

Australian Potash Limited

(APC \$0.17) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Mike Millikan	27 th April 2021	\$0.35/sh

FEED de-risks the green SOP from Lake Wells

Investment case

Australian Potash (APC) detailed FEED study highlighted higher production at lower cost, but higher capex. The increase in pre-production capex (40% higher than the DFS) has been well explained by the higher production levels, additional back-end circuits for premium SOP products/prices and de-risking the build by moving to 75% EPC work packages (fixed cost, schedules and guarantees).

Importantly, the development already has ~63% of the capex covered in loan facilities (NAIF and EFA) with more debt expected to be provided by a consortium of commercial banks. Higher gearing on the build reduces some equity dilution and also highlights the robust nature of the development studies works and permitting. Assuming a favourable outcome for the final balance of the multi-tranche facility, FID approvals, construction is expected to commence mid-CY21, for first SOP and ramp-up late CY23. Currently 90% of the proposed production is under offtake agreement, with potential to have 100% output contracted prior to start.

Off the expectation of higher SOP pricing for APC's premium product offerings (granular or soluble high K products bagged) we have added US\$50/t to our SOP price forecasts. We have pushed-back first production to FY24 from late FY23, and adjusted for higher capex. Our risked valuation (NPV10) has improved to 31cps (up 19%), with our price target unchanged at 35cps. Valuation uplifts are anticipated on DCF roll forward, and improved pricing outcomes. Speculative Buy retained.

Key points

- APC's recent FEED results highlight the Company's 100%-owned Lake Wells Sulphate of Potash (SOP) Project as a low cost, environmentally sustainable SOP project development.
- We like the SOP thematic. Potassium (K) is an essential nutrient, SOP is the premium form for K and non-substitutable. The proposed SOP production levels from Lake Wells will supply less than 3% of current global demand, and the new SOP brine operations in Australia are well placed to supply a growing global market, and they will occupy the lower end of the cost curve (first quartile)
- The Lake Wells SOP project is expected to have a small carbon footprint with targeted design for up to 60% (base case 44%) of power generation from renewables.
- The Company has also achieved Green Loan verification and its K-Brite SOP has been certified for organic use and is soluble (less water required), following sound ESG principles and appealing for investors.
- The project is long life (+30 year), and provides a +170ktpa SOP production profile at low (first quartile) costs (US\$251/t SOP).
 - Higher SOP production up 13% from 150ktpa SOP. Processing mix 120ktpa SOP from brine, 50ktpa SOP from MOP conversion.
 - Lower operating costs down 4% from US\$262/t SOP

Australian Potash Limited	Year End 30 June	
Share Price	0.17	A\$/sh
Price Target	0.35	A\$/sh
Valuation	0.31	A\$/sh
	(npv 10%)	

Shares on issue	628	m, diluted *	
Market Capitalisation	110	A\$m	
Enterprise Value	106	A\$m	
Debt	0	A\$m	
Cash	4	A\$m	
Largest Shareholder			
Yandal Investments (Creasy)			8%

Production F/Cast	2023F	2024F	2025F
SOP Prod'n (kt)	0	113	170
Cash Costs (A\$/t)	0	350	338
Total Costs (A\$/t)	0	381	360

Assumptions	2023F	2024F	2025F
AUDUSD	0.74	0.74	0.74
SOP Price US\$/t -prem adj	525	525	525
SOP Price A\$/t	709	709	709

Key Financials	2023F	2024F	2025F
Revenue (A\$m)	1	80	121
EBITDA (A\$m)	-4	37	58
NPAT (A\$m)	-15	16	26
Cashflow (A\$m)	-7	18	33

CFPS (Ac)	na	1.7	3.0
P/CFPS (x)	na	10.5	5.8

EPS (Ac)	na	1.44	2.49
EPS growth (%)	na	na	na
PER (x)	na	12.1	7.0

EV:EBITDA (x)	na	10.6	6.1
EV:EBIT (x)	na	13.9	7.3

DPS (Ac)	0	0	0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	70%	65%	55%
Interest Cover (x)	0.0	1.4	2.1

Share Price Chart



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This analyst declares that he has a beneficial interest in Australian Potash Limited.

