

# Australian Potash Limited

## Bulk Materials - Developer/Explorer

21 April 2021

**Rating**  
**SPECULATIVE BUY**  
unchanged

**Price Target**  
**A\$0.30**  
unchanged

**APC-ASX**

**Price**  
**A\$0.17**

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## FEED delivers a bigger Lake Wells

APC has completed its front-end engineering design (FEED) work for the Lake Wells Sulphate of Potash development at Lake Wells in Western Australia. This work has validated the technical and commercial viability of the development. The extremely robust economics (US\$370/t breakeven) highlight why the project has attracted debt support from the likes of NAIF and EFA and buyer support from the likes of Helm and Mitsui.

We retain our A\$0.30ps price target, which reflects a larger capital raising offset by de-risking and slightly improved project economics.

### Capex increased to target premium prices, increase capacity and lower risk

Upfront capital has increased to \$292mn (\$208mn prior). The principle drivers of this change are:

1. Increase in production from 150ktpa to 170ktpa ( $\Delta = A\$28m$ );
2. Inclusion of a granulation and bagging plant to produce premium product variants to optimise pricing premiums ( $\Delta = A\$36m$ );
3. Change of execution strategy from EPCM to lump sum EPC, resulting in a risk, or insurance, premium being priced by contractors into the bid prices; 75% of the project (by value) will be lump sum ( $\Delta = A\$6m$ ); and
4. Increased pro-rata contingency ( $\Delta = A\$14m$ ).

In our view these are logical and defensible changes that increase the robustness/flexibility of the project and push development risk onto the contractors. That said, it has led to us to increase our equity-raising assumption from A\$70mn to A\$100mn, with the associated dilution.

### Operating costs take a step down

The Lake Wells C1 cash operating cost is projected at A\$358/t (US\$251/t) for 170,000tpa over the life of mine. Operating costs have been estimated based on defined scopes and tendered submissions for all material items. The Lake Wells C1 cash cost places the project in the first quartile of the SOP global industry cost curve.

### Debt funding progressing nicely

Export Finance Australia has obtained conditional credit approval to provide APC with a \$45mn senior debt facility (10-year tenor). It joins the Northern Australia Infrastructure Facility

(NAIF), which previously made a positive investment decision for a \$140mn loan facility with a 17-year tenor following a comprehensive due diligence process. In our view, this sets a positive precedent for additional senior debt facilities with commercial banks. Importantly, NAIF is taking on the tail risk of the project, with the facility being interest-only until other senior debt providers are paid back.

### CG modelling and assumptions

We have amended our modelling to match with the FEED outputs with two notable exceptions:

1. We use a weighted average SOP price of US\$575/t (APC using ~US\$605); and
2. We use an USD:AUD forecast of 0.75 (APC using 0.70)

This yields an IRR of 18%, 5.0 year pay-back, A\$70mn project EBITDA and an unrisks NPV9 of \$234mn (we risk this at 90% for our valuation).

### Market Data

52-Week Range (A\$) :	0.05 - 0.20
Avg Daily Vol (M) :	0.9
Market Cap (A\$M) :	93.3
Shares Out. (M) :	548.6
Dividend /Shr (A\$) :	0.00
Net Debt (Cash) (A\$M) :	(5.0)
Enterprise Value (A\$M) :	98.3
Net Cash (A\$M) :	4.5

FYE Jun	2020A	2021E	2022E	2023E
Sales (A\$M)	0.2	0.0	0.0	0.0
EBITDA (A\$M)	(0.7)	(1.8)	(1.8)	(1.8)
Net Debt (Cash) (A\$M)	(3)	(106)↓	(34)↓	94↓
Previous	-	(76)	14	153
DPS (A\$)	0.00	0.00	0.00	0.00
EPS (A\$)	(0.00)	(0.00)	(0.00)	(0.00)↑
Previous	-	(0.00)	(0.00)	(0.01)



Priced as of close of business 20 April 2021

Australian Potash Limited (APC) is an ASX-listed Sulphate of Potash (SOP) developer, focused on advancing its 100% owned, 150ktpa, Lake Wells SOP Project (LWSOP), located approximately 480km north-east of the Eastern Goldfields centre of Kalgoorlie.

