STOCKS DOWN UNDER

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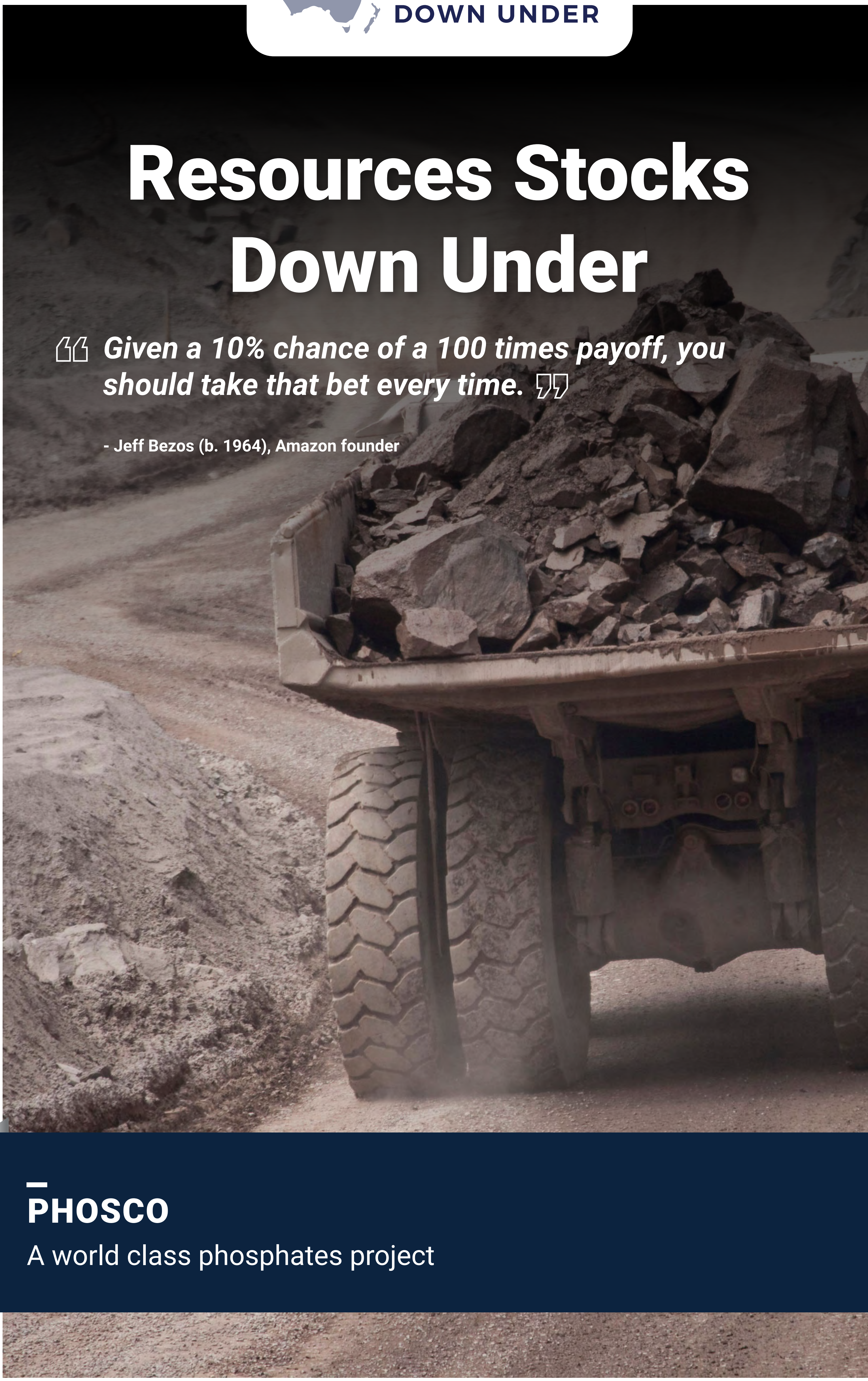
Resources Stocks Down Under

Given a 10% chance of a 100 times payoff, you should take that bet every time.

- Jeff Bezos (b. 1964), Amazon founder



PHOSCO

A world class phosphates project

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Stocks Down Under rating: ★★★★

ASX: PHO
Market cap: A$31.7M

52-week range: A$0.053 / A$0.19
Share price: A$0.14

If the Melbourne-based PhosCo gets its Chaketma Phosphate Project to commercial production, the shareholders will likely make out very well. Chaketma, in the North African nation of Tunisia, has a large global resource from only two of the six prospects in the project area. With phosphate rock prices having jumped markedly in 2022, the potential economics just got a whole lot better.

