



Resources Stocks Down Under

🗉 *Successful investing is anticipating the anticipation of others.* 🗉

- John Maynard Keynes (1883-1946), Economist

AUSTRALIAN POTASH

Worth its salt

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Stocks Down Under rating: ★★☆☆

ASX: APC
Market cap: A\$63.6M

52-week range: A\$0.055 / A\$0.25
Share price: A\$0.076

Right now, you can pick up Australian Potash (ASX: APC), owner of the Lake Wells Sulphate of Potash project in Western Australia, for about 7 cents a share. Just over a year ago, when Lake Wells qualified for substantial debt funding from the Northern Australia Infrastructure Facility, the stock was 16.5 cents. Australian Potash is currently sourcing the remainder of the project financing for Lake Wells. When that gets nailed down, we see substantial upside for the project in a world where fertiliser prices are rising markedly.

Share price chart



Source: Tradingview

Every now and then we find companies on the ASX that want to produce SoP, that is, 'Sulphate of Potash'. What these companies want to do is get into the fertiliser business. Plants need nitrogen, phosphorus and potassium in order to grow. Potash, which is just another name for potassium, often occurs in economic deposits and would-be potash players can use their deposit to make either SoP or another product, called MoP, that is, Muriate of Potash. MoP is potassium chloride (KCl), the most common form of fertiliser and around 90% of the total global trade by volume. However, SoP (K₂SO₄) is the product most of the would-be potash players want to supply, because it's the premium grade offering. With SoP you get potassium and sulphur, both important ingredients for growing crops. And you get the fertiliser needed for growing chloride-sensitive crops, such as fruits, vegetables, coffee, tea and nuts.

Thank you, Russia

Now is a good time to be getting into the fertiliser, business because prices are going up. Before COVID-19 they had been expected to go up over time just because the world's population grows by 1% a year on average and all those new mouths need to be fed. Last year, prices increased because of supply constraints, shipping costs, high oil and gas prices, and higher global demand. And then in March 2022, a major supplier of fertiliser – Russia – was forcibly taken off line for reasons we all know about. That's got to be good for a range of fertiliser project developers. Back in 2019, SoP was about US\$600 a tonne in Europe. It's now a few hundred dollars a tonne more than that.

Australian Potash's company maker is the Lake Wells Sulphate of Potash project near Laverton in the northern part of WA's Eastern Goldfields. Lake Wells has a JORC 2012 Resource of 18.1 million tonnes of potash, but Australian Potash only needed about a fifth of that to generate a notional A\$441m in post-tax NPV in its August 2019 Definitive Feasibility Study. In that study, A\$208m in capital costs created a 30-year operation producing 4.5 million tonnes at a mere US\$262 a tonne. That cost put Lake Wells into the bottom quartile globally. It was achievable in part because of 'bore-field abstraction' where, instead of digging trenches to get the potash, bores will be used to pump the potash-rich brines to the surface for subsequent evaporation treatment, in a not dissimilar way to the way we get solar salt.

Our government is backing Lake Wells

Since the August 2019 DFS, Australian Potash has made a lot of progress with Lake Wells. By October 2020 the product, which is being branded 'K-Brite', had been certified as 'organic' by America's Organic Materials Review Institute and the following month Australian Potash had offtakes for all 150,000 tpa (tonnes per annum) of the original DFS output. Then in March 2021 came a major coup with the securing of a A\$140m loan from the Australian government's Northern Australia Infrastructure Facility (NAIF). Lake Wells has, however, yet to reach a Final Investment Decision. You see, in April 2021, after Front End Engineering Design had been completed, Lake Wells became slightly bigger in scope.

Australian Potash now wants to produce 170,000 tpa of K-Brite SoP and it also wants to bag and granulate it to obtain premium pricing. These changes bumped the capital cost up to \$292m, but only took the post-tax NPV down to A\$415m. For the capital costs, Export Finance Australia, the Australian Government's export credit agency, announced in April 2021 that it would kick in A\$45m in debt funding alongside NAIF's A\$140m, but that still left some commercial bank debt to be secured.

Given this project's green credentials and the solid economics, we don't think Lake Wells will have to wait long for its funding. Australian Potash has estimated that, after a Final Investment Decision, it can have Lake Wells up and running in around two years.

Green potash

The word 'green' is used a lot by Australian Potash to emphasise Lake Wells's competitive advantage. For one thing, the project will be powered by renewables. For another, there will be no use of the Mannheim Process, the standard way in which MoP is converted to SoP. Mannheim tends to generate a lot of carbon emissions. Lake Wells will still source about 50,000 of its 170,000 tpa of SoP using a benign, low-energy MoP conversion process that is not Mannheim, but the rest will come straight out of the Lake Wells brines.

Lake Wells isn't the only project in Australian Potash's portfolio right now. It also has a gold project nearby, in which St Barbara has earned 70%, and a nickel project to the north of Laverton, called Laverton Downs. However, Australian Potash stock will rise or fall on the quality of Lake Wells SoP. With this project having advanced close to getting funding and with the pricing environment favourable, we think this one has the goods. Four stars.

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