

Kibo Mining plc ^{3,4,5}

The future looks bright

Following on from a number of positive exploration results as well as the rationalisation of its gold portfolio we reassess our valuation for Kibo Mining (KIBO.L). As a result, we raise our 12 month target price to 7.7p/share (previously 6.8p/share) and reiterate our BUY recommendation.

Developing its asset portfolio

The rationalisation and consolidation of Kibo's mineral portfolio has seen a number of recent exploration successes at Haneti and Morogoro South as well as the opportunistic acquisition of the Lubando and Imweru projects (previously owned by Great Basin Gold). The acquisition of these two brownfield exploration projects in the Lake Victoria region has added 797,900oz of NI43-101 compliant resource to the previously pre-resource Lake Victoria project. Drilling results conducted between 2002 and 2008 at Imweru and Lubando have defined compliant resources of 629,600oz and 168,300oz of gold at the projects respectively. Notably, both projects remain open and occur on strike within the same geology as Anglo Gold Ashanti's Geita Gold Mine (Resource: 12.28Mt @ 2.27g/t, 2012 production: 531koz), thus increasing the probability for further resource delineation in the future. Kibo's London-listed gold exploration peer group currently trades at an EV between US\$3.06-43.46/oz gold equivalent resource and at US\$3.96-64.01/oz adjusted gold equivalent resource. Due to the early stage nature of Kibo's projects we take the average of the lower end of these ranges (US\$3.50/oz gold equivalent resource) to calculate a combined value for Imweru and Lubando of US\$2.8m (£1.7m or 1.3p/share).

Valuation

In light of the above restructuring of its gold portfolio as well as recent positive results from Kibo's other exploration projects, we have recalculated our 12 month target price for Kibo Mining at 7.7p/share (previously 6.8p/share). This is even with recent raises of £1.6m in equity, which have added a further 32m shares since our last valuation. On a total entity basis we now value Kibo mining at £10.6m (previously £7.3m), which equates to an overall increase of £3.2m or 46% from our previous valuation.

Forecasts and ratios (£m)

Year to Dec	2012A	2013E	2014E	2015E
Turnover	0.0	0.0	0.0	0.0
EBITDA	-4.5	-1.3	-1.4	-1.4
Net profit	-4.5	-1.3	-1.4	-1.6
EPS (GBp)	-0.83	-1.21	-0.98	-1.16
PER (x)	n/a	n/a	n/a	n/a
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	n/a	n/a	n/a	n/a
ROE (%)	-19.7	-5.2	-5.4	-6.8

Source: Company data, Hume Capital Investment Research

Hume Capital Investment Research

BUY

Share price (GBp)	5.1
12m target price (GBp)	7.7
Upside	49%
Share price as at close:	20 Sep 2013
Reuters Ticker	KIBO.L

Stock data

52 week high (GBp)	26.1
52 week low (GBp)	2.3
Dividend yield (%)	0.0

Capitalisation

Enterprise value (£m)	5.7
Market cap (£m)	7.3
Net cash (£m)	1.6
Free float (%)	82
Shares outstanding (m)	138.8

Share price performance

Performance (%)	1m	3m	12m
Absolute	5.0	68.0	-76.7



Source: FactSet Prices

Business information/expected news flow

Next news

Development of Rukwa JV discussions

Business

Multi-commodity exploration company focussed on Tanzania

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Recent exploration successes

Adding to the positive results out of Tanzania and providing additional support for Kibo's recent share price accretion are a number of successes at Kibo Mining's Haneti and Morogoro North exploration projects. The Haneti project, partnered with Brazilian industrial conglomerate Votorantim, is now ahead of schedule with the planned soil sampling programme being completed two months ahead of schedule. Soil sampling results from Mihanza and Mwaka zones are consistent with Kibo Mining's previous survey thus confirming these areas as initial priority drill targets. Results for nickel, chromium, cobalt and iron show concentrations at these sites returned values of up to 10,000ppm, 1,530ppm, 306ppm and 13.75% respectively. Copper values showed results of up to 359ppm. Sampling at Haneti was also extended in the programme to newly generated target areas at Mukulingu, Mitu, Ndolanti, Mihanza South and Igari Cheni. In addition, the sampling teams identified previously unknown ultramafic outcrops one at Mihanza South and the other to the northwest of the Mindii target zone suggesting the continuous nature of this Ni-PGM prospective ultramafic belt. The partnership is now engaged in selecting drill hole locations for its 1000m diamond drilling programme expected to commence early next year.

