

Australian Potash Limited

(APC \$0.165) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Mike Millikan	2 nd March 2021	\$0.35/sh ▲ from \$0.30/sh

NAIF approves A\$140m loan for Lake Wells SOP development

Investment case

Australian Potash (APC) is loan approved for a \$140m Northern Australia Infrastructure Facility (NAIF). The NAIF loan is a great outcome for APC, providing an attractive, long-term facility mitigating some of the key project funding risks. Importantly, it is the precursor for the other tranches in the senior syndicated facility, which are expected to be smaller in size. The potential higher gearing on the project development reduces equity dilution and also highlights the quality of the “behind the scene” works (offtakes, permitting, feasibility studies for clear social and economic benefits). Assuming a favourable financing outcome for the balance of the multi-tranche facility, FID approvals, construction is expected to commence in 2HFY21, for first production and ramp-up in CY23. The project is expected to have a long +30 year mine life, and provide +150-170ktpa SOP production profile at low costs (first quartile). We like the low capital intensity and small carbon footprint of the project, which has targeted design for 60% of power generation from renewables. In addition, APC’s K-Brite SOP has been certified for organic use, all appealing features for ESG investors. Speculative Buy retained, our price target has improved to \$0.35/sh (up from \$0.30/sh).

Key points

- NAIF has approved a debt facility of A\$140m to assist the development of the Lake Wells SOP Project.
- The NAIF facility is the first and largest tranche of multi-tranche debt facility, with Export Finance Australia (EFA) completing due diligence for an investment decision before the end of March’21 and a consortium of banks expected to provide the final tranche in 2HFY21.
 - APC was originally targeting a debt to equity (D:E) mix for the project development of 65:35.
 - The DFS development capex was ~A\$210m, and with additional working capital assumed for production ramp-up.
 - With more funds to be provided by lenders, APC’s D:E mix could be higher than previously forecast which reduces some of the equity requirement. We see potential for total debt in the range of \$180-200m.
- The NAIF loan is long-dated (over 17 years), secured over assets and attracts interest only until such time as the other tranches are repaid with principal and interest thereafter. The interest rate has not been disclosed, but we expect it to be low (attractive).
- The loan made available to APC is significantly higher than that provided to Kalium Lakes (KLL) for its SOP development, which was \$74m (with \$10m additional facility) and ranks behind Strandline Resources (STA, \$150m) and BCI Minerals (BCI, \$450m) for WA funded projects.

Australian Potash Limited	Year End 30 June	
Share Price	0.165	A\$/sh
Price Target	0.35	A\$/sh
Valuation	0.26	A\$/sh
		(npv 10%)

Shares on issue	628	m, diluted *
Market Capitalisation	104	A\$m
Enterprise Value	99	A\$m
Debt	0	A\$m
Cash	5	A\$m
Largest Shareholder		
Yandal Investments (Creasy)		6%

Production F/Cast	2022F	2023F	2024F
SOP Prod’n (kt)	0	75	150
Cash Costs (A\$/t)	0	351	350
Total Costs (A\$/t)	0	407	388

Assumptions	2022F	2023F	2024F
AUDUSD	0.75	0.74	0.74
SOP Price US\$/t	475	475	475
SOP Price A\$/t	633	642	642

Key Financials	2022F	2023F	2024F
Revenue (A\$m)	2	49	97
EBITDA (A\$m)	-9	18	38
NPAT (A\$m)	-30	-7	14
Cashflow (A\$m)	-21	0	22

CFPS (Ac)	na	0	2
P/CFPS (x)	na	367	7

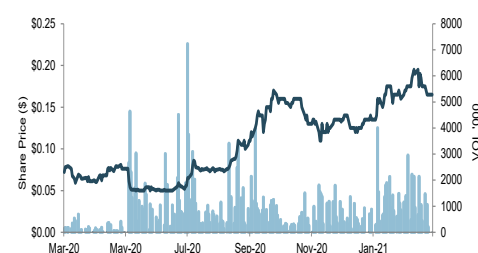
EPS (Ac)	na	-1	1
EPS growth (%)	na	na	84%
PER (x)	na	-22	11

EV:EBITDA (x)	na	19	8
EV:EBIT (x)	na	56	12

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

ND:Net Debt+Equity (%)	78%	81%	74%
Interest Cover (x)	0	1	0

Share Price Chart



Disclaimer

Euroz Hartleys Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to APC during the last year. Euroz Hartleys Securities has received a fee for these services.

