

# Australian Potash Limited

## (APC \$0.12) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Mike Millikan	16 <sup>th</sup> November 2020	\$0.30/sh ▲ from \$0.20/sh

### Debt financing well advanced, FEED on-track Q4

#### Investment case

We like the sulphate of potash (SOP) thematic. Potassium (K) is an essential nutrient, SOP is the premium form of K and non-substitutable. We remain of the opinion that new SOP brine operations in Australia are well placed to supply a growing global market, and should market conditions deteriorate, equally well positioned as they will occupy the lower end of the cost curve (first quartile). APC is attractive on peer comparison, it has secured over 85% of its DFS output in contracted sales agreements, now finalising debt financing with project enhancements expected to be delivered in the FEED study. We like the low capital intensity and low carbon footprint of the project development, which has targeted design for 60% of power generation from renewables, good appeal for ESG investors. APC recently raised A\$7m for some early works at Lake Wells, to finalise offtakes, debt negotiations and FEED activities. We maintain our Speculative Buy, with an improved price target of \$0.30/sh (up from \$0.20/sh).

#### Key points

Project financing options for APC's Lake Wells Sulphate of Potash project (LSOP) in WA are progressing well.

- On the current timelines financing for the project development is expected to be concluded in Q4 CY20 for a final investment decision (FID) in Q1 CY21.
- In addition to a potential North Australian Infrastructure Facility (NAIF), which could provide 35% of the total funding requirements for the LSOP, APC has advised that the project could be eligible for export credit agency funding via Export Finance Australia (EFA).
- EFA is now undertaking due diligence (DD) which could provide additional funds to the senior commercial debt facility.
- APC is targeting for a debt to equity ratio of 65:35, though additional debt may now be available, we have previously modelled a more conservative 60:40 D:E mix.
  - Development capex as per the DFS was ~A\$210m.
- Post the recent A\$7m placement (~63m APC shares at A\$0.111/sh) we have diluted APCs capital structure and adjusted the balance sheet. Cash improves to over A\$8m.

APC currently has 130kt of SOP under contracted offtake agreements, of which 85% of these offtakes are expected to be exported internationally.

- DFS output for the project was +150ktpa SOP, but optimisation via the FEED study could increase to +170ktpa SOP, which implies ~86% of DFS output currently contracted, or ~76% contracted on the upside production target.
- APC is working to finalise the offtake program this quarter (Q4), with potential for another offtake (likely for the Americas) in and around completion of the financing package.

Australian Potash Limited	Year End 30 June	
Share Price	0.12	A\$/sh
Price Target	0.30	A\$/sh
Valuation	0.22	A\$/sh
		(npv 10%)

Shares on issue	563	m, diluted *
Market Capitalisation	68	A\$m
Enterprise Value	59	A\$m
Debt	0	A\$m
Cash	8	A\$m
Largest Shareholder		
Yandal Investments (Creasy)		6%

Production F/Cast	2022f	2023f	2024f
SOP Prod'n (kt)	0	113	150
Cash Costs (A\$/t)	0	361	360
Total Costs (A\$/t)	0	403	397

Assumptions	2022f	2023f	2024f
AUDUSD	0.67	0.71	0.71
SOP Price US\$/t	475	475	475
SOP Price A\$/t	669	660	660

Key Financials	2022f	2023f	2024f
Revenue (A\$m)	1	74	99
EBITDA (A\$m)	-9	29	39
NPAT (A\$m)	-27	6	14
Cashflow (A\$m)	-18	13	29

CFPS (Ac)	na	1	3
P/CFPS (x)	na	10	4

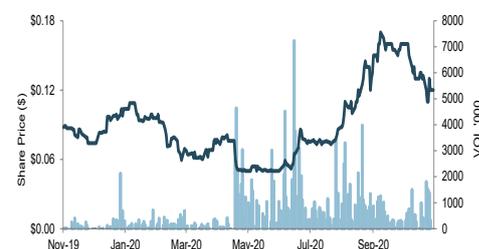
EPS (Ac)	na	1	2
EPS growth (%)	na	na	84%
PER (x)	na	16	6

EV:EBITDA (x)	na	9	6
EV:EBIT (x)	na	14	8

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

ND:Net Debt+Equity (%)	70%	60%	49%
Interest Cover (x)	0	1	0

#### Share Price Chart



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

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On the permitting front, the EPA has recommended that the LSOP be approved for development, with Ministerial consent now being sought.

