

# Australian Potash (APC)

Rating: Buy | Risk: High | Price Target: \$0.16

## Lake Wells Sulphate of Potash (SOP) upsized to 205ktpa

### Key Information

Current Price (\$ps)	0.04
12m Target Price (\$ps)	0.16
52 Week Range (\$ps)	0.04 - 0.13
Target Price Upside (%)	356.5%
TSR (%)	356.5%
Reporting Currency	AUD
Market Cap (\$m)	20
Sector	Materials
Avg Daily Volume (m)	0.7
ASX 200 Weight (%)	0%

### Fundamentals

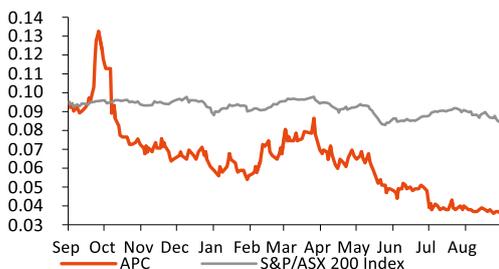
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	0	0
NPAT (\$m)	(4)	(4)	(10)	(10)
EPS (cps)	(0.7)	(0.5)	(0.5)	(0.4)
EPS Growth (%)	nm	25.9%	(8.0%)	30.4%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	100%	100%	100%	100%

### Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(20.5)	(7.1)	(6.6)	(9.5)
EV/EBITDA (x)	(10.7)	(8.8)	13.9	(40.9)
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

### Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(1.5%)	(21.2%)	(27.5%)	(53.3%)
Absolute (%)	(9.0%)	(24.6%)	(27.6%)	(63.8%)
Benchmark (%)	(7.5%)	(3.4%)	(0.1%)	(10.5%)



Price performance indexed to 100

Source: FactSet

### Major Shareholders

Yandal Investments Pty Ltd	7.8%
INDRISIE HENDRICUS PETRUS	4.0%
Acuity Capital Investment Management Pty	3.3%
FEATHERBY NATHAN JOHN	3.0%
CEN Pty Ltd.	2.7%

### Event

Australian Potash (APC) has released updated operating and financial parameters for its world class Lake Wells sulphate of potash (SOP) project in WA. Production has been increased from 170ktpa to 205ktpa, which in combination with higher SOP prices has offset higher opex (US\$295/t from US\$251/t) and capex (\$408m from \$292m). APC is now estimating annual EBITDA of A\$158m (from A\$124m) and a project NPV of A\$657m (from A\$398m). We had already assumed higher SOP prices and so our more conservative valuation drops from A\$305m (21cps) to A\$256m (16cps) on the higher costs and additional dilution from a larger equity raise (A\$150m, prev \$105m) to fund the increased project scope.

### Highlights

- APC is developing the Lake Wells Sulphate of Potash Project (LSOP) in Western Australia. APC released preliminary financial parameters on the project in April 2021 when it released the results of Front-end Engineering and Design (FEED). APC has now released optimised financial parameters incorporating increased production rates, higher capex and opex and higher assumed SOP prices. Key changes from FEED include:
  - Annual production 205ktpa (prev 170ktpa).
  - Capex A\$408m (prev \$292m). Approx. A\$48m of the increase is due to inflation with A\$51m due to scope changes.
  - Annual average opex of US\$295/t (prev US\$251/t).
  - Average annual EBITDA of A\$158m (prev A\$124m).
  - Post tax NPV<sub>8</sub> A\$657m (prev \$398m).
- Our long-term realised SOP price forecast is US\$600/t. Standard NW Europe SOP prices are currently over US\$1,000/t, +100% since Jul21 (key global benchmark for SOP).
  - Potash supply remains a concern for crop producers globally, especially following the Russia/ Ukraine War. Russia and Belarus are normally responsible for 35-40% of global potash supply.
  - There is a view emerging in the industry that long run SOP prices will permanently re-rate post this spike to >US\$650/t. This is driven by increased energy costs and a switch to regionalisation from globalisation.
- The potash sector in Australia has been impacted by project execution difficulties at both Kalium Lakes (KLL) and Salt Lake Potash (SO4). Whilst investors are understandably cautious, we do not believe that APC should be tarred with the same brush.
  - We note the technical veracity of these type of solar salt projects has been proven by numerous operations globally for many decades.
  - APC has the largest JORC compliant Measured SOP Resource at 18.1Mt SOP Measured with no Inferred or Indicated Resource.
  - Lake Wells' 30-year mine life uses only ~23% of the Measured Resource.
  - APC use brine borefield abstraction i.e. less technical risks compared to salt lake trenching (most peers).
  - An EPC (Engineering, Procurement and Construction) contracting style is used for more than 75% of the construction contracts by value, which ensures cost, schedule and performance guarantees.
- We note recent news that Czech private equity group Sev.en has acquired SO4 from administration and intends to restart the project.

