02 June 2025

Gemfields

Rights issue and a 2026FY recovery

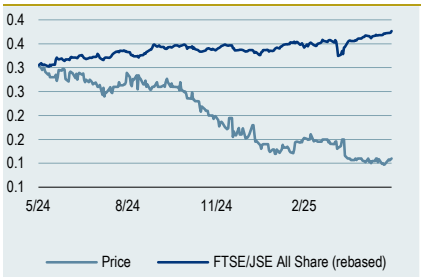
- **2024FY Setback:** At the end 2024FY, Kagem's emerald auction revenue fell sharply and unexpectedly due to its competitor's aggressive sales strategy. At the same time, MRM's ruby auction felt the impact of the mine's shrinking volumes of premium ruby production.
- **Liquidity squeeze:** MRM's poor production and auction results affected its ability to make the final payments for its investment in the substantially debt-funded Second Processing Plant (PP2) expansion project.
- **Mitigation:** To preserve cash, Kagem ceased mining and treated its lower grade stockpiles. GGL stopped all work at its Nairoto and MML prospects for the same reason.
- **Asset sale:** Gemfields opened discussions to sell Fabergé as a supplementary source of cash. This process was unable to close in time to close the funding gap and was suspended in favour of a rights issue.
- **Rights issue:** By the end of 2024FY, Gemfields' debt had increased to $101m of which $83m was held by MRM. To ensure the completion of the PP2, a $30m rights issue was launched with underwriting support of both its largest shareholders.
- **The rights issue impact:** The rights issue was priced at R1.05/s, nearly 30% below the ruling price of R1.50/s and well below 2023FY's > R3/s price. Shares in issue will increase by 48%, significantly diluting GGL's valuations.
- **Good news, PP2 expansion 'materially' on track:** The completion of MRM's PP2 expansion and the trebling of capacity should produce some compelling revenue and cash flow metrics from 2026FY. Profit growth may be more subdued by the potential amortisation over the current short life of mine and increased finance charges, but MRM could generate a FCF of $45m/a from 2026FY.
- **More good news?** We believe that the sale of Fabergé is critical to secure GGL's future and that the sales process will be restarted in June and concluded by the end of 2025FY. Speculatively, this could generate a net, after-tax sale price of c.$40m. This could be GGL's get-out-of-jail card, which may catalyse ERM, reduce MRM's gearing or even fund a special dividend.
- **GGL's profits:** GGL's profits in 2024FY were severely impacted by $91m of impairments, contributing to a loss of USD7cps. In 2025FY, we expect a loss of USD3cps due to Kagem's slow restart, MRM's finance charges and Fabergé FV losses. By 2026FY, the PP2 expansion should restore GGL's profit to **USD3cps**.
- **Valuation:** Based on 1,736m issued shares, a hybrid DCF model, Q1 balance sheets and a value for Fabergé of $40m, we value GGL at **R1.51/s (prev R3.06)**. Our optimistic case, which uses a 20% improvement in grade/prices, results in a value of **R2.54/s (prev R5.00).** GGL's forward PE multiple for 2026FY is just **2x.**

Key forecasts	Dec 22A	Dec 23A	Dec 24A	Dec 25E	Dec 26E	Dec 27E
Net sales (US$ m)	341	262	213	218	365	365
EBITDA (US$ m)	166	83	41	53	167	163
EBITDA margin (%)	49	32	19	24	46	45
Net Income (US$ m)	74	(3)	(101)	(37)	65	59
Basic (EPS) (US¢)	5	(1)	(7)	(3)	3	3
Underlying (EPS) (US¢)	5	1	1	(2)	3	3
DPS - ordinary (US¢)	3	1	0	0	0	0
P/E (x)	4.1	11.9	7.7	n/a	1.9	2.1
EV/EBITDA (x)	1.5	3.5	5.8	4.2	0.9	0.4
Dividend yield (%)	13.3	4.9	(5.0)	0.0	0.0	0.0

Source: Company financials, SBG Securities estimates

Share data	
RIC	GMLJ.J
Sub industry	General Mining
Price (29 May 2025)	R 1.10
Market cap. (R m)	1,284
Enterprise value (R m)	3,348
Market cap. (USD m)	72
Enterprise value (USD m)	210
Avg. daily trade value (USD m)	0.03
Free float (%)	65

Price relative to FTSE/JSE All Share



Historical performance relative to FTSE/JSE All Share			
Performance over	1M	3M	12M
Absolute (%)	3.8	-28.1	-61.3
Relative (%)	0.1	-38.3	-81.9

Source: FTSE/JSE All Share, SBG Securities Research

The price relative chart measures performance against the South Africa FTSE/JSE All Share which closed at 94726 on 29 May 2025

Research Analyst
Nic Dinham
Nic.Dinham@sbgsecurities.com

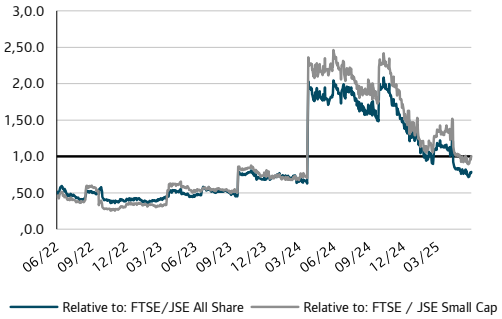
www.standardbank.com/research

Valuation metrics	Dec 22A	Dec 23A	Dec 24A	Dec 25E	Dec 26E	Dec 27E
P/E (x)	4.1	11.9	7.7	n/a	1.9	2.1
EV/EBITDA (x)	1.5	3.5	5.8	4.2	0.9	0.4
FCF yield (%)	34.0	(10.7)	(72.2)	(29.9)	92.6	88.2
Dividend yield (%)	13.3	4.9	(5.0)	0.0	0.0	0.0

Ratio analysis	Dec 22A	Dec 23A	Dec 24A	Dec 25E	Dec 26E	Dec 27E
ROE (headline basis) (%)	13	4	4	(8)	16	13
EBITDA margin (%)	49	32	19	24	46	45
EBITDA interest cover (x)	0.0	0.0	(0.1)	(0.2)	(0.1)	(0.1)
Net profit margin (%)	22	(1)	(47)	(17)	18	16
Net debt/equity (%)	(21.3)	(2.5)	23.3	19.2	(6.4)	(27.8)