Share price chart

Source: Tradingview

Now is a great time to be producing phosphates, an important ingredient in most fertilisers. Phosphate rock was barely US$70 a tonne at the bottom of the Corona Crash in 2020, at the tail end of a bear market that had gone on since about 2015. Phosphate rock is now closer to US$250 a tonne. First there was last year's export bans by China. Then there was war in Ukraine, which pumped up all fertiliser prices because of Russia and Belarus are major producers of potash.

One potential beneficiary of high phosphate prices, which we wrote about in Stocks Down Under on 9 June 2022, is Centrex (ASX: CXM) with its Ardmore Project in Queensland. A different opportunity with the same commodity is presented by PhosCo with its monster project in Tunisia, called Chaketma.

The other Kasserine Pass

The small North African nation of Tunisia, population 12 million, capital Tunis, used to be one of the world's largest producers of phosphates. That changed after the so-called Jasmine Revolution of 2010-11, which ousted long time president Zine El Abidine Ben Ali and restored democracy, but disrupted the phosphates industry for years afterwards.

Under the current president, Kais Saied, in office since 2019, Tunisia wants to regain phosphates market share to help reboot its stalling economy and the country is rapidly expanding exports, mainly to nearby Europe. If Tunisia successfully re-establishes itself as a phosphates player, we expect PhosCo will find a receptive audience for Chaketma from offtake partners and, importantly, project financiers.

Chaketma covers 56 square km in Kasserine Governorate of west-central Tunisia, around 210 km southwest of Tunis. If the name ‘Kasserine’ seems familiar, it may be because of the famous Battle of Kasserine Pass from the Second World War, which was fought not far away. PhosCo itself has had to fight a long battle to get control of the Chaketma project. The actual discoveries that now constitute the project – one prospect called GK (Gasaa Kebira) and another called KEL (Kef El Louz) – were made by PhosCo around 2012 when the company was called Celamin. In 2015, Celamin discovered that its share of the project had, in effect, been stolen by a joint venture partner. It took until November 2020 and a court order to get 51% of the project formally back in its hands.

The company did not waste any time, deploying a country manager to Tunisia and building up the team in-country to advance the project, including analysis of all work done in the 2015-2020 hiatus period. With the company back at helm and activity restarted at Chaketma, Celamin changed its name to PhosCo. The company now has its sights set on 100% project ownership via court seizure.

A large resource

Whether its 51% or 100%, the upside is considerable. The JORC Compliant resource in late 2020 was a globally significant 130 million tonnes at 20.5% P2O5, albeit only at the Inferred Resource stage. That resource increased in March 2022 to 148.5 million tonnes at 20.6% P2O5, solely through analysis of more drillholes from the KEL deposit. The mineralisation identified to date is consistent in terms of grade and close to the surface.

At GK some more completed drilling is likely to lead to a resource upgrade shortly. And, importantly, there’s Sidi Ali Ben Oum Ezzine, Douar Ouled Hamouda, Kef El Aguab and Gassat Ezerbat. These are the four other prospects at Chaketma that PhosCo’s people have known about, but have never had a chance to drill. That potential partly explains why the legendary mining investment house Lion Selection (ASX: LSX) is still a major shareholder, more than a decade after it helped seed the company.

A multi-decade mine in the making

PhosCo believes that the current resource is more than enough to justify a 30-year mine life and this part of Tunisia has all the infrastructure needed, including rail lines not far away with port access. A decade ago, the company did a Scoping Study on Chaketma that is now feeding into a Preliminary Feasibility Study. Recent metallurgical test work boded well, suggesting it was relatively easy to beneficiate product up to 30% P2O5 that could easily convert to the MAP or DAP (i.e. mono- or di-ammonium phosphate), which farmers routinely put on their crops. PhosCo currently envisages starting with just phosphate rock mining, but moving to a more integrated operation in stage 2 that would make phosphoric acid.

Probably the biggest potential downside for PhosCo shareholders right now is perceptions of Tunisia as an investment destination. President Saied has ruled by decree since July 2021 in order to better combat corruption. And in 2022 the Heritage Foundation downgraded Tunisia’s economic freedom score to only 54.2 (the world’s freest economy, Singapore, got 84.4) citing concerns about judicial effectiveness, government integrity and fiscal health.

Balanced against these issues are the fact that the tax rate on new resource projects is zero until year 5, when it goes to 25%, and the fact that plenty of Western companies, notably BP, Shell and Glencore, are operating well in Tunisia right now. Investors cognisant of this sentiment risk can potentially do very well so long as the pricing climate for fertilisers remain strong. Ahead of Chaketma resource expansion and a PFS, PhosCo is four stars.

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