This analyst declares that he has a beneficial interest in APC

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- APC has already received the full environmental approval to proceed with the development of the Lake Wells SOP Project, and 100% of its proposed DFS output is under binding offtake agreements.
- DFS output for the project was 150ktpa SOP, but optimisation via the FEED study could increase to 170ktpa SOP, which implies 100% of DFS output currently contracted, or 88% contracted on the upside production target.
 - 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).
- The full environmental approval to proceed with the development of the project was received in early Feb'21, with the Environmental Ministerial Consent a significant milestone, allowing APC to secure the final operating licences and permits.
- Outcomes from FEED activities has already highlighted material savings on opex via renewable power solutions, which could provide 30% savings on the DFS opex assumptions.
 - High penetration (~60%) renewable power generation is being tendered; solar has some clear benefits and wind turbines are also being considered. A 30% saving could imply an opex of <US\$185/t SOP.
 - The evaporation ponds are proposed to be on-playa unlined pre-concentration ponds and off-playa lined harvest ponds. The on-playa ponds are planned to be bunded by natural dunes with the cut-off walls lined by bentonite/mixed local clays, for additional savings.
- Assuming a favourable financing outcome, FID approvals, construction is expected to commence in 2HFY21, for first production and ramp-up in CY23. The project once constructed is expected to have a long +30 year mine life.

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EH Key Assumptions

- Our LSOP DCF is based largely on information supplied in the DFS (Aug'19), though we recently adjusted our SOP production profile in the range of +150-170ktpa (up from 150ktpa) over a 30-year mine life.
- We assume slightly higher capex but slightly lower opex to the DFS outcomes, though it should be noted that the optimisation works/ FEED activities will update these assumptions.
- We have now adjusted timing for first production to early CY23, ramping up over CY23.
- 100% of the DFS production target (+150ktpa SOP) is under offtake, and more secured offtake(s) on higher production levels could occur prior to financial close.
- Financing is now becoming more certain, with the NAIF piece the key precursor 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 75% (up from 50%), which will ultimately be removed as further financing information is released and finalised.
- Our summary page does however make an assumption on debt and equity raised. It is likely the LSOP will take a higher level of debt.
- Our valuation uses a more conservative flat long-term SOP price of US\$475/t (vs APC's US\$614/t SOP used in the DFS).
- Our price target has increased from 30cps to 35cps, improved by the DCF roll forward (ie nearer to future earnings), on recently adjusted production profile and lower cost assumption.
- APC is not positioning at this stage to be the largest SOP producer out of the emerging Australian brine operations, but it is however expected to have one of the lowest cost profiles and lowest capital intensities, which could attract more favourable funding terms (testament to the NAIF loan).
- 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 75%	184	0.29
Other Exploration	25	0.04
Forwards	-	0.00
Corporate Overheads	(30)	-0.05
Net Cash (Debt)	5	0.01
Tax (NPV future liability)	(27)	-0.04
Options & Other Equity	7	0.01
Total	163	0.26
Valuation at Spot	240	0.38
<i>Spot USD/AUD 0.78, SOP US\$553/t.</i>		

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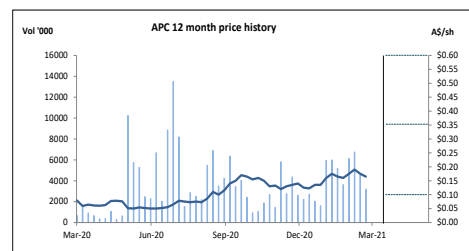
Key Variables

Val/ Sh	US\$ SOP							
	-15%	-10%	-5%	0%	5%	10%	15%	
\$0.26								
AUDUSD	-15%	\$0.18	\$0.24	\$0.29	\$0.35	\$0.41	\$0.46	\$0.52
	-5%	\$0.13	\$0.19	\$0.24	\$0.29	\$0.34	\$0.39	\$0.44
	0%	\$0.11	\$0.16	\$0.21	\$0.26	\$0.31	\$0.36	\$0.40
	5%	\$0.09	\$0.14	\$0.19	\$0.23	\$0.28	\$0.33	\$0.37
	10%	\$0.07	\$0.12	\$0.17	\$0.21	\$0.26	\$0.30	\$0.34
	15%	\$0.06	\$0.10	\$0.15	\$0.19	\$0.23	\$0.27	\$0.32

Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24
SOP Price	\$475	\$475	\$475	\$475	\$475	\$475
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 - \$0.26/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% unrisks and by -50% risked 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 LSOP DFS (Aug'19) which assumes a long-life (30 years), production of +150ktpa SOP, LOM opex -US\$260/t and pre-prod capex -A\$210m. Our DCF using a 10% discount rate, and as the project development is currently unfunded our value has been risk adjusted by 50%. APC is working on 65:35 D:E mix, which might be higher. The FEED optimisation activities will enhance our working model.

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.