Profit and loss	Dec 22A	Dec 23A	Dec 24A	Dec 25E	Dec 26E	Dec 27E
Revenue (US$ m)	341	262	213	218	365	365
% growth	32.4	-23.2	-18.8	2.4	67.5	0.0
Gross profit (US$ m)	182	101	61	65	150	146
EBITDA (US$ m)	166	83	41	53	167	163
% growth	24.5	-49.9	-50.8	29.4	215.2	-2.4
EBIT (US$ m)	128	46	4	9	102	98
% growth	21.3	-64.0	-91.0	120.5	1,019	-4.3
Exceptional items (incl. non continuing) (US$	13.4	29.6	107.8	30.9	12.7	9.0
Net interest (US$ m)	(2)	(0.8)	(6)	(11)	(13)	(9)
Tax (US$ m)	(40)	(19)	3	(16)	(25)	(30)
Tax rate (%)	35.2	117.1	2.7	71.6	27.5	33.6
Net profit (US$ m)	74	(3)	(101)	(37)	65	59
Headline earnings (continuing business) (US$	63	17	16	(27)	55	51
% growth	22.6	-72.5	-6.1	-267.4	301.8	-8.1
Weighted diluted number of shares (m)	1,248	1,209	1,167	1,445	1,723	1,723
Basic (EPS) (US¢)	5	(1)	(7)	(3)	3	3
Basic earnings per share (EPS) growth	10	(117)	(741)	64	225	(8)
Adjusted diluted HEPS (cont. business) (US¢)	5	1	1	(2)	3	3
% growth	20.5	(71.6)	(24.2)	(240.4)	301.8	(8.1)
Ordinary dividend per share (DPS) (US¢)	3	1	0	0	0	0
Ordinary dividend pay-out ratio (%)	55.5	202.0	61.4	18.3	0.0	19.8

Relative to JSE All Share



Source: Refinitiv

Cash flow	Dec 23A	Dec 24A	Dec 25E	Dec 26E
Normalised EBITDA (US$ m)	48	7	6	105
Change in working capital (US$ m)	7	(13)	(4)	1
Cash generated by operations (US$ m)	99	18	41	171
Net finance income (charge) (US$ m)	(1)	(6)	(11)	(13)
Taxes paid (US$ m)	(57)	(19)	(19)	(31)
Dividends paid (US$ m)	(40)	(12)	(5)	0
Total cash flow from operations (US$ m)	35	12	26	139
Total capex (US$ m)	(58)	(85)	(53)	(41)
Net cash flow from investing activities (US$	(75)	(85)	(15)	(43)
Share issuance (repurchases) (US$ m)	(8)	0.3	27	0
Net increase (decrease) in cash (US$ m)	(66)	(31)	51	46

Balance sheet	Dec 23A	Dec 24A	Dec 25E
Intangible fixed assets (US$ m)	66	40	41
Property, plant equipment (US$ m)	357	339	362
Remaining total fixed assets (US$ m)	34	13	25
Current assets (less cash) (US$ m)	242	219	273
Cash (US$ m)	52	21	72
Total assets (US$ m)	698	611	700
Total equity (US$ m)	523	403	365
Total liabilities (US$ m)	174	208	241
Total equity and liability (US$ m)	609	513	474
Net cash (debt) (US$ m)	11	(80)	(59)

Sources: Company financials, SBG Securities estimates

Gemfields summary

2024 Overview

Gemfields had a very poor 2024FY. The deterioration in **Kagem's** emerald auctions in late November 2024 due to a competitor's aggressive sales timings and volume offerings was unexpected. As a result, the prices of medium to poorer quality emeralds were badly affected and revenue fell to $79m.

The impact of the poor emerald auctions required Gemfields to impair Kagem's FV uplift created at the time of its acquisition by $48m and reduce the mining assets' value to $65m.

Figure 1: Rich pickings: premium rubies, MRM 2024

Source: SBG Securities

At **MRM**, recovered grades of premium rubies declined to new lows which reduced the size of the December auction. As a result, turnover fell to $117m, the lowest in recent history, excluding the Covid-impacted years.

MRM's expansion will treble capacity. This increase will broaden the variety of resources treated at MRM, counteract the effects of declining grade and is critical to the future of Gemfields.

The timing of the weak auction sales coincided with the ongoing construction of MRM's major expansion project (PP2) designed to treble capacity. This capacity increase will broaden the variety of resources treated at MRM, counteract the effects of declining grade and is critical to the future of Gemfields.

By the end of December, MRM was facing a significant liquidity squeeze. The PP2 project capital of $70m was funded by term loans and cash reserves and $20m was required to complete the project in the first six months of 2025FY.

The 2024FY financial results revealed that MRM's debt had grown to $83m by the end of December 2024 and that the potential for breaching its Absa debt covenants by June 2025 had grown significantly, limiting the ability to acquire further debt funding.

GGL's decision to close Nairoto and put it up for sale is a major refocus of GGLs business model.

To reduce cash outflows, GGL also took the decision to close its Nairoto gold project in northern Mozambique as well as suspend its MML project activities. These assets required impairments of $37m to be recorded. The latter impairment represents both poor exploration results (MML) as well as an opportunistic and failed diversification at Nairoto. Nairoto is currently up for sale, but its location has been a deterrent for potential buyers.

GGL impaired a further $7m of inventory and other assets which appeared in the cost of sales or in SGA costs.

As a result of poor underlying profitability as well as the impairments, GGL recorded a BEPS loss of USD7cps. Adjusted HEPS is estimated to have been a loss of c. USD1cps.

2025 Update and forecasts

The rights issue will require the issue of 556m new shares, which will increase the number of issued shares from 1,167m to 1,723m (48%).

In April 2025, GGL proposed a fully underwritten rights issue of $30m to resolve its funding crisis. The rights issue will require the issue of 556m new shares, which will increase the number of issued shares from 1,167m to 1,723m (48%).

The underwriters are Assore International Holdings and Rational Expectations who also provided immediate working capital of $13m in the form of a loan that will convert into their pro-rata entitlement to the rights issue in June.

The recent EGM approved the rights issue as well as a waiver that will allow Assore to increase its current stake of 29% in the event of an underwriting requirement, above the UK Takeover Panel threshold of 30%, without triggering a mandatory offer for full control.

The issue is pitched at R1.05cps which is a significant (29%) discount to the 30-day weighted average price.

The issue is pitched at R1.05cps, which is a significant (29%) discount to the 30-day weighted average price that was already under pressure at the time of the announcement, but which is likely to encourage many shareholders to exercise their rights.