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Fig 1: Opex DFS vs FEED outcome

Cash Cost (US\$/t SOP)	DFS	FEED
Salt harvesting	16	9
Power supply	40	35
Reagents and consumables	116	85
Labour	30	41
Transport and logistics (FOB)	36	59
Maintenance	4	3
Indirects	20	19
Cash Cost	262	251

Source: Australian Potash Limited

- The capital cost for Lake Wells is A\$229m plus A\$26m in contingency (total A\$292m), this is up from A\$208m (+40%) in the DFS. Significantly increased capex explained by:
 - The addition of granulation and bagging circuits for A\$36m, enables the production of premium priced SOP products (capture higher prices).
 - Additional cost for increasing production levels, ie another 20ktpa SOP for capex of A\$28m. Additional earthworks and pond size.
 - Moved to an EPC development build for price, schedule and performance guarantees which added A\$14m with another A\$6m in contingency (total A\$26m up from A\$20m in DFS). Reduces some owners team costs, with 75% of the build now lump sum EPC.

Fig 2: Capex DFS vs FEED outcome

Capex	DFS	FEED
Owners team	37	18
Bore-field drilling, fit out, pipeline, HV	48	52
Earthworks and ponds	26	40
SOP processing plant	58	104
Granulation & bagging plant	0	36
Non-process infrastructure	19	16
Total (excl contingency)	188	266
Contingency	20	26
Total (incl contingency)	208	292

Source: Australian Potash Limited

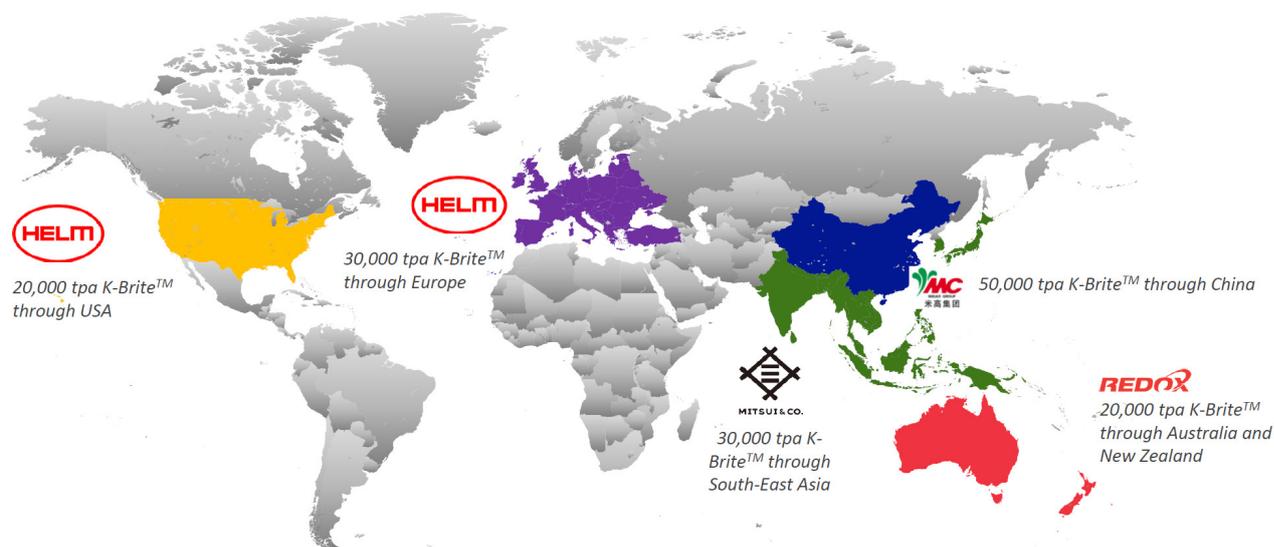
- On the new FEED production levels 88% of the output is under contracted offtake agreements, with potential for the full 170ktpa SOP to be contracted prior to start.
 - Offtake partners include: Redox secured 20ktpa (10-year, distribution rights Australia-New Zealand), Migao 50ktpa (10-year, distribution rights China), Mitsui 30ktpa (3+3-year, distribution rights Asia (ex-China)) and HELM 50ktpa (10-year, distribution rights to parts of Europe and USA).
 - All of the term sheets consist of a “take or pay” arrangement, with pricing on a net realised price basis, and to maximise returns for both supplier (APC) and buyer (offtake partners).