- Outcomes from the FEED study are due in Q4 CY20, with material savings on opex anticipated via renewable power solutions, which could provide 30% savings on the DFS opex assumptions.
  - 30% saving could imply an opex of <US\$185/t SOP
- Assuming a favourable financing outcome, construction is expected to commence in early CY21, for first production and ramp-up in CY23.

### Euroz Hartleys Key Assumptions

- Our LSOP DCF is based largely on information supplied in the DFS (Aug'19), though we have now adjusted of 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 study to update these assumptions.
- We have now adjusted timing for first production to early CY23, ramping up over CY23.
- Over 85% of the DFS production target (+150ktpa SOP) is under offtake, and we see potential for more secured offtake(s) prior to financial close.
- Due to the uncertainty around financing, mostly in regards to the ultimate debt to equity mix, and price at which new equity is raised, our valuation is now unfunded but risk adjusted by 50%. Our risk adjustment will be lowered, and ultimately 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 (higher gearing ratio) than we assume.
- 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 20cps to 30cps, improved by the DCF roll forward (ie nearer to future earnings), slightly higher production profile and lower cost assumption.
- Funding remains the key risk to our valuation and price target. Full permitting approvals are also required before operations can commence.

Share Price Valuation (NAV)	Risked Est. A\$m	Est. A\$/share
100% LSOP (pre-tax NPV@10%) - risk adj 50%	138	0.24
Other Exploration	28	0.05
Forwards	-	0.00
Corporate Overheads	(30)	-0.05
Net Cash (Debt)	8	0.01
Tax (NPV future liability)	(22)	-0.04
Options & Other Equity	0	0.00
<b>Total</b>	<b>121</b>	<b>0.22</b>

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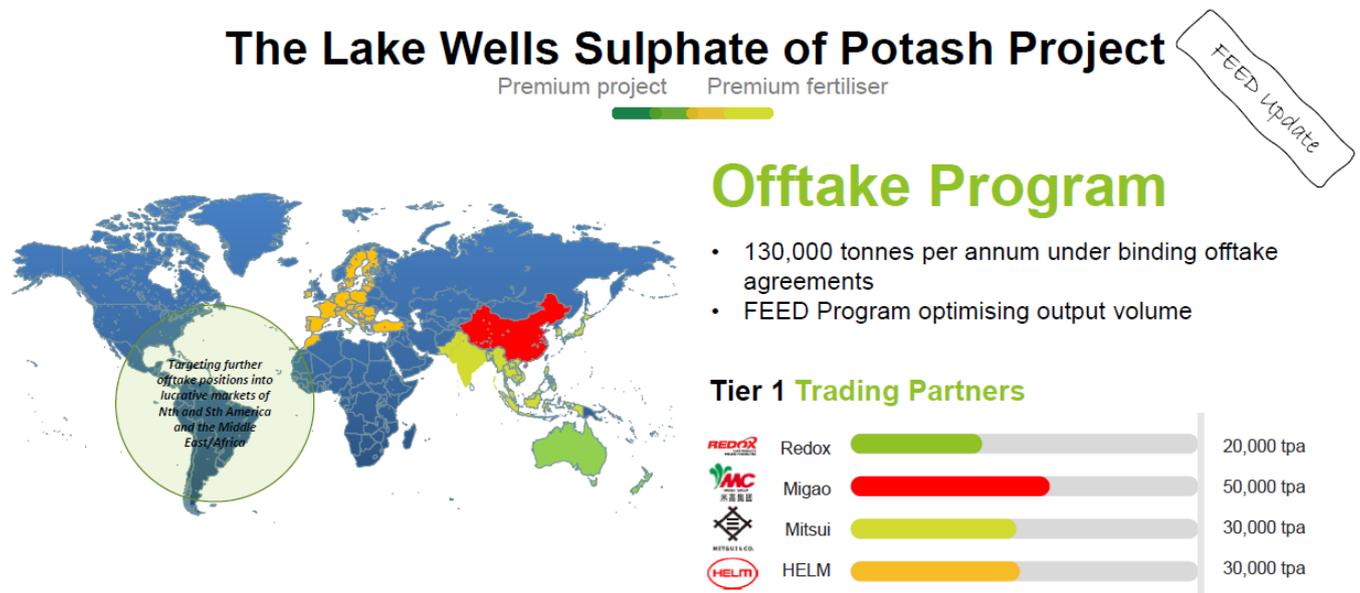
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## Analysis

- APC has secured four offtakes for premium SOP (branded K-Brite™) products from the LSOP.
- Offtake partners include: Redox previously securing 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 30ktpa (10-year, distribution rights to several Europe jurisdictions).
- All of the offtakes consist of a “take or pay” arrangement, with pricing on a net realised price basis, and designed in such manner to maximise returns for both supplier (APC) and buyer (offtake partners).
- The SOP offtakes and permitting are seen as the key precursors to the finalisation of a project funding package.