### Recommendation

We have revised our financial model to reflect the increased production and higher costs. We maintain our BUY recommendation but reduce our price target to A\$0.16ps from A\$0.21ps. Our view is backed by excellent commodity fundamentals, solid Lake Wells financials, a high-quality resource, and a risk averse approach from management.

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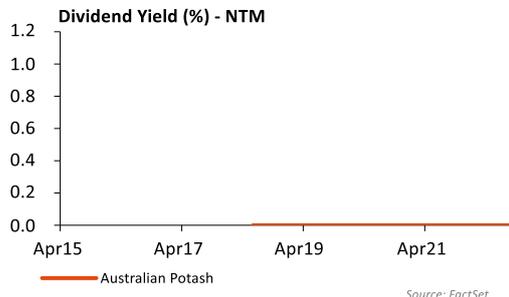
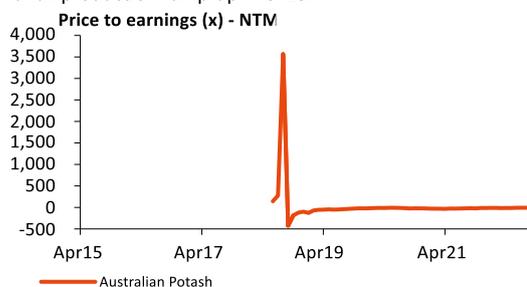
**Australian Potash  
Materials**

FactSet: APC-AU / Bloomberg: APC AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.04
Target Price (\$ps)	0.16
52 Week Range (\$ps)	0.04 - 0.13
Shares on Issue (m)	553
Market Cap (\$m)	20
Enterprise Value (\$m)	34
TSR (%)	356.5%

Valuation NPV	Data
Valuation (\$m)	443
Valuation per share (cps) (AUD)	0.80

APC is preparing for start-up of its flagship 100%-owned Lake Wells Sulphate of Potash Project (LSOP) in Western Australia. The project is based on a 30-year mine life producing 205ktpa premium Sulphate of Potash (SOP). With full environmental approval, 90% of offtake secured, \$140m Northern Australia Infrastructure Facility (NAIF) funding approved and \$45m funding from Export Finance Australia, LSOP appears to be progressing and derisking. We assume a full production ramp-up in CY25.