The prospectus revealed the sharp deterioration in the balance sheet by the end of Q1:25 with debt and lease liabilities reaching $119m and cash on hand of just $14m despite the receipt of the auction receivables. This slippage from the net debt metric of $80m recorded in December 2024 resulted from capital payments of $17m and group opex of $27m as well as a reduction in accounts payables of $9m. The $13m loan from Assore and Rational Expectations was received in early April.

The $16m March auction of commercial quality emeralds showed an encouraging improvement in prices.

The $16m March auction of commercial quality emeralds showed an encouraging improvement in prices. However, **Kagem's** strategy of processing only its stockpiled low-grade ore at a rate of about 20,000tpm to save costs has resulted in a larger-than-expected fall in both the quality and production of premium emeralds. This means that the high-quality May 2025 auction will have to be postponed to September 2025 and further high-quality auctions in 2025FY are unlikely, even with the benefit of a return to selective mining from two production centres in May and June 2025 returning to full production in Chama pit in the latter part of 2025FY H2.

On this basis, we expect a strong cash outflow and loss in H1:25 and revenue for 2025FY of $70m, 15% below the 2024FY levels, and expect Kagem to make a small loss for the full year, assuming no further impairments or impairment reversals. By year end, we expect Kagem's debt to have reached $40m.

In 2026FY, we also expect Kagem to return to its financially successful strategy of producing more ore than the wash plant can process.

Over time, perhaps during 2026FY, we also expect Kagem to return to its financially successful strategy of producing more ore than the wash plant can process. This strategy ensures that all high-grade ore is processed while lower grade ore is stockpiled. The only caveat to what should be a return to stronger profits in 2026FY is the likely simultaneous return to full mining at its competitor Grizzly Mining. After parking half of its fleet, Grizzly is reported to be currently operating at between 60% and 80% of its capacity.

MRM faces a similar dilemma around its auction timings. It hosted a mini auction in April to improve cash flows but included some better-quality rubies that would have been sold at the June auction. This and the fact that the production of premium rubies in H2:24 was the lowest on record, except during Covid, will mean smaller volumes will be sold in the June auction. As a result, we expect the proceeds of the mixed quality auction in June 2025 to be materially lower than the $46m achieved in December 2024.

Even so, our estimate of December's auction is $80m, which could result in 2025FY revenue of $132m, similar to 2024FY.

The commissioning of the PP2 plant from July 2025 should benefit a December 2025 auction although the benefit may be diluted by any delays during project commissioning. MRM has also lowered its expectations of the quantity it will process in 2025FY from 3.3mt to 2.2mt. Even so, our estimate of December's auction is $80m which with another possible commercial auction could result in a 2025FY revenue of $132m, similar to 2024FY.

MRM is expected to process part of its 1.4mt of ROM stockpile during 2025 to conserve cash. These stockpiles may be lower grade than Mugloto pit's current production although grade prediction is not MRM's strong point.

By 2026FY, MRM's financial position should materially improve. Even if grades and ruby prices do not improve, its revenue could rise to c. $270m.

By 2026FY, MRM's financial position should materially improve. We expect it to be able to process over 3mtpa and even if grades and ruby prices do not improve, its revenue could rise to c. $270m compared to $117m in 2024FY. We also expect some scaling of production costs due to the high fixed costs related to the camp and security arrangements. Free cash flow could rise to $45m/a even after repayment of c. $30m/a debt.

MRM's short reserve life of only between four to five years could restrain its earnings contributions to GGL

MRM's short reserve life of only four to five years could restrain its earnings contributions to GGL. The current application of accounting standards to mining companies would require the large FV uplift of $136m as well as the total current and rising PPE asset base of over $92m to be amortised and depreciated by the end of 2029, which is the end of the current reserve life. This is the result of not having increased its reserve base since the expansion plan was first mooted in 2020 and these charges can only be diluted if further reserves are defined.

In summary, we expect GGL to make a loss of USD3cps in 2025FY. The loss will come from Kagem, higher financing charges at MRM as well as a possible impairment arising from the sale of Fabergé (see below). From 2026FY, the rapid increase in production at MRM should ensure a profit of $70m but we estimate the 48% increase in issued shares as well as the large D&A charges at MRM will suppress basic profit to an estimated USD3cps.

The Fabergé cash pivot

Although earnings may be weak for another year, cash could become a major feature of Gemfields and underpin or improve its share price. GGL corporate receives a cash stream of dividends as well as a reimbursement of Marketing Management and Auction fees.

It is unlikely that either Kagem or MRM will be able to issue dividends for the next two years.

It is unlikely that either Kagem or MRM will be able to issue dividends for the next two years. However, the expected strong improvement in revenue from MRM in 2026FY should provide the corporate office with $35m/a from Marketing Management and Auction (MMA) fees, which along with Kagem's modest $10m fee contribution will more than cover corporate's trimmed down costs of c $25m/a as well as cover its $5m SGA costs in the 'other' segment.

However, the real cash pivot for the company could be the sale of Fabergé.

However, the real cash pivot for the company could be the sale of Fabergé. The decision to offer Fabergé for sale in Q4:24 was catalysed by the need to provide liquidity for MRM. The sales process proved too slow to match the liquidity squeeze. As a result, the rights issue was launched and the Fabergé sales process suspended.