Canaccord Genuity (Australia) Limited has received a fee as Joint Lead Manager to the Australian Potash Limited Capital Raising announced 2 November 2020.

Figure 1: Financial summary

FY Jun 30	2019	2020	2021E	2022E	2023E	2019	2020	2021E	2022E	2023E	
<b>PROFIT &amp; LOSS (A\$m)</b>											
Revenue	0	0	0	0	0	<b>KEY ASSUMPTIONS</b>					
Operational Costs	0	0	0	0	0	SOP (US\$/tonne)	500	500	500	503	513
Royalty	0	0	0	0	0	A\$/US\$	0.72	0.67	0.75	0.75	0.75
Other Income	2	2	1	1	1	<b>REALISED PRICES</b>					
Business Devt & Expl	0	0	0	0	0	SOP (\$/tonne)	0.0	0.0	0.0	0.0	0.0
Corporate & Other	-1	-2	-2	-2	-2	<b>PRODUCTION FORECASTS</b>					
<b>EBITDA</b>	<b>1</b>	<b>-1</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	SOP (kt)	0	0	0	0	0
DD&A	0	0	0	0	0	<b>Total (kt)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other	0	0	0	0	0	<b>RESERVES AND RESOURCES</b>					
<b>EBIT</b>	<b>1</b>	<b>-1</b>	<b>-2</b>	<b>-2</b>	<b>-2</b>	Lake Wells Proved & Probable Reserve			3.6	Mt	
Net Financing	0	0	0	0	-2	<b>PER SHARE DATA</b>					
<b>NPBT</b>	<b>1</b>	<b>-1</b>	<b>-2</b>	<b>-2</b>	<b>-4</b>	Average Shares (Diluted, M)	116	356	851	1174	1174
Tax	0	0	0	0	1	EOP Shares (Diluted, mn)	358	487	1174	1174	1174
<b>Normalised NPAT</b>	<b>1</b>	<b>-1</b>	<b>-2</b>	<b>-2</b>	<b>-3</b>	Normalised EPS (A¢/sh)	1.2	-0.2	-0.2	-0.1	-0.2
Sig Items, Discon Ops & Mins	0	0	0	0	0	CF PS (A¢/sh)	-0.6	0.1	-0.3	-0.2	-0.4
<b>Reported NPAT</b>	<b>1</b>	<b>-1</b>	<b>-2</b>	<b>-2</b>	<b>-3</b>	FCF PS (A¢/sh)	-3.6	-1.1	-0.5	-6.1	-10.9
Effective income tax rate	0%	0%	0%	15%	30%	<b>RATIOS</b>					
<b>CASHFLOW (A\$m)</b>						Dividend Yield	0%	0%	0%	0%	0%
Cash receipts	0	0	0	0	0	PE	13.9	n/a	n/a	n/a	n/a
Payments to suppliers	-2	-2	-3	-3	-3	PCF (Debt Adj)	n/a	163.7	n/a	n/a	n/a
Interest received	0	0	0	0	0	EV / EBITDA	41.3	n/a	n/a	n/a	n/a
Interest paid	0	0	0	0	-2	Gearing (ND / ND + E)	n/a	n/a	n/a	n/a	46%
Other	1	3	0	0	0	Net Debt / EBITDA	-1.4x	4.9x	59x	19x	-52x
<b>Operating Cashflow</b>	<b>-1</b>	<b>0</b>	<b>-2</b>	<b>-3</b>	<b>-5</b>	Interest Cover	0.0x	0.0x	0.0x	0.0x	-0.8x
Payments for PP&E	0	0	0	0	0	ROE (Reported Profit / Av Equity)	47%	n/a	n/a	n/a	n/a
Payments for Development	0	0	0	-67	-120	ROIC	35%	n/a	n/a	n/a	n/a
Payments for Exploration	-3	-5	-3	-3	-3	ROACE	33%	n/a	n/a	n/a	n/a
Asset Sales / (Purchases)	0	0	0	0	0	FCF Yield	-21%	-7%	-3%	-36%	-64%
Other	0	0	1	1	1	<b>DIVIDEND AND FRANKING</b>					
<b>Investing Cashflow</b>	<b>-3</b>	<b>-4</b>	<b>-2</b>	<b>-69</b>	<b>-123</b>	Dividend (A¢/sh)	0	0	0	0	0
Share Issuance / (Buyback)	4	6	107	0	0	Payout ratio	0%	0%	0%	0%	0%
Drawdown / (Repayment) of Debt	0	0	0	0	128	Franking Balance (A\$m)	0	0	0	0	0
Dividends	0	0	0	0	0	<b>VALUATION</b>					
Other	0	0	0	0	0	Lake Wells	0.19		0.24		
<b>Financing Cashflow</b>	<b>4</b>	<b>5</b>	<b>107</b>	<b>0</b>	<b>128</b>	EV adjustments	0.09		0.09		
Surplus / Defecit	0	1	102	-72	0	Exploration	0.02		0.02		
<b>BALANCE SHEET (A\$m)</b>						<b>TOTAL</b>	<b>0.30</b>		<b>0.35</b>		
Current Assets	4	4	106	34	34	<b>PREMIUM/(DISCOUNT)</b>	0.0				
Non-Current Assets	5	10	13	83	206	<b>PRICE TARGET</b>	<b>0.30</b>				
<b>Total Assets</b>	<b>9</b>	<b>13</b>	<b>118</b>	<b>117</b>	<b>240</b>						
Current Liabilities	3	2	2	2	2						
Non-Current Liabilities	0	0	0	0	128						
<b>Total Liabilities</b>	<b>3</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>130</b>						
<b>Net Assets</b>	<b>6</b>	<b>11</b>	<b>116</b>	<b>114</b>	<b>110</b>						
Total Cash	2	3	106	34	34						
Total Debt	0	0	0	0	128						
<b>Net Debt</b>	<b>-2</b>	<b>-3</b>	<b>-106</b>	<b>-34</b>	<b>94</b>						