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Fig 3: SOP Offtake Marketing and Distribution Agreements



Source: Australian Potash Limited

- Project financing is nearing completion with loan facilities currently amounting A\$185m (NAIF \$140m and EFA \$45m), with the final commercial bank tranche expected soon (before end of May'21).
 - Capex is now -A\$292m, with additional working capital assumed for production ramp-up.
 - APC was originally targeting a debt to equity (D:E) mix for the project development of 65:35, which is already ~63%, with potential for the debt component to be +70-75%, which could reduce some of the equity requirement.
 - Both NAIF and EFA loans provide long-term, NAIF 17 years, EFA 10 years facilities. The interest rate has not been disclosed, but we expect it to be a low (attractive).
 - APC has also received Green Loan verification for the debt issued for the project development, which “provides assurance to lenders and broader stakeholders that APC will adopt a governance and reporting framework in line with Green Loan Principles.”
- APC has already received the full environmental approval to proceed with the development of the Lake Wells SOP Project. Assuming a favourable financing outcome (final tranche), FID approvals, construction is expected to commence in 2HFY21, for first production and ramp-up in late CY23 (FY24).
- Speculative Buy.

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Assumptions

- Our Lake Wells SOP DCF is based largely on information supplied in the FEED (Apr'21) and DFS (Aug'19). We have adjusted our SOP production profile in the range of 170ktpa over a 30-year mine life.
- We assume higher capex but slightly lower opex as per the FEED outcomes. We have now adjusted timing for first production to late CY23 (from early CY23), ramping up over CY24. 88% of the FEED production target (+170ktpa SOP) is under offtake, and more secured offtake(s) could occur prior to financial close.
- Financing is now becoming more certain, with the NAIF/EFA components complete with the final bank tranche expected soon for completion of the debt financing package. The project can take a high level of gearing which reduces equity dilution. Our valuation remains unfunded but risk adjusted by 80% (up from 75%), which will ultimately be removed once financing is finalised. Our summary page does however make an assumption on debt and equity raised.
- Our valuation uses a flat long-term SOP price of US\$475/t which has been adjusted for the premium SOP products to be produced, adding US\$50/t for US\$525/t SOP (vs APC's US\$550/t SOP used in the FEED). APC has expectations that over US\$600/t SOP can be achieved for it granular or soluble bagged high K products.
- Our valuation increases from 26cps to 31cps, improved by the higher sustainable production levels at lower cost, somewhat offset by higher capex and timing to first production. Price target of 35cps (unchanged).
- Funding remains a risk to our valuation and price target, but the completion of the financing package will largely mitigate this risk. Full environmental approvals have been received allowing APC to secure the final operating licences and permits to commence construction.

ASSET VALUATION	A\$m	A\$/sh
100% LSOP (pre-tax NPV10%) - risk adj 80%	229	0.37
Other Exploration	29	0.05
Forwards	-	0.00
Corporate Overheads	(31)	-0.05
Net Cash (Debt)	4	0.01
Tax (NPV future liability)	(41)	-0.07
Options & Other Equity	7	0.01
Total	197	0.31
Valuation at Spot	240	0.38
Spot USD/AUD 0.77, SOP US\$553/t.		

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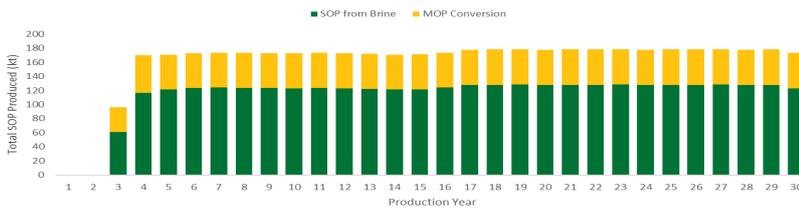
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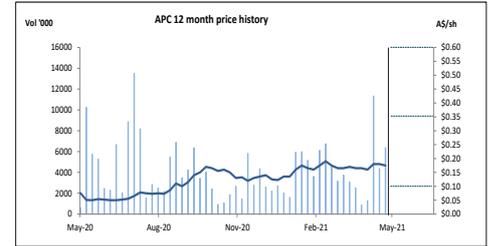
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Key Variables



Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24
SOP Price (prem adj)	\$525	\$525	\$525	\$525	\$525	\$525
MOP Price	\$300	\$300	\$300	\$300	\$300	\$300
AUDUSD	\$0.72	\$0.67	\$0.74	\$0.75	\$0.74	\$0.74

Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.31/sh

Target Price - \$0.35/sh

Bull Scenario - \$0.60/sh

Assumes the successful development and ramp-up of the LSOP. On a 12-month DCF roll-forward our LSOP value increases by ~60% on our current 75% risked valuation providing for upside value. A 10% improvement in our forecast SOP price adds +65% value.

Base Scenario - \$0.35/sh

Our base case scenario uses inputs from the FEED update (Apr'21) which assumes a long-life (30 years), production of 170ktpa SOP, LOM opex ~US\$251/t and pre-prod capex ~A\$292m. Our DCF using a 10% discount rate, and as the project development is currently unfunded our value has been risk adjusted by 75%. APC was working on 65:35 D:E mix, which will now be higher, likely +75-80% D. We have added US\$50/t SOP premium for granulation and bagging to our SOP prices.

Bear Scenario - \$0.10/sh

The development of the LSOP is currently subject to project financing, which remains a key risk. Assuming a favourable funding outcome, a problematic construction and/or ramp-up could have downside risks. The project is also highly sensitive to potash prices, less so to capex/opex movements.

Company Summary

APC's Lake Wells Sulphate of Potash Project (LSOP) is located ~180km NE of Laverton, ~500km NE of Kalgoorlie in WA. The project area spans the Lake Wells playa and palaeochannel system. APC has 100% ownership and all potash rights. The low chloride and high sulphate content of SOP makes it an ideal and preferred form of potassium (fertiliser) for farmers, and primary brine operations are at the lowest quartile of costs. SOP attracts a superior price to muriate of potash (MOP), and is underpinned by limited brine supply and increasing demand (+5% CAGR).

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz Hartleys.

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Market Statistics

		Year End 30 June	
Share Price	\$0.17 A\$/sh	Directors	
Issued Capital		Jim Walker	NE Chair
Fully paid Ordinary Shares	560.2 m	Matt Shackleton	MD/CEO
Opts + Rights (itm)	62.9 m	Rhett Brans	Proj Dir
All Opts + Rights	67.5 m	Brett Lambert	NE Dir
Total Dil (itm)	628 m	Cathy Moises	NE Dir
		S.Buckley	Comp Sec
Mkt Capital'n	\$110 m	S.Nicholas	CFO & Comp Sec
Enterprise Value	\$106 m	Shareholders	
Debt	\$- m	Yandal Invest. (Creasy) 7.8%	
Cash	\$4 m		

Asset Valuation

	A\$m	A\$/sh
100% LSOP (pre-tax NPV10%) - risk adj 80%	229	0.37
Other Exploration	29	0.05
Forwards	-	0.00
Corporate Overheads	(31)	-0.05
Net Cash (Debt)	4	0.01
Tax (NPV future liability)	(41)	-0.07
Options & Other Equity	7	0.01
Total	197	0.31
Valuation at Spot	240	0.38
Spot USD/AUD 0.77, SOP US\$553/t.		

F/Cast Production

	(A\$m)	2022F	2023F	2024F	2025F
Lake Wells 100%					
SOP Production	ktpa	0	0	113	170
Cash Costs (C1)	US\$/t	0	0	259	250
Cash Costs	A\$/t	0	0	350	338
Total Costs	A\$/t	0	0	381	360
Mine life	Yrs	30	30	29	28

Assumptions

	A\$/US\$	2022F	2023F	2024F	2025F
AUDUSD	A\$/US\$	0.75	0.74	0.74	0.74
SOP Price - premium adj	US\$/t	525	525	525	525
SOP Price	A\$/t	700	709	709	709

Ratio Analysis (A\$m)