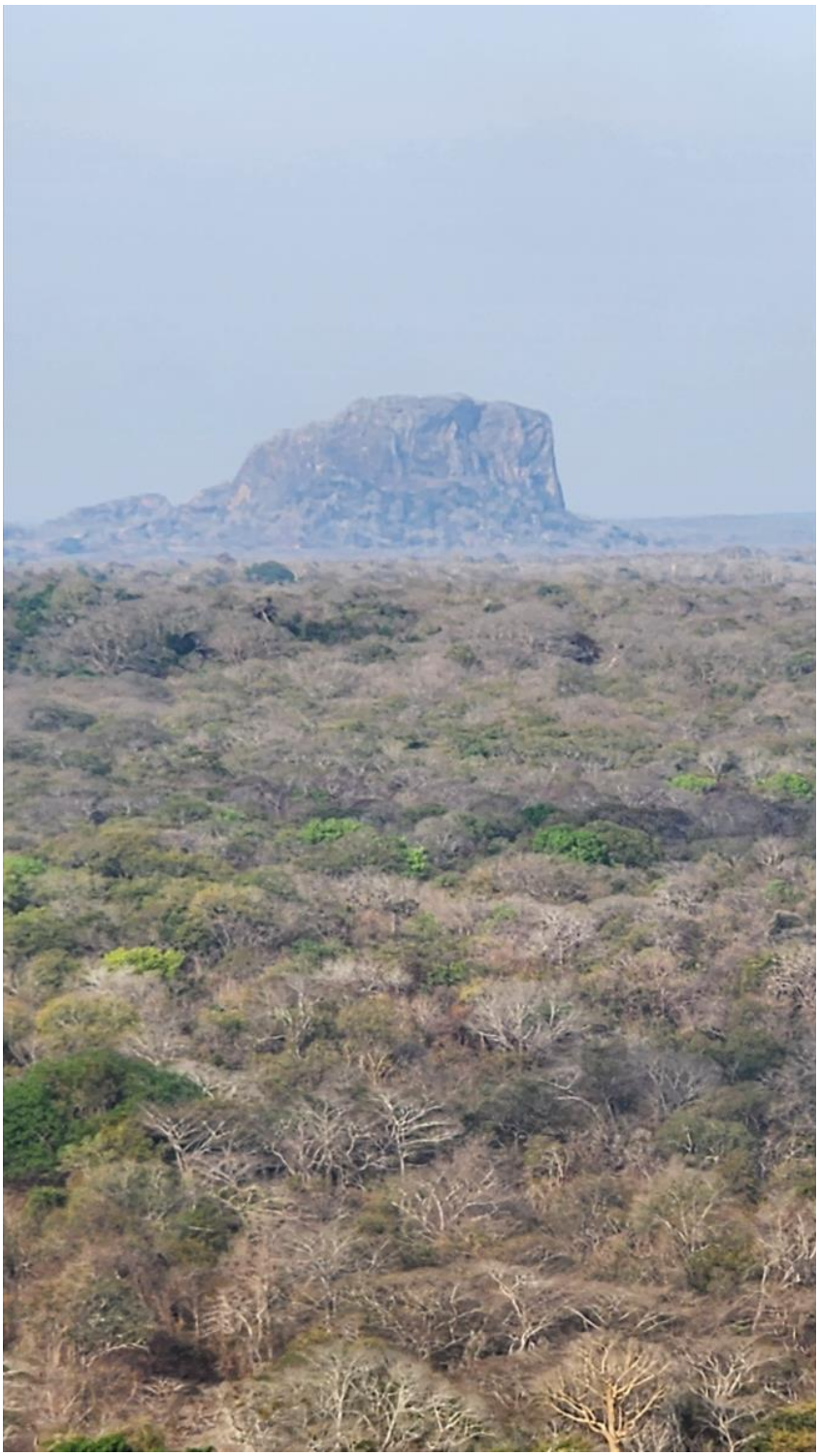
Given the continued need to rebuild strategic and funding flexibility, we expect the sales process to continue after the rights issue

Given the continued need to rebuild strategic and funding flexibility, we expect the sale process to continue after the Rights Issue. This postponement should ensure that management will no longer be pressured into accepting a lower price to avoid the rights issue. This could mean that it will now have an expectation of reasonable price offers. Fabergé has net working assets of $20m so we speculate that its sale could achieve

$40m, not too far short of the current book value of $51m. We also assume that the sale proceeds will be tax free.

This would be a significant boost to GGL. Not only would it provide instant liquidity, but it would also reinforce the value of the company by materialising a significant portion of its asset value. The degrees of freedom it would open for the company would more than outweigh a possible a Fair Value loss or impairment that would contribute to a possible BEPS loss of **USD3cps** in 2025FY.

Figure 2: Miombo Forests and Granite Inselberg; SE of MRM Lease



Source: SBG Securities 2024

What's possible?

The first is a return to shareholders of $30m of the new funds.

The speculative sale of Fabergé raises the obvious question of how the cash could be used. We suggest three possibilities out of many. The first is a return to shareholders of $30m of the new funds. That would effectively reimburse all existing shareholders that followed their rights for the funds they provided.

This possibility will also reward those that did not follow their rights. So, this possibility would see all shareholders enjoy a special dividend of ZAR35cps for shares currently nominally trading at ZAR100cps. This could provide temporary price support for the share, but we regard it as a low possibility along with other forms of shareholder benefits like dividends for the next two years.

The second possibility is to provide funds to MRM via an intercompany loan to assist it to avoid breaching debt covenants and ensure operational continuity.

The second possibility is to provide funds to MRM via an intercompany loan to assist it to avoid breaching debt covenants and ensure operational continuity. This loan would have to be subordinated to the existing debt providers and would only be recoverable after several years. A practical way of lending money would be to convert GGLs MMA fees into loans.

The third possibility is directing the cash to new projects. GGL probably has among the best ruby exploration leases in the world

The third possibility is directing the cash to new projects. GGL probably has among the best ruby exploration leases in the world. However, with the suspension of activities on all mining and exploration leases except MRM and ERM, the titles are at risk. To retain them, GGL needs to explore and incur expenses. To be evaluated properly they require even larger commitments over a few years. In this regard, cash provides instant solutions.

This approach could put ERM into production at 100tpm in a relatively short time as well as secure the control of its considerable acreage. It will be negative for cash flows until positive results emerge but could provide real long-term value.

Valuations

Given the imminent issue of an additional 556m shares, we have based our valuations on a total of 1,736m shares in issue.

Our approach is to construct a hybrid sum-of-the parts DCF model of both operations as well as using the current debt of $119m and a value of $40m for Fabergé. This is our base case and assumes current grade and gemstone prices remain at levels seen in H2:24.

Our optimistic valuation uses a 20% improvement in either grade or prices for both Kagem and MRM as well as a sale price for Fabergé of $45m.

The DCFs are evaluated using a 25% real rate of return. This is high, reflecting the considerable sources of political, societal as well as financial risk that GGL faces in Zambia and Mozambique. The recent escalation of lawfare between Kagem and Grizzly can be added to these substantial risks, with both parties initiating new cases against each other in the last 6 months.

Other elements of risk are at the operational level, where grades have fallen, without clear reasons. The risk these trends present are compounded by the lack of any recent external CPR for either Kagem or MRM. External CPRs will only be commissioned from 2026FY onwards and are likely to materially alter reserve estimates and LOM forecasts.

