

Kazera Global Investments

6th January 2025

On the cusp of becoming a major regional player in the Heavy Mineral Sands (HMS) arena, with one of the world's highest grades

Kazera is an AIM quoted investment company, with its current focus on African mining & that has transitioned from being a Tantalum play in Namibia to a potentially highly profitable HMS producer. A transformative deal in June 2020 took Kazera into both diamonds & HMS in South Africa. The Namibian project was sold in December 2022 for US\$13 million, & the US\$4.85 million received so far has been sensibly invested in equipping the diamond & HMS mining operations to go straight into efficient, low-cost production & generate good and scaleable profits.

- Globally, one of the highest grade HMS projects with natural replenishment**
 Whilst diamonds are great as a cost covering centre, the real money is in the HMS – usefully within which the diamonds are found. Until Kazera came along, no one twigged that the HMS was very rich & saleable. The initial HMS Mining Permit at Walviskop covers 5 hectares, is very rich, replenished by sea action, & is being birthed as “proof of concept”. **Planned initial monthly production of 6,000t HMS (72,000tpa) looks set to net Kazera c.US\$300,000 monthly profit.**

- Investors could well be witnessing the birth of a major HMS player**
 Kazera moved swiftly to apply for a Mining Licence for an adjacent beach – Perdevlei (Licence 2A) which is for a total area of over 3,000 hectares, of which the targeted initial mining area is some 34x larger than Walviskop.. The team went straight for a Mining Licence due to their impressive HMS expertise & experience of where the high-grade areas would be located. **All the pieces are now beginning to fall into place for a potential 250,000tpa HMS operation, which peer group comparisons show could value Kazera at as much as £125 million.**

- Timing is everything – global HMS shortage projected in the near-term**
 The high-grade HMS Perdevlei licence runs along an extensive 17km coastline. The timing of receipt of the licence, expected in early 2025, could not be better from a market dynamics perspective, particularly given the looming global Titanium Oxide shortage .

- Valuation based on forward PE & DCF analysis suggests 570% + upside**
 The true potential at Kazera is vast and given the recent positive newsflow from the Company, we update our coverage with an improved target price of 9.44p pending the aware of the mining Licence over the much larger area at Perdevlei - anticipated in early 2025. **We believe that a major regional HMS player is now in the making at Kazera and look forward to updating our valuation as the journey progresses during 2025.**

FLASH NOTE – REVISION TO PRICE TARGET New price target – 9.44p



Key data

EPIC	KZG
Share price	1.65p
52 week high/low	1.75p/0.325p
Listing	LSE
Shares in issue	963.71m
Market Cap	£15.90m
Sector	Mining



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Table: Financial overview. Source: Company accounts & Optimo Capital

Year to end June	2024A	2025E	2026E	2027E
Revenue (£'000)	10	1,840	6,800	6,800
PTP (£'000)	(1,905)	1,030	5,750	5,750
EPS (p)	(0.17)	0.09	0.53	0.50

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Offtake agreement heralds significant cash flow

Recently, Kazera has made great strides towards the production and sale of HMS and diamonds at its 5-hectare Walviskop project. In mid-December 2024, the company announced the signing of an eagerly awaited offtake agreement for HMS production with Fujax, which provides metals, minerals, energy and agricultural trading services on a global scale.

This deal covers an initial 100,000t of HMS, expected to be delivered in monthly batches of around 6,000t, with the first sales expected in March 2025. The operator at Walviskop is Whale Head Minerals (WHM), where Kazera owns a 70% stake (and has an entitlement to approximately £45m of BEE partner loan repayments). **Under the terms of the agreement, WHM will sell HMS to Fujax at the mine gate, and WHM will receive 80% of the anticipated price achieved by Fujax after taking off costs.** The balance will be received by WHM within 5 days of the sale of the product. As part of the agreement, Fujax will also be prepaying US\$600,000 to the company to fund any additional equipment needed.