**Financial Year End: 30 June**

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	(0.2)	(0.7)	(0.5)	(0.5)	(0.4)
EPS (Underlying) (cps)	(0.2)	(0.7)	(0.5)	(0.5)	(0.4)
EPS (Underlying) Growth (%)	nm	nm	25.9%	(8.0%)	30.4%
PE (Underlying) (x)	(29.4)	(20.5)	(7.1)	(6.6)	(9.5)
EV / EBIT (x)	(55.7)	(10.4)	(8.8)	13.9	(40.9)
EV / EBITDA (x)	(62.8)	(10.7)	(8.8)	13.9	(40.9)
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(19.3%)	(15.0%)	(31.2%)	(84.0%)	(196.1%)
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	0	0	0	0	0
Sales Growth (%)	n/a	(2.5%)	(100.0%)	n/a	n/a
Other Operating Income	2	0	0	0	0
EBITDA	(1)	(4)	(4)	(4)	(4)
EBITDA Margin (%)	nm	nm	nm	nm	nm
Depreciation & Amortisation	(0)	(0)	0	0	0
EBIT	(0.8)	(3.7)	(3.8)	(3.8)	(3.8)
EBIT Margin (%)	nm	nm	nm	nm	nm
Net Interest	0	0	0	(9)	(10)
Pretax Profit	(1)	(4)	(4)	(13)	(14)
Tax	0	0	0	3	3
Tax Rate (%)	0.0%	0.0%	0.0%	(25.0%)	(25.0%)
NPAT Underlying	(1)	(4)	(4)	(10)	(10)
Significant Items	0	0	0	0	0
NPAT Reported	(1)	(4)	(4)	(10)	(10)
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(1)	(4)	(4)	(4)	(4)
Tax Paid	0	0	0	0	3
Change in Working Capital	0	0	(5)	0	0
Depreciation & Amortisation	(0)	(0)	0	0	0
Other	1	1	0	0	10
Operating Cashflow	0	(3)	(8)	(3)	10
Capex	(5)	(8)	0	(50)	(200)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	(4)	(8)	0	(50)	(200)
Free Cashflow	(4)	(11)	(8)	(53)	(190)
Equity Raised / Bought Back	6	17	19	150	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	250	40
Other	(0)	(1)	(6)	(9)	(20)
Financing Cashflow	5	16	13	391	20
Net Change in Cash	1	4	5	337	(170)
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	3	8	13	350	180
Accounts Receivable	0	1	0	0	0
Inventory	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE	0	0	0	50	250
Total Assets	13	30	34	421	451
Accounts Payable	2	5	0	0	0
Short Term Debt	0	0	0	0	0
Long Term Debt	0	0	0	250	290
Total Liabilities	2	6	0	247	287
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(9.1%)	(21.3%)	(12.8%)	(9.3%)	(6.0%)
Gearing (%)	(42.2%)	(47.5%)	(61.0%)	(134.9%)	40.3%
Net Debt / EBITDA (x)	4.8	2.1	3.3	26.0	(28.8)

### Australian Potash - core drivers and key catalysts

- **APC holds a 100% interest in the LSOP project**, located approximately 500kms northeast of Kalgoorlie, in Western Australia's Eastern Goldfields. The LSOP project is a brine, solar salt project; the brine contains the potassium and sulphate bearing minerals from which SOP is refined.
- The LSOP project is NPV positive at realised SOP prices of US\$380/t. Using our base case realised SOP price deck of US\$600/t (2022 Real) the project has a post-tax NPV<sub>10</sub> of \$256m and IRR of 19%. Key components of our model include
  - 205ktpa SOP operation over 35 years.
  - Total capital expenditure of A\$292m and competitive capital intensity of A\$1,975/t.
  - Opex of US\$295/t over LOM, which is first quartile.
- **The LSOP project is progressing and derisking.** APC has announced: (1) Full environmental approval. (2) 90% of offtake secured. (3) \$140m Northern Australia Infrastructure Facility (NAIF) funding approved and \$45m funding from Export Finance Australia. Early site works are continuing. We assume a Final Investment Decision in CY22, and a full production ramp-up in CY25.
- **We are positive Sulphate of Potash (SOP) markets.**
  - SOP is a **premium** type of potassium carrying fertiliser with no substitutes.
  - **Demand** - Arable land per capita is reducing over time, and industry consensus SOP demand forecasts are for mid-single digit growth over the coming decades.
  - **Supply** - Mannheim Process capacity makes up ~60% of global SOP production and is the globe's marginal SOP supplier (marginal FOB costs >US\$500/t). The Mannheim Process is a sulphuric acid consuming and energy intensive industrial process to convert lower quality MOP to SOP.
  - **Price** - our long-term realised price forecast is US\$600/t. NW Europe SOP prices are currently over US\$1,000/t, +110% since July (key global benchmark for standard SOP).
    - Potash supply remains a concern for crop producers globally, especially following the Russia/ Ukraine War. This is having a direct impact on 35-40% of global potash supply (Russia / Belarus production).
    - There is a view emerging in the industry that long run SOP prices will permanently re-rate post this spike, driven by a permanent increase in MOP prices (mine maturation and the switch to regionalisation from globalisation) and increased energy costs. Commentary from some experts is suggesting long-run standard SOP prices to be >US\$650/t, which is indicative that our price deck is conservative.