As can be seen below, we value the MMA DCFs arising from each operation separately from the operations themselves. The MMA cash flows are worth considerably more than GGL's share in the underlying operations. Our valuations of Kagem and MRM net of the MMA payments are well below GGL's carrying and estimated values, but the discrepancy is mostly due to the different discount rates used (25% vs 14.63%) and the 75% share in the underlying assets rather than the 100% used in GGL's accounts.

Our valuation ranges from R1.51cps to R2.54cps. This wide range shows the sensitivity to better grades and prices.

Our valuation ranges from **R1.51cps** to **R2.54cps**. This wide range shows the sensitivity to better grades and prices. It is lower than we have previously estimated, due to the 48% increase in issued shares, the lower production trajectory of premium rubies now forecast in the latest internal CPR, the fall in grades at both the emerald and ruby operations as well as lower prices for the second quality emerald and rubies. As a result, the debt builds

up to $119m as disclosed in the prospectus has been more rapid than we estimated. Finally, we no longer use the previous $57m book value of Fabergé estimated by third parties for GGL, as discussed above.

Figure 3: Gemfields base and optimistic valuation (USDm)

	Base	Optimistic
Kagem (75%)	16	39
Kagem MMA	40	46
MRM (75%)	66	111
MRM MMA	83	97
Faberge	40	45
Head office+Others	-30	-30
Development	-3	-3
Debt	-119	-119
Cash (Rights Issue+in Hand)	45	45
GGL Valuation	**137**	**231**
Issued Shares m (Pro Forma)	1 723	1 723
Valuation/Share (USD)	0,08	0,13
Valuation/Share @ZAR19:USD	**1,51**	**2,54**

Source: SBG Securities estimates

Things to consider

Some of the main issues and points to take into account when considering GGL's segmentals or group accounts as well as our forecasts are discussed below.

Kagem revenue drivers

For many years, Kagem has mined substantially more ore tonnes than it has been able to treat in its wash plant. For example, in 2024FY, the wash plant treated 170,000t of the higher-grade portion of the 316,000 tonnes mined. The balance was stockpiled and the low-grade stockpile reached over 781,000t (100%) at the end of 2024FY.

Mining at Kagem was suspended from January 2025 until May 2025. During this period, the wash plant processed its stockpiled material.

The wash plant was upgraded to increase the rated capacity of 50tph to 75tph in July 2024. This nominal expansion reflects only the installation of more picking belts and not the front-end crushing capacity nor the capacity of the total plant. To maximise throughput, a third shift of pickers was added in January 2025.

The results to March show that the upgraded wash plant was able to process 20,000tpm, or about 220,000tpa if stockpiles continued to be the only source of ore. However, the recent return to selective mining will require the third shift to return to work in the pit and reduce the wash plant's processing capacity back to c.180,000tpa. This is little better than what was achieved in 2024FY.

The operation in the first three months of 2025FY has also provided the information that the premium emerald grades of the stockpiled ore are c.0.2ct/processed tonne compared to the higher-grade ore grades of 0.94ct/processed tonne.

These results shine a light on Kagem's in situ recovered grades of premium emeralds which have been difficult to estimate because the grades of the stockpiled ore have not been known until now.

These results shine a light on Kagem's in situ recovered grades of premium emeralds which have been difficult to estimate because the grades of the stockpiled ore have not been known until now.

So, we estimate that the in situ recovered premium grade of 2024's ROM production was about 0.6ct/processed tonne, assuming all the ROM had been processed. This is better than the 0.5ct/*production* tonne that Kagem discloses in its production records and will be a useful reference point for the next external CPR in 2026.

This, and low grades from the stockpiles have contributed to a decision to postpone the May 2025 auction

Recoveries of premium emeralds from the wash plant are smaller and less valuable after having been through the crusher, so that the two sources of premium emeralds have different values per premium carat. This, and low grades from the stockpiles has contributed to a decision to postpone the May 2025 auction

This also means that the November 2025 auction looks unlikely.

Kagem has begun to selectively mine from two production centres in Chama. This may allow for sufficient high-quality emeralds for an auction by September 2025. However, a return to full production from at least six production centres could take another 12 months even if price trends are positive. This also means that the November 2025 auction also looks unlikely.

One wild card for Kagem is higher emerald prices. This appears possible after the commercial quality auction in March 2025 demonstrated a significant rebound in prices of commercial quality emeralds.

One wild card for Kagem is higher emerald prices. This appears possible after the commercial quality auction in March 2025 demonstrated a significant rebound in prices of commercial quality emeralds. Any excitement around this must be tempered with the fact that Kagem's competitor is also increasing its ROM ore production from recent 50% of normal levels to between 60% and 80%.

As a result, we now forecast Kagem to produce only $70m of revenue in 2025FY, well below 2024FY's $80m before returning to $80m by 2026FY.

MRM revenue drivers

MRM produced around 0.9mt of ore and processed 1.07mt in 2024FY. From July 2025FY, the PP2 plant will add 400tph processing capacity after its cold and hot commissioning stages. This will allow MRM to process at least 2mt in 2025FY and over 3.3mtpa in 2026FY to 2029FY.

This will allow the new plant to process more than twice the 1.1mt/a that is the limit achievable by the older 200tph section.

The new plant has been designed to reduce some of the shortcomings of the current 200tph installation, particularly the removal of clay. This will allow the new plant to process more than twice the 1.1mt/a that is the limit achievable by the older 200tph section. The older section will probably also be upgraded to improve its ROM treatment and increase its actual capacity over the next two years.

MRM will initially process its c. 1.5mt stockpile to shave costs, although the grade is expected to be low. However, one of the stockpile functions is to ensure continuity of production during wet seasons so there will be a practical limit to the drawdown, possibly to 0.5mt, before it will have to be rebuilt or stabilised as the wash plant throughput increases to beyond 3mtpa.

MRM will acquire new yellow kit by the beginning of 2026FY to ensure expansion continuity. This will require c $11m and keep MRM's cash flows under a tight rein until mid-2026FY.

MRM's April mini auction appears to show that ruby pricing is relatively stable despite issues surrounding global tariffs and the disappointing results of the lower quality grades.

Grade performance remains disappointing although in the three months to March 2025, premium grades from the Mugloto pit clawed back a little from the 0.032ct/t all-time-low achieved in H2:24. MRM's April mini auction appears to show that ruby pricing is relatively stable despite issues surrounding global tariffs and the disappointing results of the lower quality grades.

