comparison with a DCF valuation, which typically requires three inputs (namely, forecast future cash flows, net debt/cash and minority ownership).

Within the context of our valuation of KEFI, it is worth noting that the company's financing arrangements will leave it with zero debt at the parent company level, with group subsidiaries directly servicing any senior and/or mezzanine debt. As a result, dividends to KEFI shareholders from as early as FY29 should be possible. For these purposes, we have assumed KEFI will distribute 60% of group cash flow in FY29–33, of which 86% (less a 10% Ethiopian dividend withholding tax) will be attributable to KEFI shareholders, followed by the maximum possible thereafter.

Based on our unchanged long-term gold price assumption of US$1,866/oz in real 2025 money terms (see 'A note on gold prices' below), we calculate that all three of its projects are capable of generating a combined free cash flow to KEFI of c £121.5m per year for four years, from 2029 to 2032 (inclusive). This, in turn, will allow average (maximum potential) dividends to shareholders of 0.31p/share for the period FY29–35 (cf 0.54p/share for FY30–34 previously) after the deduction of a 14% minority interest and implies a valuation for KEFI of 1.25p/share fully diluted (cf 1.59p/share previously plus a further 0.20p/share for the underground mine) when discounted back to FY26 at Edison's customary rate of 10% per year. This valuation then rises to a peak of 1.66p/share on the cusp of KEFI's first (assumed) material dividend in FY29, as shown below:

Exhibit 6: Edison estimate of life of mine KEFI EPS and maximum potential DPS (pence/share), FY25–37e



Source: Edison Investment Research.

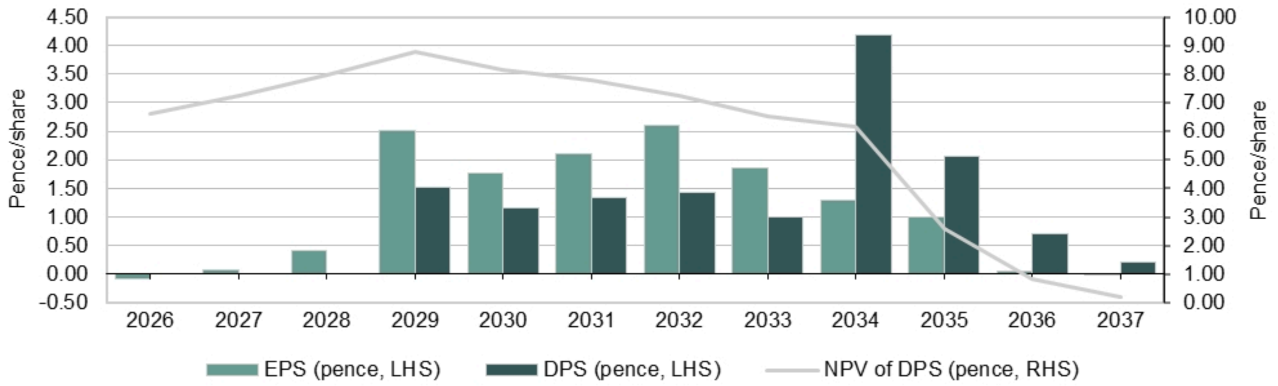
Our estimate of KEFI's peak earnings of 0.65p/share in FY32 would put it on a P/E ratio of just 1.5x in that year (relative to its valuation in the same year) or just 1.8x at its current share price.

Otherwise, readers should note that our updated valuation of 1.25p/share is almost exactly what would be expected relative to our prior equivalent valuation of 1.79p/share (including the underground mine) once adjusted for 44.5% more shares in issue (1.79/1.445=1.24).

Sensitivities

Quantitatively, KEFI's most significant valuation sensitivity is towards the gold price. Whereas our valuation is 1.25p at Edison's long-term gold price of US$1,866/oz (real, 2025 US dollars), it quintuples to 6.61p/share at the currently prevailing gold price of US$4,500/oz. Moreover, this 6.61p/share valuation itself rises to a peak of 8.77p/share in FY29, as shown in the graph below (directly comparable to Exhibit 6, above):

Exhibit 7: KEFI life of mine EPS and maximum potential DPS (pence/share) at US$4,500/oz Au, FY26–37



Source: Edison Investment Research

In this case (US$4,500/oz Au), we estimate that an investment in KEFI shares in FY26 at a price of 1.32p would generate an IRR for investors of 38.3% over the next 14 years to 2040 in sterling terms. Note that the dividend spike in FY34 in Exhibit 7, above, is a direct consequence of management's assumed policy of paying out 60% of cash flow in dividends up to that point in time, thus building up a cash balance, which is then released in FY34 when total distributable funds are paid out (NB this also has the unintended consequence of depressing the valuation of the shares as more dividends would otherwise be distributable earlier).