Kibo also reported positive news from its Morogoro North gold exploration project. Geochemical results from gold-in-stream sampling taken at site earlier this year have now been received back from ALS Chemex (Johannesburg). Encouraging results were returned on three out of four licences. Anomalous gold values were noted of up to 0.108ppm from 286 stream sediment samples with 12% of values greater than 0.02ppm gold across those three licences, which warrant follow up exploration work. Interestingly these gold anomalous sub-areas appear to show similar geological features to East Africa Metals million ounce Magambazi gold deposit located north-east of Morogoro.

Valuation

We continue to value Kibo Mining using a sum-of-the-parts methodology, which we believe is appropriate considering Kibo's multi-asset portfolio. Kibo's valuation is assisted by the introduction of a gold resource at Lubando and Imweru in Lake Victoria. In order to value this resource we have compared these two projects against a peer group of London-listed gold exploration and development companies. Representing the relative stage of exploration/development the peer group (see below) currently trades at an EV between US\$3.06-43.46 gold equivalent resource and at US\$3.96-64.01/oz adjusted gold equivalent resource. Due to the early stage nature of the exploration work at Lubando and Imweru we take the average of the lower end of these ranges (US\$3.50/oz gold equivalent resource) as our base to value these projects at US\$2.8m (£1.7m or 1.3p/share).

As previously we value the Rukwa Coal Power Project using an in-ground resource based metric using Rukwa's coal pre-production peer group, which is currently trading at an average EV of £0.04/tonne. For Kibo's Haneti Project, we continue to use Votorantim's £2.7m earn-in agreement as a base for our calculation and for Kibo Mining's pre-Resource gold projects we continue to base our valuation on a transactional/investment basis to which we apply an exploration discount of 90%.

Our total valuation for Kibo Mining is £10.6m or 7.7p/share, which represents a 49% upside to Friday's closing price. We therefore reiterate our BUY recommendation on the stock.

Kibo Mining Summary Valuation

Project	Basis for valuation	Value (£m)	Value (p/share)
Rukwa	EV/t in-situ resource at 0.04p/t	4.4	3.2
Haneti	50% of £5.4m valuation	2.7	1.9
Lubando and Imweru	EV/oz in-situ resource at US\$3.50/oz	1.7	1.3
Other projects	\$2.1m with exploration discount	0.2	0.1
Estimated Net Cash Position		1.6	1.6
Total		10.6	7.7

Source: Hume Capital Investment Research

Ounces in the ground valuation

Company	Ticker Exchange	Share price (p)	Market Cap (US\$m)	EV (US\$m)	Total Resources (000oz Au equiv)	Adj Resources (000oz Au equiv)	EV/Total Resource (US\$/oz)	EV/Adj Resource (US\$/oz)
Gold - Production								
African Barrick Gold	ABG-LON	156.1	1,024	789	31,256	22,545	25	35
Amara Mining	AMA-LON	18.8	50	62	3,827	2,753	16	23
AngloGold Ashanti	ANG-ZA	950.0	5,211	8,540	228,240	166,605	37	51
Archipelago Resources	AR-LON	47.1	434	453	2,695	2,149	168	211
Avocet Mining	AVM-LON	16.3	52	37	4,943	3,825	7	10
Centamin	CEY-LON	45.5	802	682	13,453	10,650	51	64
Fresnillo	FRES-LON	1033.0	12,180	11,810	65,273	43,849	181	269
Highland Gold Mining	HGM-LON	77.3	402	582	8,958	8,062	65	72
Hochschild Mining	HOC-LON	202.4	1,095	1,271	9,261	8,396	137	151
Kirkland Lake Gold	KGI-LON	225.5	253	314	2,627	1,825	120	172
Medusa Mining	MML-LON	132.0	399	410	3,119	1,738	131	236
Minera IRL Limited	MIRL-LON	14.4	40	54	3,344	2,190	16	25
Orosur Mining	OMI-LON	15.4	19	21	1,835	1,573	11	13
Pan African Resources	PAF-LON	15.5	453	414	5,985	4,337	69	96
Petropavlovsk	POG-LON	77.0	243	1,560	23,547	15,869	66	98
Polymetal	POLY-LON	669.0	4,169	5,431	25,270	21,865	215	248
Polyus Gold	PGIL-LON	193.8	9,400	9,648	115,023	84,043	84	115
Randgold Resources	RRS-LON	4676.0	6,899	7,017	28,760	20,063	244	350
Yamana Gold	YAU-LON	698.3	8,412	8,687	47,705	32,444	182	268
Weighted Average							92	127
Gold - Expl. & Dev.								
Aureus Mining	AUE-LON	37.8	129	75	1,736	1,179	43	64
Chaarat Gold Holdings	CGH-LON	13.8	55	18	5,760	4,004	3	5
Condor Gold	CNR-LON	125.0	67	57	3,474	1,929	17	30
Kryso Resources	KYS-LON	28.3	172	121	4,720	3,470	26	35
Nyota Minerals	NYO-LON	1.5	15	7	2,426	1,872	3	4
Ortac Resources	OTC-LON	0.3	12	4	1,361	980	3	5
Serabi Gold	SRB-LON	5.5	40	20	668	398	30	51
Weighted Average							15.10	21.99
Simple Average							17.93	27.53
Minimum							3.06	3.96
Maximum							43.46	64.01