Figure 1: Location of the Lake Wells Project



Source: Company reports

Figure 2: Europe SOP prices (US\$/t), trading above US\$1,000/t



Source: Argus, APC, Shaw and Partners analysis

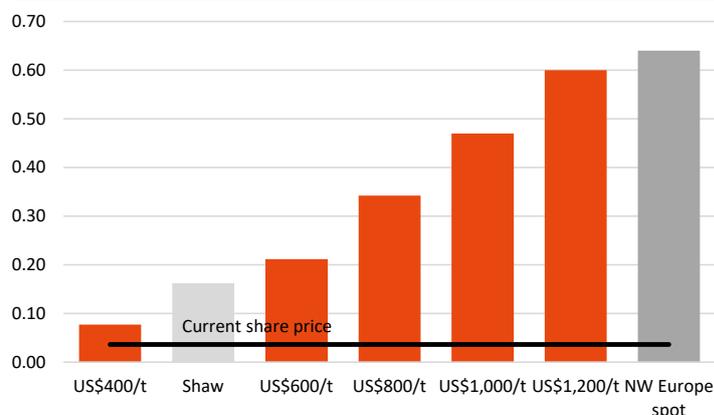
- **A premium product and asset strategically located.** APC intends to produce a premium quality SOP from brine production (i.e. no Mannheim Process) in Australia. Australia is proximate to emerging Asian markets, which are driving the globe's mid-single digit SOP growth. The company expects realised product prices to include a ~10% product quality premium for (1) the product being 'green' (i.e. organic / non-Mannheim Process), (2) granular (as opposed to powdered), and (3) higher K<sub>2</sub>O content than standard SOP (usually on a pro rata basis above standard SOP K<sub>2</sub>O content of 50%). Offtakes have been structured to pass through this price premium.
- Both Kalium Lakes and Salt Lake Potash have encountered difficulties with brine abstraction, production of harvest salts, and project execution.
  - We note the technical veracity of these type of solar salt projects has been proven by numerous operations globally for many decades.
- In our view **Lake Wells is backed by a higher quality resource than its Australian peers (KLL/ SO4).**
  - APC has the largest JORC compliant Measured SOP Resource across its peer space; 18.1Mt SOP Measured with no Inferred or Indicated Resource.
  - Lake Wells' 30-year mine life uses ~23% of the Measured Resource.
  - Lake Wells is a borefield development into a palaeochannel.
  - Borefield developments supply process water for the majority of mine sites in Western Australia.
- We believe **APC's approach for a Lake Wells development is conservative given:**
  - APC is factoring in two summers of pond evaporation prior to commissioning. This is to ensure there is a sufficient quantum and quality of harvest salts to feed to the process plant.
  - There is a higher quality of the resource - all in Measured category. APC has the largest Measured SOP Resource of Aussie listed names at 18Mt, which we believe implies lower technical risks.
  - Brine borefield abstraction is used, which we believe carries less technical risks compared to salt lake trenching (most of its peers).
  - An EPC (Engineering, Procurement and Construction) contracting style is used for more than 75% of the construction contracts by value, which ensures cost, schedule and performance guarantees.
- **Other exploration assets close to Lake Wells appear interesting.** APC also holds significant tenement positions at the Lake Wells Gold Project and Laverton Downs nickel sulphide project.