Source: Company reports, Canaccord Genuity estimates

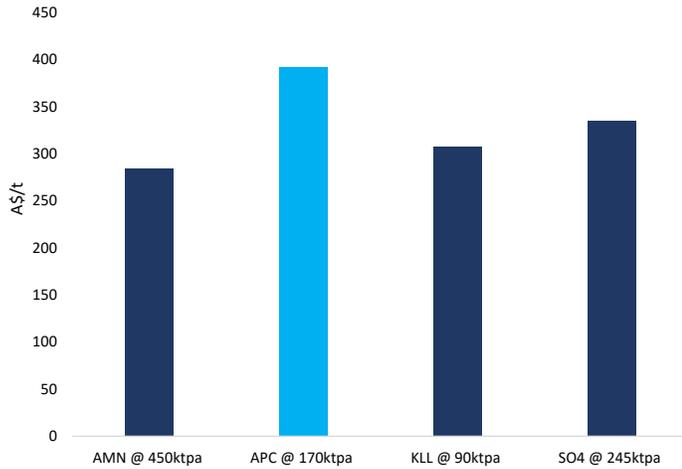
Figure 2: Valuation build-up

Asset	Equity %	Net Capacity ktpa	NPV A\$m	Risking %	Riskd NPV A\$m	Riskd NPV A\$ps
<b>PRODUCTION ASSETS</b>		<b>0</b>	<b>0</b>	<b>0%</b>	<b>0.0</b>	<b>0.00</b>
Lake Wells		170	277.8	80%	222.2	0.19
<b>DEVELOPMENT ASSETS</b>		<b>170</b>			<b>222.2</b>	<b>0.19</b>
<b>RESEOURCES</b>		<b>0</b>			<b>0.0</b>	<b>0.00</b>
Lake Darlot, Lake Wells Gold					20.0	0.02
<b>EXPLORATION</b>		<b>0</b>			<b>0.0</b>	<b>0.02</b>
<b>Net Debt, Balance sheet adj. &amp; corp. overhead</b>						<b>0.09</b>
Premium / (Discount)						0.00
<b>Price Target</b>						<b>0.30</b>