Source: Company technical reports, Hume Capital Investment Research estimates

Summary Financials

Income Statement

Year end December (£m)	2011A	2012A	2013E	2014E	2015E
Revenues	0.0	0.0	0.0	0.0	0.0
Cost of sales	0.0	0.0	0.0	0.0	0.0
Gross income	0.0	0.0	0.0	0.0	0.0
EBITDA	-2.5	-4.5	-1.3	-1.4	-1.4
Depreciation and amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-2.5	-4.5	-1.3	-1.4	-1.4
Impairment losses	1.2	0.9	0.0	0.0	0.0
Net interest income	0.0	0.0	0.0	0.0	-0.2
Associate and Other non-op. income/(cost)	0.0	0.0	0.0	0.0	0.0
Profit before tax	-2.4	-4.5	-1.3	-1.4	-1.6
Tax	0.0	0.0	0.0	0.0	0.0
Tax Rate (%)					
Income before minority interests	-2.4	-4.5	-1.3	-1.4	-1.6
Minorities	0.0	0.0	0.0	0.0	0.0
Net income	-2.4	-4.5	-1.3	-1.4	-1.6
Adjusted EBITDA	-2.5	-4.5	-1.3	-1.4	-1.4
Adjusted EBIT	-2.5	-4.5	-1.3	-1.4	-1.4
Adjusted PBT	-2.4	-4.5	-1.3	-1.4	-1.6
Adjusted net income	-2.4	-4.5	-1.3	-1.4	-1.6
EPS (p)	-0.7	-0.8	-1.2	-1.0	-1.2
Diluted EPS (p)	-0.7	-0.8	-1.2	-1.0	-1.2
Adj. EPS (p)	-0.7	-0.8	-1.2	-1.0	-1.2
Adj. Diluted EPS (p)	-0.7	-0.8	-1.2	-1.0	-1.2
DPS (p)	0.0	0.0	0.0	0.0	0.0
Weighted average no. shares (m)	331.0	541.3	107.8	137.7	137.7
Dil. w. ave. no. shares (m)	331.0	541.3	107.8	137.7	137.7
Year end no. shares (m)	377.6	541.3	137.7	137.7	137.7

Source: Company data, Hume Capital Investment Research

Cashflow Statement

Year end December (£m)	2011A	2012A	2013E	2014E	2015E
Net income	-2.4	-4.5	-1.3	-1.4	-1.6
Depreciation and amortisation	0.0	0.0	0.0	0.0	0.0
Change in provisions	0.0	0.0	0.0	0.0	0.0
Loss(gain) on asset disposals	0.0	0.0	0.0	0.0	0.0
Other operating cash movements	1.6	2.1	0.0	0.0	0.0
Net change in working capital	0.0	1.7	0.1	0.0	0.0
Cash flow from operating activities	-0.9	-0.7	-1.2	-1.4	-1.6
Capital expenditure	-0.3	-0.9	-1.3	0.0	0.0
Free cash flow	-1.2	-1.6	-2.5	-1.4	-1.6
Acquisitions	0.0	0.0	0.0	0.0	0.0
Divestitures	0.0	0.0	0.0	0.0	0.0
Dividend paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash flow from investing activities	-0.3	-0.9	-1.3	0.0	0.0
Common stock issuance/(repurchase)	1.8	0.8	3.7	1.2	0.0
Increase/(decrease) in debt	0.0	0.0	0.0	1.8	0.0
Other financing cash flows	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	1.8	0.8	3.7	3.0	0.0
Net change in cash	0.5	-0.8	1.2	1.6	-1.6