To meet the additional plant capacity, we expect the Mugloto pit to be scaled up to 2mtpa with the balance sourced largely from the Maninge Nice and Glass 'reserves.' The grades of both the Glass 'reserves' and the secondary Maninge pit 'reserves' remain hypothetical and await confirmation from large-scale processing trials.

MRM's December 2025 auction will be the first auction where rubies produced by the expansion will be sold. However, the latest CPR has materially reduced the previously forecast PP2 build up. This means that the slower ramp up of the expansion combined with the typical period of two to three months lag between production and auction means that the full steady state benefit of the expansion may not be visible until December 2026. From 2026FY, we expect MRM to hold four high/mixed quality auctions a year instead of two to accommodate the additional production and provide more frequent cash flows and better price discovery.

However, revenue of nearly $270m seems very possible from 2026FY. This will make a material difference to GGL's cash flows.

Our revenue forecasts are deliberately conservative to compensate for grade uncertainty of the new 'reserves'. However, revenue of nearly $270m seems very possible from 2026FY. This will make a material difference to GGL's cash flows. Clearly, any grade improvements that occur will improve our revenue forecasts and valuations significantly.

Forex issues

The two major subsidiaries, Kagem and MRM, present their accounts in local currency and convert these into USD for GGL reporting purposes. Similarly, all local income tax and utility payments as well as the mineral royalties are paid in local currencies. Both Kagem and MRM pay their labour and many consumables, including diesel, in local currencies.

Kagem is allowed to keep its sales proceeds in USD until needed, which has reduced the extent of possible forex losses. Until recently, local currency devaluations were minimal, but in the recent past, the Zambian exchange rate has weakened which has benefitted Kagem's tax and utility payments offset by realised forex losses of $2m on monetary and other assets held in kwacha.

MRM is required to convert 25% of its USD receipts into meticais, which have proven easy to clear to date. The requirement has recently been increased to 50% which may create a problem in clearing and is under appeal. The problem in clearing the additional meticais will be aggravated by the increase in revenue arising from the expansion. In the event of not being able to spend the excess meticais, MRM can theoretically buy forex.

In practice, it is unclear how easy it will be to convert meticais into forex. Mozambique has a shortage of forex and an inflexible exchange rate which the 50% ruling is designed to alleviate.

If the metical does devalue, then we can expect significant forex losses to appear in MRM's segmental results.

The USD/metical exchange rate has been fixed for many years. However, the pressures for a devaluation are increasing. If the metical does devalue, then we can expect significant forex losses to appear in MRM's segmental results.

Neither company has experienced significant issues converting their MMA fees nor their dividends into USD to date and repatriating them. However, MRM did experience issues accessing a BCI USD term loan for MRM in 2024.

Depreciation and amortisation

Group D&A charges were $37m in 2024FY. Kagem accounted for $17m and MRM $15m. These charges are not separately identified into their depreciation and amortisation components but are a large part of cost of sales.

In both companies, large Fair Value Uplift assets were created at the time of Kagem's and MRM's acquisitions and are retained on the balance sheet as 'mining assets.' The assets are amortised on a units of production basis which is supposed to reflect the reduction in the reserve base of both operations.

The amortisation charge is not allowable for tax purposes and can create a deferred tax liability.

This shortfall as well as the estimated USD7m amortisation charge was offset against Kagem's 'mining asset' value of USD119m which was reduced to USD65m.

The USD179m carrying value of **Kagem** was reassessed in 2024FY by applying lower grade and revenue assumptions as well as higher costs. This reduced the recoverable amount over the LOM to USD132m, based on a DCF using a 14.63% real discount rate. This shortfall as well as the estimated USD7m amortisation charge was offset against Kagem's 'mining asset' value of USD119m which was reduced to USD65m

This should decrease the amortisation charge to c. USD3m to USD4m in the year ahead assuming 2024's production levels as well as help reduce the large discount to NAV that is a feature of GGL's market capitalisation.

MRM's recoverable amount of USD320m exceeded the carrying value of USD255m, so no impairment was required. We estimate an amortisation charge of USD6m was incurred over the year.

For both MRM and Kagem the amortisation charges appear not to be synchronised with the utilisation of the reserve base. For example, MRM produced 1.56mct out of a theoretical reserve of 127mct but only reduced its FV of USD142m by USD6m to USD136m.

MRM's D&A charges may increase dramatically over the next year as the PP2 expansion will deplete the reserves by 2030.

MRM's D&A charges may increase dramatically over the next year as the PP2 expansion will deplete the reserves by 2030. This will require the USD136m of FVU as well as the USD92m of PPE to be fully written down by then. GGL will have to motivate to its auditors as to why the reserves are likely to be extended to prevent D&A charges rising to $46m/a from 2026, from $15m in 2024FY.

At both operations, depreciation of equipment is based on time, rather than hours worked. This ensures that depreciation charges remain relatively fixed, even when Kagem parks its fleet.

Change in inventory and other provisions

Inventory of $114m plays a large role in both GGL's balance sheet as well as its income statement, partly due to the inclusion of Fabergé's $26m jewellery inventory as well the long intervals between rough auctions. Inventory includes the usual consumables as well as rough stones held for sale. These rough stone inventories are valued at direct production costs, excluding security, and pooled with existing inventories to create an average cost/ct.

When sold, all gemstones are assigned the historical average unit cost. The gemstones considered are the premium and emerald/ruby categories only. Beryl and sapphires are considered by-products and are currently valued at USD4m of net realisable value.

By-product values have increased over several years despite ongoing arrangements to sell them through non-auction outlets such as at Jaipur. This suggests an accumulation of poor-quality stones that are difficult to sell.

By 2024FY-end, consumable inventories had increased from $11m to $16m possibly because of the expectation of increased volumes at MRM as well as the slowdown in mining operations at Kagem. However, the inventory of rough emeralds rose from $38m to $49m while rough ruby inventories fell from $28m to $19m. The inventory value at Kagem represents a year's production costs.

The increase in the inventory value of emeralds is another reflection of the accumulation of lower quality stones that have not been sold.

The increase in the inventory value of emeralds is another reflection of the accumulation of lower quality stones that have not been sold. Most of these stones are not expected to achieve a price much higher than their production cost. The switch to processing ore stockpiles since January 2025 has probably resulted in further accumulation of these types of stones.

Taxation and VAT refunds

The prospectus lists several challenges raised by both ZRA and MRA to GGL's interpretation of taxation law, all of which are subject to legal determination.