Figure 3: APC valuation (fully diluted)

Australian Potash Valuation - diluted	A\$m	A\$ps
Lake Wells	256	0.12
Pro forma net debt	13	0.01
Cash from options & equity raise	118	0.05
Development assets	25	0.01
Corporate costs	-15	-0.01
<b>Total Valuation</b>	<b>398</b>	<b>0.18</b>

Source: Company reports, Shaw and Partners analysis  
N.B. (1) Assumes an A\$150m equity raise at A\$0.08ps to fund the project.  
(2) APC receives a ~\$50/t premium for its product

Figure 4: APC DCF valuation sensitivity to SoP prices



Source: Company reports, Shaw and Partners analysis  
N.B. Assumes an A\$150m equity raise at A\$0.08ps to fund the project.

## Key Changes from April 2021 FEED

Since APC released its FEED for the project in April 2021 there have been three major changes for the project:

1. SOP prices have soared post the Russian invasion of Ukraine,
2. Inflation has increased capex and opex estimates, and
3. Production test results have confirmed high productivity of the Lake Wells bores which has resulted in an increase in the project's production estimates.

APC has incorporated those changes into an optimised development for the project resulting in a 65% increase in the project's pre-tax NPV to A\$1,014m.

**Figure 5: Key changes from FEED (Apr 2021) to optimized development (Sep 2022)**

Financial metric	Unit	FEED Value	Optimised development	Change
Annual production	ktpa	170	205	+21%
Number of bores (life of mine)	#	172	89	-48%
Project NPV <sub>8</sub> (pre-tax, nominal)	A\$m	614	1,014	+65%
IRR (pre-tax)	%	21	22	+5%
CAPEX (including contingency)	A\$m	292	408	+39%
OPEX	US\$/t	251	295	+17%
Annual average EBITDA	A\$m	124	158	+27%
Annual average free cash flow (pre-tax)	A\$m	119	155	+30%
Operational payback period	years	4.5	4.3	-4%
Development schedule (post FID)	months	36	36	-0%

Source: APC ASX release Sep 2022

We have incorporated the changes into our financial modelling, and we have also used the opportunity to incorporate a longer ramp-up period into our forecasts. This has resulted in earnings downgrades in FY24 and FY25 due to lower production.

Our valuation also reduces from 21cps to 18cps as we factor in the higher costs. We had already assumed higher SOP prices so unlike APC's forecasts, our higher cost assumptions are not offset by higher prices.

**Figure 6: Shaw earnings revisions**

	2022f			2023f			2024f			2025f		
	New	Old	Chg %									
Revenue (A\$m)	0	0	n/a	0	0	n/a	0	84	n/a	87	145	n/a
EBITDA (A\$m)	-4	-4	0%	-4	-4	0%	-4	44	-109%	39	79	-50%
EBIT (A\$m)	-4	-4	0%	-4	-4	0%	-4	26	-115%	22	61	-64%
NPAT (A\$m)	-7	-7	0%	-6	-8	-27%	-6	12	-153%	10	39	-75%
EPS (Acps)	-1	-1	0%	0	0	-27%	0	1	-153%	0	2	-75%

Source: Shaw and Partners analysis

### Key risks

As a small mining company broadly exposed to a single commodity and a single asset we consider an investment in Australian Potash to be high risk. The key risks include;