Source: Company data, Hume Capital Investment Research

Balance Sheet

Year end December (£m)	2011A	2012A	2013E	2014E	2015E
Property plant and equipment	0.0	0.0	0.0	0.0	0.0
Intangible assets	3.9	24.4	25.7	25.7	25.7
Investment property	0.0	0.0	0.0	0.0	0.0
Other fixed assets	0.0	0.0	0.0	0.0	0.0
Non-current assets	3.9	24.4	25.7	25.7	25.7
Stocks & WIP	0.0	0.0	0.0	0.0	0.0
Trade receivables	0.1	0.1	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Cash	0.9	0.1	1.3	2.9	1.3
Current assets	1.0	0.2	1.3	2.9	1.3
Total assets	4.8	24.5	26.9	28.6	27.0
Trade creditors	0.0	1.8	1.8	1.8	1.8
Short term borrowings	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.1	0.0	0.0	0.0	0.0
Current liabilities	0.1	1.8	1.8	1.8	1.8
Long term borrowings	0.0	0.0	0.0	1.8	1.8
Other non-current liabilities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	0.0	0.0	0.0	1.8	1.8
Total liabilities	0.1	1.8	1.8	3.6	3.6
Net assets	4.7	22.7	25.1	25.0	23.4
Share capital	9.1	31.1	34.8	36.0	36.0
Retained earnings	-4.8	-9.2	-10.5	-11.9	-13.5
Other	0.4	0.9	0.9	0.9	0.9
Minority interests	0.0	0.0	0.0	0.0	0.0
Total equity	4.7	22.7	25.1	25.0	23.4

Source: Company data, Hume Capital Investment Research

Valuation Data

Year end December	2011A	2012A	2013E	2014E	2015E
Per share data					
Basic EPS - reported (GBP)	-0.7	-0.8	-1.2	-1.0	-1.2
Diluted EPS - reported (GBP)	-0.7	-0.8	-1.2	-1.0	-1.2
Dividend per share (GBP)	0.0	0.0	0.0	0.0	0.0
NAV per share (GBP)	1.4	4.2	23.3	18.1	17.0
FCF per share (GBP)	-0.4	-0.3	-2.3	-1.0	-1.2
Performance					
Revenue growth (%)	n/a	n/a	n/a	n/a	n/a
Adj. EBITDA growth (%)	n/a	n/a	n/a	n/a	n/a
Adj. EBIT growth (%)	n/a	n/a	n/a	n/a	n/a
Margins					
Gross margin (%)	n/a	n/a	n/a	n/a	n/a
Adj. EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a
Adj. EBIT margin (%)	n/a	n/a	n/a	n/a	n/a
Returns					
ROE (%)	-51.7	-19.7	-5.2	-5.4	-6.8
ROIC (%)	-64.7	-19.8	-5.4	-5.7	-6.0
ROCE (%)	n/a	n/a	n/a	n/a	n/a
Valuation					
PER (x)	n/a	n/a	n/a	n/a	n/a
P / CFPS (x)	n/a	n/a	n/a	n/a	n/a
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
EV / Revenue (x)	n/a	n/a	n/a	n/a	n/a
EV / Adj. EBITDA (x)	n/a	n/a	n/a	n/a	n/a
EV / Adj. EBIT (x)	n/a	n/a	n/a	n/a	n/a
EV / IC (x)	1.9	0.4	0.2	0.2	0.2
Leverage					
Debt/Equity (%)	0.0	0.0	0.0	7.2	7.7
Net Debt/Equity (%)	n/a	n/a	n/a	n/a	2.1
Interest coverage (x)	n/a	n/a	n/a	n/a	n/a
Net debt/Adj. EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Dividend cover (x)	n/a	n/a	n/a	n/a	n/a

Source: Company data, Hume Capital Investment Research

Disclosure Appendix

Company specific regulatory disclosures

1. The analyst has a personal holding of the securities issued by the company, or of derivatives related to such securities.
2. XCAP Securities or an affiliate owns more than 5% of the issued share capital of the company.
3. XCAP Securities or an affiliate is party to an agreement with the company relating to the provision of investment banking services, or has been party to such an agreement within the past 12 months. Our corporate broking agreements include a provision that we will prepare and publish research at such times as we consider appropriate.
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Buy (B): Absolute return expected to be more than 10% over the next 12 months.

Hold (H): Absolute return expected to be between -10% and +10% over the next 12 months.

Sell (S): Absolute return expected to be less than -10% over the next 12 months.

No Recommendation (NR): The investment rating and target price, if any, have been removed or suspended. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

Not Covered (NC): Hume Capital Investment Research does not cover this company.

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As at 24 September 2013 the distribution of all our published ratings is as follows:

Rating	Proportion of recommendations	Proportion of these provided with investment banking services
Buy	100%	100%
Hold	0%	0%
Sell	0%	0%

Price target and rating history chart



Source: FactSet, Hume Capital Investment Research

Date	Change
24/07/2013	New Rating: BUY
24/07/2013	New Target Price: 6.8p
24/09/2013	New Target Price: 7.7p

Source: Hume Capital Investment Research

General disclosures

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