The most material of these is the proposed disallowance of the MMA fees charged to Kagem by Gemfields for income tax purposes. This has resulted in an assessment of $11m based on an audit since 2022. The real concern would be the impact on future cash flows for a mine that is currently marginal.

The other material issue is the repayment of VAT paid on purchases made by Kagem and MRM. VAT receivables have increased annually and reached $38m at the end of 2024FY of which $21m was held by MRM and $15m by Kagem. VAT receivables accumulate because both mines export their product without being able to recover VAT payments. However, they are also increasing due to Zambian and Mozambican financial issues that have delayed repayments.

As a result, we expect that VAT receivables will continue to accumulate in Mozambique or be impaired.

In Zambia, Kagem is allowed to offset its VAT receivables against other types of tax payable, but this is not the case in Mozambique. As a result, we expect that VAT receivables will continue to accumulate in Mozambique or be impaired.

Apparently exaggerated taxation claims have become the new normal in some African jurisdictions. Fortunately, this aspect of risk has not appeared in either Zambia or Mozambique.

Impairment charges

Impairment charges and unrealised FV losses have become a major feature of GGL's accounts. In the past three years, $147m of these charges have been taken through the income statement. This compares to the current MC of Gemfields of c. USD90m today, assuming 1,723m issued shares.

A portion of these losses and charges relate to re-evaluation of consumable inventory and trade receivables and are irreversible. Sedibelo's larger unrealised FV losses of USD37m are also unlikely to reverse as the company appears to be heading for business rescue or liquidation.

The impairment of MML (c. $20m) is also unlikely to reverse. It has been tested extensively at pilot plant scale and the poor results as well as flooding from a neighbouring mine have reset expectations, and it is no longer seen to have economic potential on the western portion of the Lease. At present, all work has been suspended, and plant has been removed. Although no decision has yet been made, it is likely that MML will have to be relinquished unless GGL returns to prospect the eastern part of the Lease.

Most of the Nairoto gold project's undisclosed (c. USD20m) impairment is also likely to be permanent. The shortage of cash at GGL and the intention to sell as well as the response to the sale enquiries indicate that the project is unlikely to receive a significant price. Its primary drawback is its location which is affected by the insurgency. This project may also be relinquished if Mozambican authorities take a hard line on the suspension of activity.

The $47m impairment of Kagem may be reversable. The impairment was triggered by weak emerald prices, which could improve at short notice as suggested by the recent March auction.

The $47m impairment of Kagem may be reversable. The impairment was triggered by weak emerald prices, which could improve at short notice as suggested by the recent March auction. Another catalyst for an improvement in the LOM valuations could be a sustained grade improvement at the operation, although this appears less likely.

Finally, if the sale of Fabergé is realised in the 2025FY, there is a likelihood that the price will be less than the USD54m valuation that is on GGL's books. If so, we would expect a realised FV loss to be recorded on the income statement.

Sale of Fabergé

GGL initiated a possible sale of Fabergé in late 2024FY, but the process was not completed before the funding issue became critical. GGL intends to review the strategic options for the sale, post the rights issue, but we believe it is likely that the sales process will continue, albeit with less pressure. A support for the sale price will be the $26m of operating assets comprising mostly of jewellery and only $6m of operating liabilities. Another support appears to be the improving performance recently reported by both Richemont and LMVH.

We are optimistic that the sale will be concluded in 2025FY although this is speculative as is our estimate of a sale price.

We are optimistic that the sale will be concluded in 2025FY although this is speculative as is our estimate of a sale price. Aside from the cash proceeds, the sale will change GGL's accounts significantly. The line items most affected include inventories, which include USD25m of jewellery. Revenue will be reduced by $13m but so will Fabergé's high SGA costs of $9m as well as typical inventory accumulation of $6m/a. This should result in GGL showing improved EBITDAs and PBTs and reduce the NAV estimate.

Operating expenses

GGL has implemented cost savings at Kagem, MRM and its corporate offices. The initiatives included parking its fleet at Kagem and processing its ROM stockpiles through the upgraded washing plant. At MRM, costs are more intractable due to the need to maintain high levels of security at the mine and the build-up for the PP2 expansion, but we expect it to rely heavily on the reduction in fleet use by mining the ROM stockpile in 2025FY.

The company has forecast significant improvements in its 'operating expenses' as a result of its efforts. These are defined as 'operating costs and costs of sales' in the segmental cash flow statement. The item reached $172m in 2024FY and GGL has forecast a 20% reduction to c. $135m in 2025FY.

Further detail was provided by a breakout on the segmental level, with Kagem expected to achieve a dramatically lower operating expense of $45m (vs $50m) and MRM $60m (vs $78m) with the balance of around $30m shared among development assets, other and corporate as well as Fabergé.

Unfortunately, these estimates include inventory changes which are difficult to predict even for steady-state operations with steady-state pricing and demand for rough stones, so they have little practical value. They also include mineral royalties, which are a function of unforecastable revenues. In addition, if the sale of Fabergé proceeds, the removal of its $15m/a charge will provide cosmetic relief.

Capital forecast

GGL's forecast of capital reduction from $85m to $50m in 2025FY appears to be on more solid ground.

GGL's forecast of capital reduction from $85m to $50m in 2025FY appears to be on more solid ground. Kagem's capex is expected to fall from $8m to $6m. MRM is expected to absorb $21m for the balance of the PP2 plant with a further $15m allocated to ongoing capex while very little has been allocated to development projects compared to the $17m capitalised in 2024FY.

The 2026FY will also require renewed focus on ERM and other licences so capex allocated to new projects is expected to rise. Our estimate is that in 2026FY, capex will fall to $40m.

In 2026FY, MRM will have to expand its fleet required to mine >3mtpa and its facilities to accommodate the additional drivers. We expect MRM's capex to fall to $25m/a underpinned by an $11m investment in a new fleet. The 2026FY will also require renewed focus on ERM and other licences so capex allocated to new projects is expected to rise. Our estimate is that in 2026FY, capex will fall to $40m.