Fig 1: Secured offtake partners for K-Brite™ SOP



Source: APC

- 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 (material savings on opex due to renewable power solutions, which are not without some risks) and lowest capital intensities, which could attract more favourable funding terms.

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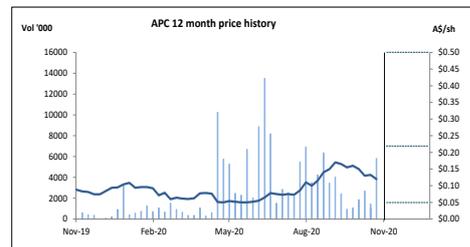
## Key Variables

Val/ Sh	US\$ SOP							
	-15%	-10%	-5%	0%	5%	10%	15%	
AUDUSD	\$0.22	\$0.15	\$0.20	\$0.24	\$0.29	\$0.34	\$0.38	\$0.43
-15%	\$0.15	\$0.20	\$0.24	\$0.29	\$0.34	\$0.38	\$0.43	\$0.43
-5%	\$0.11	\$0.15	\$0.20	\$0.24	\$0.28	\$0.32	\$0.37	\$0.37
0%	\$0.09	\$0.13	\$0.17	\$0.22	\$0.25	\$0.29	\$0.34	\$0.34
5%	\$0.08	\$0.12	\$0.15	\$0.19	\$0.23	\$0.27	\$0.31	\$0.31
10%	\$0.06	\$0.10	\$0.14	\$0.17	\$0.21	\$0.25	\$0.28	\$0.28
15%	\$0.05	\$0.09	\$0.12	\$0.16	\$0.19	\$0.22	\$0.26	\$0.26

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	\$0.71	\$0.71	\$0.72	\$0.72



## Our Share Price Sensitivity



## Our Market Sensitivity

Valuation - \$0.22/sh

Target Price - \$0.30/sh

**Bull Scenario - \$0.50/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 - \$0.22/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 have previously assumed a 60:40 D:E. The FEED optimisation activities will enhance our working model.

**Bear Scenario - \$0.05/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 plays 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	\$0.120	A\$/sh	Directors
Issued Capital			Jim Walker NE Chair
Fully paid Ordinary Shares	549.6	m	Matt Shackleton MD/CEO
Opts + Rights (itm)	13.3	m	Rhett Brans Proj Dir
All Opts + Rights	77.6	m	Brett Lambert NE Dir
<b>Total Dil (itm)</b>	<b>563</b>	<b>m</b>	Cathy Moises NE Dir
			Sophie Raven Comp Sec
			Scott Nicholas CFO
<b>Mkt Capital'n</b>	<b>\$68</b>	<b>m</b>	<b>Shareholders</b>
Enterprise Value	\$59	m	Yandal Investments
Debt	\$-	m	(Creasy)
Cash	\$8	m	
			5.5%

## Asset Valuation A\$m A\$/sh

100% LSOP (pre-tax NPV10%) - risk adj 50%	138	0.24
Other Exploration	28	0.05
Forwards	-	0.00
Corporate Overheads	(30)	-0.05
Net Cash (Debt)	8	0.01
Tax (NPV future liability)	(22)	-0.04
Options & Other Equity	0	0.00
<b>Total</b>	<b>121</b>	<b>0.22</b>
Valuation at Spot	168	0.30
<i>Spot USD/AUD 0.73, SOP US\$525/t.</i>		

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

Lake Wells 100%		2021f	2022f	2023f	2024f
SOP Production	ktpa	0	0	113	150
Cash Costs (C1)	US\$/t	0	0	260	259
Cash Costs	A\$/t	0	0	361	360
Total Costs	A\$/t	0	0	403	397
<b>Mine life</b>	<b>Yrs</b>	<b>30</b>	<b>30</b>	<b>29</b>	<b>28</b>

Assumptions		2021f	2022f	2023f	2024f
AUDUSD	A\$/US\$	0.71	0.71	0.72	0.72
SOP Price	US\$/t	475	475	475	475
SOP Price	A\$/t	669	669	660	660

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

CF (A\$m)	-12	-18	13	29
CF / Sh (Ac/sh)	na	na	1	3
CF Ratio (x)	-8	-7	10	4

Earnings (A\$m)	-13	-27	6	14
EPS (Ac/sh)	na	na	0.8	1.9
EPS Growth (%)	na	na	na	na
Earnings Ratio (x)	na	na	16	6

