



# Resources Stocks Down Under

🗨️ *In investing, what is comfortable is rarely profitable.* 🗨️

- Robert Arnott (b.1954), Chairman of Research Affiliates

**CENTREX**

This phosphate rocks

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Stocks Down Under rating: ★★☆☆

ASX: CXM

Market cap: A\$81.9M

52-week range: A\$0.037 / A\$0.23

Share price: A\$

In August 2021 the Adelaide-based Centrex updated the Definitive Feasibility Study it had previously completed for its Ardmore Phosphate Rock Project in Queensland. The project now had a pre-tax NPV of \$166m on a 10% discount rate. No one paid attention, however, until October, when Centrex bagged Samsung as a potential offtake partner. Now with the world running very short on fertiliser, Centrex is well placed.

## Share price chart



Source: Tradingview

Pick up almost any bag of fertiliser and you'll likely see three letters on the side. N is nitrogen, P is phosphorus and K is potassium, the latter deriving from that element's Latin name of 'kalium'. In Stocks Down Under we've looked at a few of the 'K' stocks developing potash projects, such as Australian Potash (ASX: APC – [see our 31 March 2022 article](#)). Today we look at one of the more promising 'P' stocks on ASX, namely, Centrex, whose flagship is the Ardmore Phosphate Rock Project, around 120 km south of Mt Isa in northwest Queensland.

## Thank you Incitec

Centrex has been working on Ardmore since it acquired the project in mid-2017 from the major fertiliser supplier Incitec Pivot (ASX: IPL). At that time, for a mere A\$5m down, Centrex got one of the few remaining undeveloped high-grade phosphate rock deposits in the world. All Incitec asked, beyond that \$5m, was a right of first refusal over up to 20% of production and a 3% royalty. Not bad for a deposit that lies near surface, is flat lying and doesn't require blasting, so it can be worked via a low-cost open cut operation. We wouldn't be surprised if Centrex management celebrated with a few single malt Scotches of the same name as their newly acquired project.

Five years later, Centrex's bet is paying off, with that \$5m having notionally turned into more like A\$166m if you believe the August 2021 Ardmore Definitive Feasibility Study (DFS) update. Why did Incitec let this one go cheaply? Well, at the time fertiliser prices were still in a downtrend, but Centrex was betting that that would change sooner rather than later, for the simple reason that the world's farmers would need markedly higher crop yields just to satiate all the new middle-class appetites emerging in the decades ahead. And not just the world's farmers. Right here in Australia, all the phosphate rock needed to make SSP, which is 'single

superphosphate', a commonly used fertiliser, is imported, mainly from Morocco. Any local production would obviously have a significant advantage in terms of the freight costs.

## **A valuable project**

The August 2021 numbers updated an original October 2018 DFS had already gone through an optimisation step in January 2019 but the valuation, where the discount rate was 10%, was not far from 2018's \$172m, largely because lower estimated sales prices were offset by lower operating costs.

Currently, as per the updated August 2021 DFS update, pre-production capex of \$78m will deliver a ten-year operation producing 800,000 wet tonnes of phosphate rock concentrate annually, which would ship via pre-existing rail lines and export from the Port of Townsville. On the August numbers the Ardmore payback period is less than two years and the IRR is a very high 52%. That's right, 52%. The ten-year mine life is based on the current JORC 2012 reserve of 10.1 million tonnes at 30.2% P<sub>2</sub>O<sub>5</sub>, but, given that that reserve sits within a 16.2 million tonne resource of not dissimilar grade, that might prove conservative.

The beautiful thing about Ardmore is the ease with which Centrex can get started, thanks to DAPR, that is, 'Direct Application of Phosphate Rock'. Just putting rock crushed down to about 4 mm particle size directly onto crops and pastures is a great slow-release way to add phosphorus. Last year Centrex started making small amounts of DAPR and marketed it under the 'Agriflex' brand. This year Centrex is mining and processing trial shipments of the Ardmore concentrate and next year, subject to financing, the company believes it can get started on the 800,000 tonnes per annum operation.

## **Get it while it's hot**

The big issue with any phosphate or potash project is offtake. But Centrex's breakthrough here was the Samsung deal of October 2021, the announcement that almost tripled the share price at the time, to about 12 cents. You may know Samsung as the Korean consumer electronics powerhouse, but that's just one part of a larger 'chaebol' (business grouping) that also includes Samsung C&T, a commodities trading company.

Samsung C&T now has exclusive marketing rights for Ardmore phosphate for Korea, Japan, Indonesia, India and Mexico for the first three years of the mine, where its right of first refusal encompasses 20% of Ardmore output. In similar deals, a couple of New Zealand farm co-operatives – Ravensdown and Ballance – signed on for another 20% each in April and May 2022 respectively. Add that to the 30% right originally held by Incitec Pivot and that's 90% of the initial output already accounted for.

Will Ardmore get funded? We'll be surprised if it doesn't given the global environment we have moved into. Russia, a major supplier of fertiliser, is now offline for reasons we all know about, and prices of all fertiliser inputs have been soaring. Centrex used US\$135 per tonne of rock for its 2021 DFS update, but by April rock was shipping from Morocco at more like US\$250 a tonne. The only issue remaining is whether the current inflationary environment has markedly changed the capex number for Ardmore and, hence, the project financing required. For investors comfortable with that risk, Centrex at its current price is four stars in our book.

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