A sensitivity analysis of our valuation of KEFI shares at different long-term gold prices is as follows:

Exhibit 8: Edison valuation of KEFI (pence/share) at varying long-term gold prices

Gold price (US$/oz	Valuation (pence/share)
Edison	1.25
2,500	2.61
3,000	3.61
3,500	4.61
4,000	5.61
4,500	6.61
5,000	7.61
5,500	8.61
6,000	9.61

Source: Edison Investment Research

A note on gold prices

The average gold price in CY25 was US$3,445/oz (source: Bloomberg). Consistent with our general policy, our gold price forecast for CY26 now assumes that the current spot price of US$4,500/oz will prevail for the remainder of the calendar year, before reverting to our long-term levels as follows:

Exhibit 9: Forecast Edison gold prices, real and nominal (US$/oz)

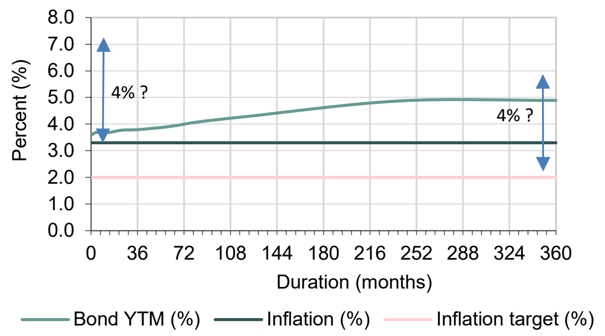
Calendar year	2027	2028	2029	2030
Real price (US$/oz)	2,068	1,863	1,727	*1,866
Nominal price (US$/oz)	2,239	2,098	2,023	2,274

Source: Edison Investment Research. Note: *Long-term price. Real US dollars are expressed in late CY25 terms.

The gold prices in Exhibit 9 are derived with respect to historical precedent. However, almost the only modern precedent to today's market is that of 1970–81 when gold rose from its post-war currency peg of US$35/oz to a peak of US$850/oz in January 1980 before falling by more than 60% in the following two years. The analysis above implicitly assumes a repeat of the same pattern, with 2026 being an analogue to 1980 and 2027 being an analogue to 1981. However, there are material differences between the two periods of time. The biggest is that, in 1980, the US was still the world's largest creditor nation, and what suddenly reversed gold's fortunes was the policy adopted by the then-new Federal Reserve chairman, Paul Volcker, to 'defend the value of the US dollar.' That entailed sharply raising real interest rates from near zero to around 4% (among other things, causing a sharp recession in the US and most other western countries in the early 1980s) where they remained for almost the next two decades. However, now the US is the world's largest debtor nation and no one in either the US administration or the Federal Reserve (not even Kevin Warsh) is talking about the defence of the dollar. In fact, quite the opposite: what is being talked about is allowing the dollar to find a level at which US exports can compete on world markets and stimulating the domestic economy with real interest rates as low as possible. Hence, all the forces that have pushed gold to its recent peak over US$5,000/oz are still pushing it in the same direction (ie upwards).

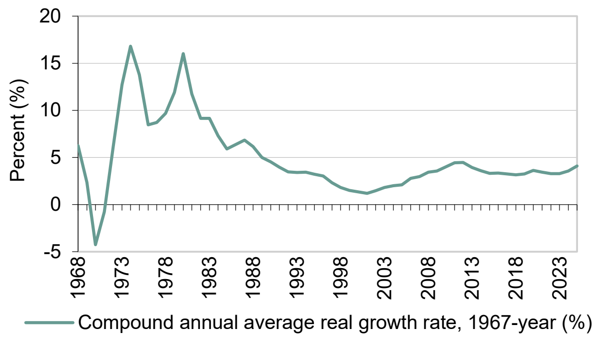
President Trump's nomination for the next chairman of the Federal Reserve, Kevin Warsh, appeared to the be catalyst for the start of gold's sell-off from its recent record highs last month. He is reported to be in alignment with Mr Trump in wanting to shrink the Fed's balance sheet at the same time as cutting rates dramatically, thus effectively steepening the yield curve. In themselves, neither a steepening of the yield curve nor cuts to the Fed's balance sheet are traditionally positive harbingers for gold. While management of the long-end by means of a relaxation of the Supplementary Leverage Ratio could limit the degree of steepening, it remains to be seen whether cuts to short-term interest rates under a new Treasury-Fed accord can be achieved without reigniting inflation. In the meantime, both short-term real interest rates of 0.325% (a Fed Funds rate of 3.5–3.75% minus inflation of 3.3%) and long-term real interest rates of 1.591% remain unappealing relative to gold's compound average annual growth rate of 4.1% in real terms since 1967.