E'prise Val. (A\$m)	110	269	251	227
EV : EBITDA (x)	na	na	9	6
EV : EBIT (x)	na	na	14	8

Net Debt / ND+Eq (%)	18%	70%	60%	49%
Interest Cover (x)	0	0	1	0
EBIT Margin (%)	na	na	0.24	0.28
ROE (%)	na	na	0.07	0.14
ROA (%)	na	na	0.08	0.13

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	-	-	74	99
Hedging Revenue	-	-	-	-	-
Interest Revenue	0	1	1	0	0
Other Revenue	2	-	-	-	-
<b>TOTAL REVENUE</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>74</b>	<b>99</b>
Operating Costs	2	5	7	42	56
Dep/Amort	0	3	8	11	11
Writeoffs (explor)	0	-	-	-	-
Provisions	-	-	-	-	-
Corp O/H	1	1	2	3	3
<b>EBITDA</b>	<b>(1)</b>	<b>(6)</b>	<b>(9)</b>	<b>29</b>	<b>39</b>
<b>EBIT</b>	<b>(1)</b>	<b>(9)</b>	<b>(17)</b>	<b>18</b>	<b>28</b>
Interest Expense	0	5	11	10	8
NPBT	(1)	(13)	(27)	8	20
Tax	-	-	-	(2)	(6)
Minorities	-	-	-	-	-
<b>NET PROFIT</b>	<b>(1)</b>	<b>(13)</b>	<b>(27)</b>	<b>6</b>	<b>14</b>
Net Abnormal Gain/(Loss)	-	-	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>(1)</b>	<b>(13)</b>	<b>(27)</b>	<b>6</b>	<b>14</b>

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

Net Profit	(1)	(13)	(27)	6	14
+ Working Capital Adj.	-	(1)	(4)	(5)	(0)
+ Dep/Amort	0	3	8	11	11
+ Provisions	-	-	-	-	-
+ Tax Expense	-	-	-	(2)	(6)
- Tax Paid	-	-	-	-	-
- Deferred Revenue	-	-	-	-	-
<b>Operating Cashflow</b>	<b>0</b>	<b>(12)</b>	<b>(18)</b>	<b>13</b>	<b>29</b>
-Capex + Development	0	97	101	4	2
-Exploration	5	5	7	0	0
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
+ Other	-	-	-	-	-
<b>Investing Cashflow</b>	<b>(4)</b>	<b>(102)</b>	<b>(108)</b>	<b>(4)</b>	<b>(2)</b>
+Equity Issues	6	91	-	13	-
+Loan D'down/Receivable	-	150	-	-	-
-Other	-	-	-	-	-
-Loan Repayment	-	-	-	(21)	(21)
-Dividends	-	-	-	-	-
<b>Financing Cashflow</b>	<b>5</b>	<b>241</b>	<b>-</b>	<b>(9)</b>	<b>(21)</b>
<b>Period Sur (Def)</b>	<b>(1)</b>	<b>(151)</b>	<b>90</b>	<b>26</b>	<b>53</b>
<b>Cash Balance</b>	<b>3</b>	<b>131</b>	<b>4</b>	<b>4</b>	<b>10</b>

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

<b>Assets</b>					
Cash	3	131	4	4	10
Current Receivables	0	-	-	7	9
Other Current Assets	-	0	0	0	0
Non-Current Assets	10	109	209	202	193
<b>Total Assets</b>	<b>13</b>	<b>239</b>	<b>213</b>	<b>213</b>	<b>212</b>
<b>Liabilities</b>					
Borrowings	-	150	150	129	107
Current Accounts Payable	2	0	0	1	2
Other Liabilities	0	0	0	0	0
<b>Total Liabilities</b>	<b>2</b>	<b>151</b>	<b>151</b>	<b>130</b>	<b>109</b>
<b>Net Assets</b>	<b>11</b>	<b>89</b>	<b>62</b>	<b>83</b>	<b>103</b>

## Reserves and Resources

	Reserves		Resources	
	Brine VolK (mg/L)	Mt SOP	Brine Vol K (mg/L)	Mt
SOP				
Lakes Wells SOP	2383	3541	18.1	490
Lake Darlot SOP	-	-	-	-
<b>Totals</b>			<b>18.1</b>	<b>3.6</b>
<b>EV per SOP t</b>			<b>3.3</b>	<b>16.4</b>

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