This looks to be a cracking deal and represents the first independent validation of the company and the merits of its HMS project which is underlined by Fujax being prepared to put an initial tranche of funding in. We understand that Kazera received a number of proposals but chose Fujax as they were happy to take a percentage of the profit as their fee – in effect a partnership type arrangement playing to Fujax’s distribution avenues and to Kazera’s expertise in the ground (beach) resource. The arrangement aligns interests for Fujax to drive sales prices up and costs down. **Also, Fujax offered a cash flow efficient proposal that puts to bed completely any necessity for further loan funding by supportive shareholders Catalyse Capital (R Jennings) & Tracarta (Chairman John Wardle).**

In addition, Fujax has a fleet of ships that transport a vast amount of a variety of different minerals out of South Africa to various end users world wide. **Initial expectations on a modest throughput of approx 6,000t per month from Walviskop are anticipated to generate a monthly profit of US\$300,000 a month or US\$3.6 million a year.**

“Company making” Perdevlei Mining Licence could be granted within months

WHM has applied for a Mining Licence over the adjacent beaches at Perdevlei which is over 3,000 hectares in extent. The initial mining area is some 186 hectares - 34 times larger than Walviskop. This in itself has an intrinsic value as submitting an application excludes others from using it. The application would seem to be proceeding well as in October 2024 the company was asked to provide a guarantee regarding its obligations to rehabilitate the mining area covered by its application. As Kazera’s CEO Dennis Edmonds remarked at the time the *“...request for the Environmental Guarantee is an enormously encouraging step in our progress towards obtaining a Mining Right. ...”*.

To get decent economies of scale, ideally, WHM would be selling HMS in 30,000t lots to fill a ship completely. That magnitude of monthly tonnage would generate a profit of US\$1.5 million *per month* or US\$18 million per annum. At Perdevlei, there is the obvious scope to set up two new larger plants processing approx. 12,000t per month per plant, each centrally positioned in the two obvious high-grade areas. Combined, this would allow this level of major production to be achieved. **The glaring reality is that there is the potential to do 10-20 times as much production at Perdevlei as the 6,000t per month at Walviskop.**

Serious player in the global HMS market

As relayed, WHM went straight for a Mining Licence at Perdevlei, neatly leapfrogging a Prospecting Licence, as the company has gained tremendous knowledge at Walviskop this last 18 months as plans progressed to get into production. Local management know precisely the areas to focus on and have smartly excluded environmentally sensitive areas from their application. **Potentially, it gets much better than this however as the total area at the Perdevlei licence is in fact 3,000 hectares, running along 17km of coastline.** The scope is vast and the timing of these projects could not be better. Ilmenite, rutile and other heavy minerals that make up these HMS deposits are de facto precious metals. They are required for industrial purposes and consumer products where existing mines/resources are becoming depleted, and there is a clear and accepted shortage of new projects coming on stream. **Make no mistake, with a 30-year Mining Licence in place for Perdevlei, Kazera looks set to become a serious player in the HMS market.**

Valuation

Following the progress made at Kazera, our valuation and target price have been reassessed.

Diamonds – Assumed 200 carats a month production at a US\$300/carat selling price, giving monthly revenue of US\$60,000 (US\$720,000 per annum).

Walviskop - Heavy Mineral Sands – Sales are assumed to begin in March 2025 and to rapidly rise to the targeted 6,000tpm by mid year. We have modelled this level of production over a 10-year period pending the opportunity to upgrade majorly upon the hoped for granting of the Perdevlei licence area. Our financial model used a flat price of US\$100/t HMS achievable at the mine gate. **The combined NPV(12) for both the diamond and the HMS operations at Walviskop attributable to Kazera is US\$36.30 million (£27.19 million). This is highly conservative as the Feasibility Study by CREO Design determined an NPV(20) of US\$223.75 million for Walviskop alone.** Our modelling suggests an attributable profit of £5.28 million could be achieved in the year ending 30th June 2026 as tonnage increases. A relatively lowly multiple of 5 times 2026 prospective earnings would suggest a valuation of £26.4 million. We have thus adopted a blended valuation figure of £27 million. We have also added in the £45m BEE loan entitlement too, expected to be paid over 10 years and so discounted to £20.8 million at an 8% discount rate.