Exhibit 10: US yield curve vs US CPI inflation rate (%)



Source: Bloomberg, US Department of Labor Bureau of Labor Statistics, Edison Investment Research.

Exhibit 11: Gold price compound average annual growth rate, 1967–year



Source: Edison Investment Research (underlying data: Bloomberg, South African Chamber of Mines, US Department of Labor Bureau of Labor Statistics)

While it is tempting to look at recent graphs of the gold price and to attempt to call a 'top', investors should beware as many of the forces that drive it are often self-reinforcing, especially the fact that above ground stocks of gold of c 216,000 tonnes dwarf newly mined supply of c 3,700 tonnes per year. Hence, traditional supply and demand analysis often fails in the case of gold, where price discovery tends to occur among existing holders, rather than new buyers and sellers. This means, while the price has appreciated a lot, in the absence of a fundamental shift in macroeconomic policy, there is no reason to suppose that it cannot continue. The following demonstrates the extent to which this is possible:

- The gold price required to cover the total US monetary base is US$21,421/oz. This is analogous to the classical gold standard, according to which the Federal Reserve was required to hold enough gold to redeem all of its liabilities (ie US dollars) that could be in circulation. Although President Nixon formally closed this dollar window in August 1971, in the era of a floating gold price, US gold reserves were nevertheless still able to cover the US total monetary base as recently as 1980.
- The gold price required to cover the US net international investment position is US$102,917/oz. While this number appears very large, it would theoretically enable the US to cover all of its accumulated deficits since c 1979.
- The gold price required to cover the US net international investment position and to cover its monetary base is US $124,345/oz.

While gold would need to increase c 28 times to get from its level now to US$124,345/oz, it is perhaps worth noting that it has already gone up by 129 times to get from its level of US$35/oz in 1967 to its current price. The main impediment to the last two scenarios will be the reaction of other (creditor nation) central banks. The world's largest three creditor nations are Germany, Japan and China. While Germany and Japan already have currencies that freely float against the US dollar, China does not. With the US facing the possibility of a material decline in the purchasing power of the dollar, in continuing to maintain its currency peg, China will subject its citizens to a similar decline at a time when this is perhaps not their expectation. Therefore, at some point along this trajectory, it is likely that the People's Bank of China will abandon this currency peg in order to both preserve its citizens' wealth and to manage the transition of China's workers from global producers to global consumers, albeit at the cost of accepting a much more competitive US dollar. Inevitably, few guarantees can be made regarding the future evolution of the world economy. However, the numbers calculated demonstrate the extent to which the world has financialised since 1971 to the detriment of real assets, such as gold (a process that now appears to be reversing). Concurrently, it demonstrates that, in the absence of a major policy change from either China or the US, in particular, the bull market for gold may be very far from over.

Financials

Based on our forecasts above, we forecast a maximum net debt funding requirement overall for KEFI of £206.0m or US$272.0m in FY28, equating to leverage (net debt/[net debt+equity]) of 88.0%. However, we understand that KEFI is considering whether its write-off of nearly all historical expenditure remains appropriate in the light of project development (ie it is possible that its balance sheet may change significantly as project development gets underway). Notably, the TKGM balance sheet (KEFI's operating subsidiary in Ethiopia) is projected to reflect approximately US $175m of shareholders' funds subscribed alongside debt facilities that peak at c US$275m for assets of c US$450m when historical, pre-development spending is also included. This equates to a balance sheet leverage (debt/[debt +equity]) ratio in the order of 60%. Given Tulu Kapi's NPV therefore, management considers that there are ample grounds for a revaluation of the project at the parent company level.