Companies Mentioned (Price as of 29 May 2025)
Gemfields (GMLJ.J, R1.10, FVVR: R1.51/s - R2.54/s)

Disclosure Appendix

Analyst Certification and Important Disclosures

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GMLJ.J	Closing	Future Value	Coverage
Date	Price	Valuation Range	
2024-11-11	2.3	R3.06/s– R5.00/s	Current Analyst

Analysts' stock ratings are defined as follows*:

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Price Target: (12 months) for (GMLJ.J)

Methods: We value Gemfields based on a sum-of the parts estimate based on a DCF valuation of the two operations using a 25% real discount rate. We also value the MMA cash flows on a similar basis. Faberge's value is assumed to be $40m, below the current book value. Finally, we net out corporate debt and a year's worth of head office costs. Our optimistic valuation allows for a 20% increase in revenue to match grade and gemstone price conditions of 2022

Risks: The political and security conditions in Mozambique, which through the MRM contributes nearly 80% of Gross Profit are risky. Recent invasions of illegal miners and unrest in Maputo illustrate this point. The insurgency in Northern Mozambique remains another concern. Grades at both Kagem and MRM are declining without clear reasons and may continue to decline. Gemstone pricing is opaque but may be linked to spending on global conspicuous consumption which is currently on the ebb.

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SBG Securities Coverage and Contacts

Heads of Equity Research	
Marc Ter Mors (Head of Equity Research)	(27 11) 415 4265
Muyiwa Oni (West Africa)	(234 1) 422 8667

Sector Heads	
Tim Clark (Metals and Mining)	(27 11) 415 4295
Marc Ter Mors (Industrials)	(27 11) 415 4265
Nadim Mohamed (TMT)	(27 11) 415 4253
Charles Russell (Financials)	(27 11) 415 4649

Macro	
Elna Moolman (SA Economics, Team Head)	(27 11) 415 4543
Jibran Qureishi (Africa ex-SA, Team Head)	(254 20) 363 8138
Christopher Legilisho (Kenya)	(254 725) 690 899
Abdulazeez Kuranga (Nigeria)	(234 0) 80 9837 4664

Strategy	
Deanne Gordon (Head SA Strategy)	(27 21) 712 0875
Adele Fermoyle (SA Strategy)	(27 11) 415 4429
Penny Byrne (ESG)	(27 11) 415 4177

Sector and Company Research

South Africa

Financials

Charles Russell (Banks, Team Head) (27 11) 415 4649
Charles.Russell@sbgsecurities.com
James Lex Slabbert (General Financials) (27 11) 415 4271
James.Slabbert@sbgsecurities.com
Mweisho Nene (Real Estate) (27 11) 415 4655
Mweisho.Nene@sbgsecurities.com
Tshepo Makgabutlane (Real Estate) (27 11) 415 4622
Tshepo.Makgabutlane@sbgsecurities.com

Retail and Hotels, Travel & Leisure

Ya'eesh Patel (27 83) 857 7899
Yaeesh.Patel@sbgsecurities.com
Tinashe Hofisi (27 11) 415 4266
Tinashe.Hofisi@sbgsecurities.com

Construction & Materials

Marc Ter Mors (27 11) 415 4265
Marc.Termors@sbgsecurities.com

Diversified Industrials

Marc Ter Mors (27 11) 415 4265
Marc.Termors@sbgsecurities.com

Healthcare & Pharmaceuticals

Anuja Joshi (27 11) 415 4254
Anuja.Joshi@sbgsecurities.com

TMT

Nadim Mohamed (27 11) 415 4253
Nadim.Mohamed@sbgsecurities.com

South Africa (continued)

Consumer

Sumil Seeraj (Food, Beverages, Tobacco) (27 11) 415 4256
Sumil.Seeraj@sbgsecurities.com
Anuja Joshi (Luxury Goods) (27 11) 415 4254
Anuja.Joshi@sbgsecurities.com

Metals & Mining

Tim Clark (Metals & Mining, Team Head) (27 11) 415 4295
Tim.Clark@sbgsecurities.com
Adrian Hammond (Gold, Platinum) (27 21) 401 2885
Adrian.Hammond@sbgsecurities.com
Ntuthuko Sithole (27 11) 415 4110
Ntuthuko.Sithole@sbgsecurities.com

Chemicals

Adrian Hammond (27 21) 401 2885
Adrian.Hammond@sbgsecurities.com
Ntuthuko Sithole (27 11) 415 4110
Ntuthuko.Sithole@sbgsecurities.com

Forestry & Paper

Tim Clark (27 11) 415 4295
Tim.Clark@sbgsecurities.com

Corporate Commissioned Research

Nic Dinham
Nic.Dinham@sbgsecurities.com
John Arron
John.Arron@sbgsecurities.com

Sub Saharan Africa (Ex-South Africa)

Financials

Muyiwa Oni (West Africa) (234 1) 422 8667
Muyiwa.Oni@stanbicibtc.com
Sodiq Safiriyu (West Africa) (234 816) 711 9230
Sodiq.Safiriyu@stanbicibtc.com
Justin N Mwangi (East Africa) (254 795) 424 164
Mwangij5@stanbic.com

TMT

Tracy Kivunyu (East Africa) (254 700) 385 540
KivunyuT@stanbic.com

Equity Sales

South Africa	
Graham York (Head Sales)	(27 21) 440 5807
Abi Ajisafe	(27 11) 415 7020
Usanda Mdhluli	(27 11) 415 7128

Sub Saharan Africa (Ex-South Africa)	
Gregory Waweru (East Africa)	(254 20) 363 8948
Vinita Kotedia (East Africa)	(254 788) 671 735
Idris Toriola (West Africa)	(234 1) 422 8501

North America	
Luca Del Conte	(1 917) 946 5716

United Kingdom, Europe	
Francis Harcus	(44 744) 705 7250

Sales Trading and Execution

South Africa	
Nick Higham (Head Equities)	(27 11) 415 7018
Jesse van Rensburg (Head Sales Trading)	(27 11) 415 7040
Kagiso Matlala	(27 11) 415 7021
Tokelo Khambule (Head Trading)	(27 11) 415 7814
Alexander Ferrer	(27 11) 415 7024
Bheki Luthayi	(27 11) 415 4635
Tom Gale (Equity Structuring)	(27 11) 415 7023

West Africa	
Bunmi Olarinoye (CE)	(234 1) 422 8392
Afolabi Gbenro (Head Sales Trading)	(234 1) 422 8382
Peter Abe	(234 1) 422 8380
Akinsola Arikawe	(234 1) 422 8329
Bimbo Moronkola	(234 1) 422 8330

East Africa	
Gregory Waweru (CE)	(254 20) 363 8948
Eric Ogechi	(254 20) 363 8961
Augustine Misoka (Head Execution)	(254 20) 363 8960
Edna Maathai	(254 20) 363 7321
Nicholas Kimuli (Uganda)	(256 312) 224 965

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