Perdevlei – Heavy Mineral Sands - WHM is in the late stages of its application for a Mining Licence over the adjacent beaches at Perdevlei. This has an intrinsic value as submitting an application excludes others from using it. Perdevlei bears all the hallmarks of having similar characteristics to Walviskop but is reckoned to be 34 times larger. To value these interests sensibly, we have made bold assumptions and multiplied the NPV attributable to Kazera for Walviskop (£27.19 million) by 34, which gives £924.46 million. Previously, we chose to risk this figure by an arbitrary 97.5%. Given the positive developments in the closing weeks of 2024, we have reduced this risk arbitrarily to 95%. **The potential award of this licence could be just a matter of months away, and gaining it would allow this risk to be reduced materially with the consequent impact on a vastly increased valuation used in our SOTP table.** We will review the valuation here post the hoped for licence award and make the commensurate adjustments at that stage.

Tantalum & Lithium – Kazera sold Aftan (tantalum mine and lithium interests) to Hebei for US\$13.0 million but only US\$4.85 million has been received. The company retains a 100% interest in Aftan until the full amount of cash has been received. Hebei now owes Kazera approaching US\$12 million (including interest), and which we see as the minimum amount that KZG will gain from any deal to resolve this situation. **This does not include any value for the 2.5% royalty Kazera has over the mine.**

Asset	Valuation £ million
Walviskop - HMS & diamonds	27.0
Perdevlei – HMS & Diamonds	46.22
BEE Loan repayment entitlement	20.8
Tantalum and lithium debt receipt	9.52
Sub-total	103.54
Per share (963,720,073)	10.74p
Fully diluted basis	
Proceeds from the conversion of outstanding warrants & options	0.61
Total	104.15
On a fully diluted basis (currently 1,103,331,020	9.44p

Sum-of-the-parts valuation Source: Optimo Capital

The fully diluted figure of 9.44p has been adopted as our target price. It is sobering to consider just what type of valuation could be achieved if Kazera can get to 250k tpa within the next 24 months. In reality, given the company's Investing company status, we would expect a trade sale or an outright spin off before this type of scale was presented as it could be a globally attractive acquisition prospect for numerous major and mid-tier players.

Kazera is on the brink of becoming a rapidly growing resources company with the scope to generate enviable profits over the coming years. Recent years have not been easy for the company, but looking ahead, we can easily visualise a long-term stream of earnings that provides the company with optionality as to how and where to deploy these streams. **We note CEO Dennis Edmonds recent comments of a planned return of capital to shareholders when the company is in a position to do so if no other uses are being targeted by the Board. We expect this would take the form of a share buyback or special dividend.** We struggle amongst the landscape that is UK AIM & small cap land to find a minnow with such a clear growth profile offering the potential of dividends within 12-18 months.

The “much” bigger picture

Looking at peer group comparisons certainly gives an idea of the sort of valuation the HMS interest could attract when production reaches the 250,000 tpa level at WHM. We have taken comparisons with peer group companies to see what type of valuation WHM could attract when in full operation. Iluka Resources (ASXLILU) is a well-established major mineral sands producer from its Kwale Operations in Kenya. **The current run rate of HMS production for Base looks to be around 616,800t per annum, which would suggest an EV/t of production of £1,637/t.**

Another comparable company to view WHM against is Base Resources (BSE.I) who was acquired in September 2024 by Energy Fuels Inc (NYSE:UUUU) for A\$260.22 million. **HMS production in the company's 2024 financial year prior to sale was 228,000t per annum, which would suggest an EV/t of production of £545** (based on the FX rates then). Base once again shows just how high grade the Kazera operations are, as the average HMS grade mined at Kwale decreased to 2.40% in FY 2024 against 3.68% in the prior period.

Finding a perfect match in peer group comparisons is difficult, especially with HMS producers, as every orebody consists of different heavy mineral assemblages and proportions. In Kazera's favour, the projects at Alexkor also have diamonds, and the HMS/diamond deposits are unique in being self-replenishing on the HMS side due to the wave action along the coastline. Kazera is expected to be mining high-grade material at around 44% HMS. **It is still early days, but applying similar EV/tonne figures to Kazera underlines our revised price target of 9.44p as a base valuation level pending the award of the Perdevlei mining licence.**

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