Exhibit 12: Financial summary

£000s	2020	2021	2022	2023	2024	2025e	2026e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	0	0	0	0	0	0	0
Cost of Sales	(2,663)	(2,257)	(2,744)	(3,527)	(6,474)	(4,886)	(2,943)
Gross Profit	(2,663)	(2,257)	(2,744)	(3,527)	(6,474)	(4,886)	(2,943)
EBITDA	(2,663)	(2,257)	(2,744)	(3,527)	(6,474)	(4,886)	(2,943)
Operating profit (before amort. and excepts.)	(2,706)	(2,274)	(2,768)	(3,556)	(6,492)	(4,896)	(2,953)
Intangible Amortisation	0	0	0	0	0	0	0
Exceptionals	174	(47)	(268)	1,623	7,326	(165)	0
Other	0	0	0	0	0	0	0
Operating Profit	(2,532)	(2,321)	(3,036)	(1,933)	834	(5,061)	(2,953)
Net Interest	(100)	(1,121)	(527)	(1,000)	(2,410)	(761)	(7,852)
Profit Before Tax (norm)	(2,806)	(3,395)	(3,295)	(4,556)	(8,902)	(5,657)	(10,805)
Profit Before Tax (FRS 3)	(2,632)	(3,442)	(3,563)	(2,933)	(1,576)	(5,822)	(10,805)
Tax	0	0	0	0	0	0	0
Profit After Tax (norm)	(2,806)	(3,395)	(3,295)	(4,556)	(8,902)	(5,657)	(10,805)
Profit After Tax (FRS 3)	(2,632)	(3,442)	(3,563)	(2,933)	(1,576)	(5,822)	(10,805)
Minority interests	0	0	0	0	0	0	0
Net income (normalised)	(3,894)	(4,877)	(6,087)	(9,519)	(12,552)	(6,557)	(10,805)
Net income (FRS3)	(2,632)	(3,442)	(3,563)	(2,933)	(1,576)	(5,822)	(10,805)
Average Number of Shares Outstanding (m)	1,663	2,179	3,537	4,508	5,891	8,918	12,228
EPS - normalised (p)	(0.23)	(0.22)	(0.17)	(0.21)	(0.21)	(0.07)	(0.09)
EPS - normalised and fully diluted (p)	(0.22)	(0.21)	(0.13)	(0.17)	(0.20)	(0.07)	(0.08)
EPS - (IFRS) (p)	(0.16)	(0.16)	(0.10)	(0.07)	(0.03)	(0.07)	(0.09)
Dividend per share (p)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	-	-	-	-	-	-	-
EBITDA Margin (%)	-	-	-	-	-	-	-
Operating Margin (before GW and except.) (%)	-	-	-	-	-	-	-
BALANCE SHEET							
Fixed Assets	24,545	28,424	31,481	34,816	38,516	42,506	133,308
Intangible Assets	24,510	28,361	31,356	34,716	38,392	42,392	46,392
Tangible Assets	35	63	125	100	124	114	79,571
Investments	0	0	0	0	0	0	7,346
Current Assets	1,817	685	683	720	583	16,565	188
Stocks	0	0	0	0	0	0	0
Debtors	448	291	463	528	398	398	398
Cash	1,315	394	220	192	185	16,377	0
Other	54	0	0	0	0	(210)	(210)
Current Liabilities	(3,125)	(6,791)	(5,182)	(9,420)	(6,454)	(4,354)	(4,354)
Creditors	(3,125)	(5,556)	(4,002)	(7,307)	(5,715)	(3,615)	(3,615)
Short-term borrowings	0	(1,235)	(1,180)	(2,113)	(739)	(739)	(739)
Long-Term Liabilities	0	0	0	0	0	(900)	(53,319)
Long-term borrowings	0	0	0	0	0	0	(53,319)
Other long-term liabilities	0	0	0	0	0	(900)	0
Net Assets	23,237	22,318	26,982	26,116	32,645	53,817	75,823
CASH FLOW							
Operating Cash Flow	(2,092)	(329)	(2,634)	(861)	(345)	(6,941)	(2,943)
Net Interest	(100)	(1,121)	(527)	(1,000)	(2,410)	(761)	(7,852)
Tax	0	0	0	0	0	0	0
Capex	(4,389)	(3,064)	(5,245)	(3,257)	(4,031)	(4,000)	(91,712)
Acquisitions/disposals	0	54	0	0	0	0	0
Financing	6,996	826	6,405	2,550	4,427	27,894	32,812
Dividends	0	0	0	0	0	0	0
Net Cash Flow	415	(3,634)	(2,001)	(2,568)	(2,359)	16,192	(69,696)
Opening net debt/(cash)	814	(1,315)	841	960	1,921	554	(15,638)
HP finance leases initiated	0	0	0	0	0	0	0
Other	1,714	1,478	1,882	1,607	3,726	0	0
Closing net debt/(cash)	(1,315)	841	960	1,921	554	(15,638)	54,058

Source: Company sources, Edison Investment Research

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