Source: Company reports, Canaccord Genuity estimates

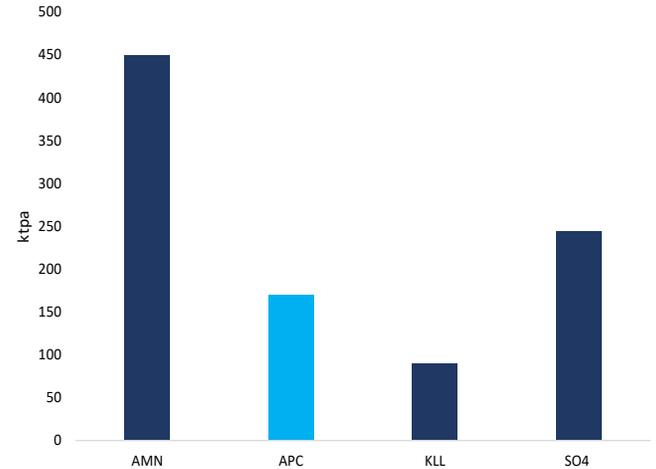
## Peer analysis

Figure 1: AISC (A\$/t)



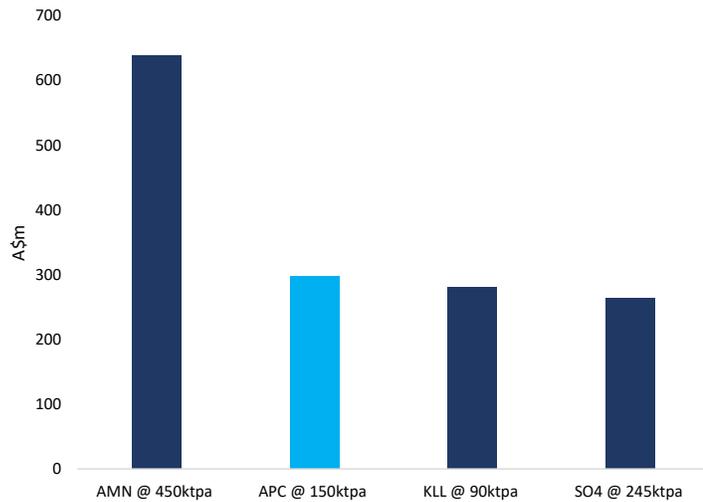
Source: Company reports, Canaccord Genuity estimates

Figure 2: Full production rate (ktpa)



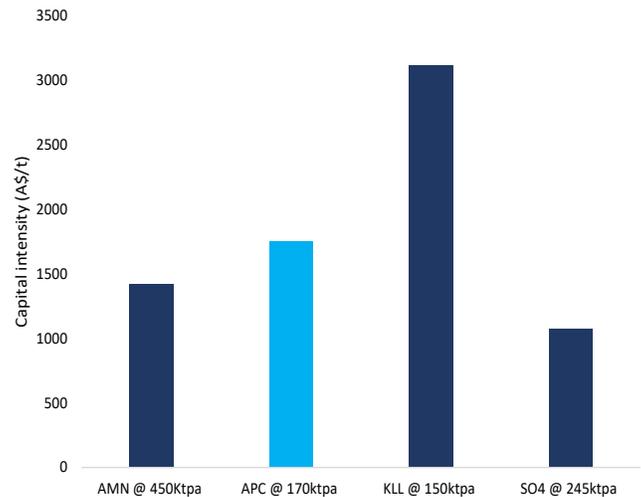
Source: Company reports, Canaccord Genuity estimates

Figure 3: Total Capex (A\$m)



Source: Company reports, Canaccord Genuity estimates

Figure 4: Capital intensity (A\$/ktpa)



Source: Company reports, Canaccord Genuity estimates

## Appendix: Important Disclosures

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### **Investment Recommendation**

Date and time of first dissemination: April 20, 2021, 18:58 ET

Date and time of production: April 20, 2021, 07:28 ET

### **Target Price / Valuation Methodology:**

Australian Potash Limited - APC

We have based our valuation for APC on a risked DCF analysis of the Lake Wells SOP project (WACC 8.5%), plus nominal exploration value, less corporate costs etc.