	2022F	2023F	2024F	2025F
CF (A\$m)	-2	-7	18	33
CF / Sh (Ac/sh)	na	na	2	3
CF Ratio (x)	-68	-25	11	6
Earnings (A\$m)	-5	-15	16	26
EPS (Ac/sh)	na	na	1.4	2.5
EPS Growth (%)	na	na	na	na
Earnings Ratio (x)	na	na	12.1	7.0
E'prise Val. (A\$m)	256	402	390	360
EV : EBITDA (x)	na	na	10.6	6.1
EV : EBIT (x)	na	na	13.9	7.3
Net Debt / ND+Eq (%)	54%	70%	65%	55%
Interest Cover (x)	1.2	0.0	1.4	2.1
EBIT Margin (%)	na	na	35%	41%
ROE (%)	na	na	12%	20%
ROA (%)	na	na	8%	14%
Div. (Ac/sh)	0	0	0	0
Div. payout ratio (x)	0	0	0	0
Div. Yield (%)	0%	0%	0%	0%
Div. Franking (%)	100%	100%	100%	100%

Profit and Loss (A\$m)

	2021F	2022F	2023F	2024F	2025F
Potash Revenue	-	-	-	80	121
Hedging Revenue	-	-	-	-	-
Interest Revenue	0	1	1	0	1
Other Revenue	0	-	-	-	-
TOTAL REVENUE	0	1	1	80	121
Operating Costs	1	1	1	39	57
Dep/Amort	0	3	7	9	9
Writeoffs (explor)	-	-	-	-	-
Provisions	-	-	-	-	1
Corp O/H	2	2	3	4	4
EBITDA	(3)	(3)	(4)	37	58
EBIT	(3)	(6)	(12)	28	50
Interest Expense	(0)	-	5	13	12
NPBT	(3)	(5)	(15)	16	38
Tax	-	-	-	-	(12)
Minorities	-	-	-	-	1
NET PROFIT	(3)	(5)	(15)	16	26
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(3)	(5)	(15)	16	26

Cash Flow (A\$m)

	2021F	2022F	2023F	2024F	2025F
Net Profit	(3)	(5)	(15)	16	26
+ Working Capital Adj.	-	-	-	-	-
+ Dep/Amort	0	3	7	9	9
+ Provisions	-	-	-	-	1
+ Tax Expense	-	-	-	-	(12)
- Tax Paid	-	-	-	-	(12)
- Deferred Revenue	-	-	-	-	1
Operating Cashflow	(4)	(2)	(7)	18	33
-Capex + Development	-	200	100	2	2
-Exploration	4	1	1	0	0
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	-	-	-	-	-
Investing Cashflow	(4)	(201)	(101)	(2)	(2)
+Equity Issues	8	85	10	-	-
+Loan D'down/Receivable	-	231	-	-	-
-Other	-	-	-	-	-
-Loan Repayment	-	-	-	(5)	(15)
-Dividends	-	-	-	-	-
Financing Cashflow	8	316	10	(5)	(15)
Period Sur (Def)	(8)	(117)	84	26	50
Cash Balance	3	116	18	29	45

Balance Sheet (A\$m)

	2021F	2022F	2023F	2024F	2025F
Assets					
Cash	3	116	18	29	45
Current Receivables	-	-	-	8	12
Other Current Assets	0	0	0	0	0
Non-Current Assets	14	212	305	299	292
Total Assets	17	328	323	336	349
Liabilities					
Borrowings	-	231	231	226	211
Current Accounts Payable	0	0	0	1	2
Other Liabilities	0	0	0	0	0
Total Liabilities	0	231	231	228	213
Net Assets	16	97	92	108	135

Reserves and Resources

	Resources		Reserves	
	Brine Vol K (mg/L)	Mt SOP	Brine VolK (mg/L)	Mt SOP
Lakes Wells SOP	2383	3541	18.1	490
Lake Darlot SOP	-	-	-	-
Totals			18.1	3.6
EV per SOP t			5.9	29.5

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Contact Details

Euroz Hartleys Limited +61 8 9488 1400

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Mike Millikan - Resources Analyst	+61 8 9268 2805
Michael Scantlebury - Resources Analyst	+61 8 9268 2837
Steven Clark - Resources Analyst	+61 8 9488 1430
Trent Barnett - Senior Analyst	+61 8 9268 3052
Gavin Allen - Senior Analyst	+61 8 9488 1413
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
Seth Lizee - Associate Research Analyst	+61 8 9488 1414

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