- Potash markets are opaque and difficult to forecast. The actual SOP price may differ substantially from our forecasts.
- Several secondary approvals are required before pre-mining operations can begin, and there is no guarantee that these may be obtained in a timely manner.
- Operations for APC have not yet started and there is a risk that they may be unable to bring the LSOP to production. The project may cost more than expected and may not operate as expected.
- APC will need to recapitalise to fund the commencement of operations. There is a risk that capital markets are not willing to fund the project.
- Forecasting future operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic. If each company's costs are higher than we expect then our cash flow forecasts will be too high.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart APC it could delay projects or exacerbate operational risks.
- Safe and reliable production from operations once projects are operational. The inability to maintain safe and reliable operations may result in a sustained, unplanned interruption to production and impact the company's licence to operate and financial performance. Production facilities are subject to operating hazards associated with major accident events, cyber-attack, inclement weather and disruption to supply chain, that may result in a loss of uranium (radioactive material) containment, harm to personnel, environmental damage, diminished production, additional costs, and impacts to reputation or brand.

## Rating Classification

<b>Buy</b>	Expected to outperform the overall market
<b>Hold</b>	Expected to perform in line with the overall market
<b>Sell</b>	Expected to underperform the overall market
<b>Not Rated</b>	Shaw has issued a factual note on the company but does not have a recommendation

## Risk Rating

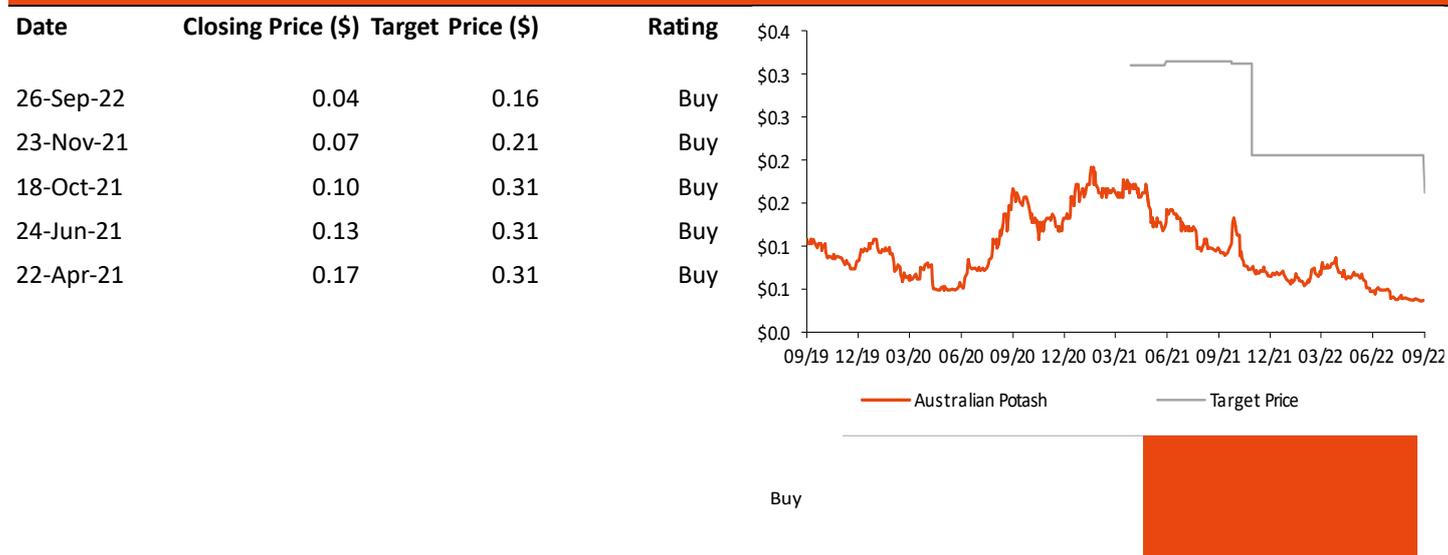
<b>High</b>	Higher risk than the overall market – investors should be aware this stock may be speculative
<b>Medium</b>	Risk broadly in line with the overall market
<b>Low</b>	Lower risk than the overall market

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### Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	114	89%
Hold	13	10%
Sell	1	1%

### History of Investment Rating and Target Price - Australian Potash



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