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Market Statistics Year End 30 June

Share Price	\$0.165	A\$/sh	Directors	
Issued Capital			Jim Walker	NE Chair
Fully paid Ordinary Shares	553.3	m	Matt Shackleton	MD/CEO
Opts + Rights (itm)	69.8	m	Rhett Brans	Proj Dir
All Opts + Rights	74.3	m	Brett Lambert	NE Dir
Total Dil (itm)	628	m	Cathy Moises	NE Dir
			Sophie Raven	Comp Sec
			Scott Nicholas	CFO
Mkt Capital'n	\$104	m	Shareholders	
Enterprise Value	\$99	m	Yandal Investm. (Creasy) 5.5%	
Debt	\$-	m		
Cash	\$5	m		

Asset Valuation A\$m A\$/sh

100% LSOP (pre-tax NPV10%) - risk adj 75%	184	0.29
Other Exploration	25	0.04
Forwards	-	0.00
Corporate Overheads	(30)	-0.05
Net Cash (Debt)	5	0.01
Tax (NPV future liability)	(27)	-0.04
Options & Other Equity	7	0.01
Total	163	0.26
Valuation at Spot	240	0.38
<i>Spot USD/AUD 0.78, SOP US\$553/t.</i>		

F/Cast Production (A\$m) 2021f 2022f 2023f 2024f

Lake Wells 100%					
SOP Production	ktpa	0	0	75	150
Cash Costs (C1)	US\$/t	0	0	260	259
Cash Costs	A\$/t	0	0	351	350
Total Costs	A\$/t	0	0	407	388
Mine life	Yrs	30	30	30	29
Assumptions					
AUDUSD	A\$/US\$	0.74	0.75	0.74	0.74
SOP Price	US\$/t	475	475	475	475
SOP Price	A\$/t	639	633	642	642

Ratio Analysis (A\$m) 2021f 2022f 2023f 2024f

CF (A\$m)	-13	-21	0	22
CF / Sh (Ac/sh)	na	na	0	2
CF Ratio (x)	-9	-7	367	7
Earnings (A\$m)	-15	-30	-7	14
EPS (Ac/sh)	na	na	na	1.4
EPS Growth (%)	na	na	na	na
Earnings Ratio (x)	na	na	na	11
E'prise Val. (A\$m)	147	326	334	315
EV : EBITDA (x)	na	na	19	8
EV : EBIT (x)	na	na	56	12
Net Debt / ND+Eq (%)	28%	78%	81%	74%
Interest Cover (x)	0	0	1	0
EBIT Margin (%)	na	na	0.12	0.27
ROE (%)	na	na	na	0.26
ROA (%)	na	na	0.03	0.12
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) 2020a 2021f 2022f 2023f 2024f

Potash Revenue	0	-	-	48	96
Hedging Revenue	-	-	-	-	-
Interest Revenue	0	2	2	0	0
Other Revenue	2	-	-	-	-
TOTAL REVENUE	2	2	2	49	97
Operating Costs	2	5	7	27	55
Dep/Amort	0	3	8	12	12
Writeoffs (explor)	0	-	-	-	-
Provisions	-	-	-	-	-
Corp O/H	1	1	2	3	3
EBITDA	(1)	(6)	(9)	18	38
EBIT	(1)	(9)	(18)	6	26
Interest Expense	0	7	14	14	13
NPBT	(1)	(15)	(30)	(7)	14
Tax	-	-	-	-	-
Minorities	-	-	-	-	-
NET PROFIT	(1)	(15)	(30)	(7)	14
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	(1)	(15)	(30)	(7)	14

Cash Flow (A\$m) 2020a 2021f 2022f 2023f 2024f

Net Profit	(1)	(15)	(30)	(7)	14
+ Working Capital Adj.		(1)	(4)	(5)	(0)
+ Dep/Amort	0	3	8	12	12
+ Provisions	-	-	-	-	-
+ Tax Expense	-	-	-	-	-
- Tax Paid	-	-	-	-	-
- Deferred Revenue	-	-	-	-	-
Operating Cashflow	0	(13)	(21)	0	22
-Capex + Development	0	97	111	4	2
-Exploration	5	5	7	0	0
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	-	-	-	-	-
Investing Cashflow	(4)	(102)	(118)	(4)	(2)
+Equity Issues	6	81	-	-	-
+Loan D'down/Receivable	-	200	-	-	-
-Other	-	-	-	-	-
-Loan Repayment	-	-	-	(10)	(19)
-Dividends	-	-	-	-	-
Financing Cashflow	5	281	-	(10)	(19)
Period Sur (Def)	(1)	(192)	97	15	43
Cash Balance	3	169	30	16	17

Balance Sheet (A\$m) 2020a 2021f 2022f 2023f 2024f

Assets					
Cash	3	169	30	16	17
Current Receivables	0	-	-	5	9
Other Current Assets	-	0	0	0	0
Non-Current Assets	10	109	218	211	202
Total Assets	13	278	248	232	228
Liabilities					
Borrowings	-	200	200	190	171
Current Accounts Payable	2	0	0	1	2
Other Liabilities	0	0	0	0	0
Total Liabilities	2	201	201	191	173
Net Assets	11	77	48	41	55

Reserves and Resources

	Reserves		Resources	
	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			5.5	27.5

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