### **Risks to achieving Target Price / Valuation:**

Australian Potash Limited - APC

### **APC's exploration properties may never be brought into production**

The exploration for, and development of, mineral deposits involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. To mitigate this risk, the company has undertaken systematic and staged exploration and testing programs on its mineral properties and progressively undertaken a number of technical and economic studies with respect to its projects. However, given a formal decision on development is yet to be taken, there can be no guarantee that the properties will be ultimately brought into production.

### **APC's activities will require further capital**

The development of the company's exploration properties will require substantial additional financing. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration, and any development of the company's properties or even a loss of property interest. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the company.

### **APC may be adversely affected by fluctuations in commodity prices**

The price of potash fluctuates and is affected by numerous factors beyond the control of the company. Future production and revenue, if any, from the company's mineral properties will be dependent upon the price of potash being adequate to make these properties economic. The company does not currently engage in any hedging or derivative transactions to manage commodity price risk. This policy will be reviewed periodically going forward, as the company's operations change.

### **Global financial conditions may adversely affect APC growth and profitability**

Many industries, including the mineral resource industry, are impacted by these market conditions. Some of the key impacts of the current financial market turmoil include contraction in credit markets resulting in a widening of credit risk, devaluations and high volatility in global equity, commodity, foreign exchange and precious metal markets, and a lack of market liquidity. Due to the current nature of the company's activities, a slowdown in the financial markets or other economic conditions may adversely affect the company's growth and ability to finance its activities.

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**Global Stock Ratings (as of 04/20/21)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	601	64.42%	40.10%
Hold	160	17.15%	21.25%
Sell	14	1.50%	28.57%
Speculative Buy	143	15.33%	68.53%
	933*	100.0%	

\*Total includes stocks that are Under Review

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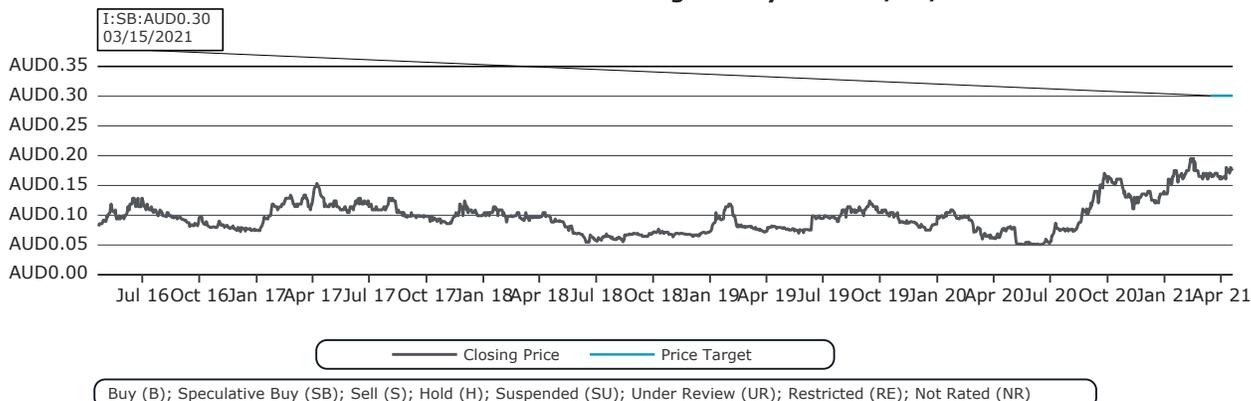
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Canaccord Genuity (Australia) Limited has received a fee as Joint Lead Manager to the Australian Potash Limited Capital Raising announced 2 November 2020.

**Australian Potash Limited Rating History as of 04/19/2021**



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