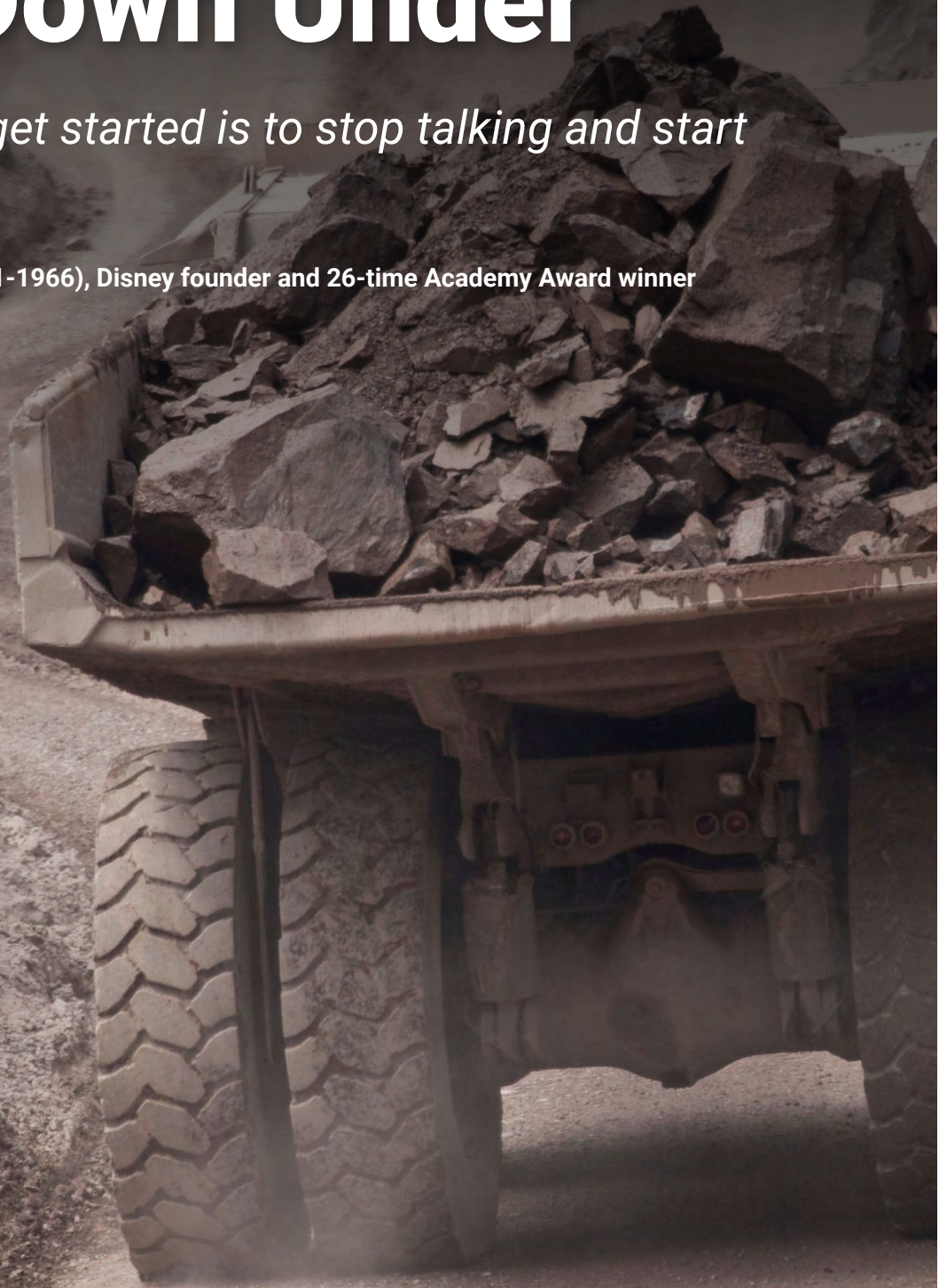




Resources Stocks Down Under

🗨️ *The way to get started is to stop talking and start doing.* 🗨️

- Walt Disney (b. 1901-1966), Disney founder and 26-time Academy Award winner



KALIUM LAKES

It's going places, but is it going in the right direction?

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Stocks Down Under rating: ★★☆☆

ASX: KLL
Market cap: A\$71.5M

52-week range: A\$0.042 / A\$0.24
Share price: A\$0.057

For the last few years, there's been an arms race between several companies to become the first listed commercial producer of sulphate of potash in Australia. Some companies have failed, such as Salt Lake Potash, but Kalium Lakes looks like it just might get there. Nevertheless, it has been a long and difficult journey to this point.

Share price chart



Source: Tradingview

Potash feeds the hands that feed us

Potash generally speaking is a fertiliser that can help plants and crops grow, providing them with greater nutrition as well as resistance to weather and disease. For farmers, potash provides farmers with greater crops and greater yield. SOP (or sulphate of potash) is one of the two most popular sub-types of potash and the one Kalium Lakes specialises in – with MOP (muriate of potash) being the other.

SOP, which is the variant Kalium Lakes aims to produce, is considered a premium quality of potash and is used on high-value crops, being of particularly good value for crops that are sensitive to chloride. SOP is not a naturally occurring mineral and must be produced through chemical methods, which means higher prices, but also higher costs. Despite the importance of potash for farmers, there had been little domestic production until Kalium Lakes and its peers came along.

Kalium Lakes listed on the ASX in 2016 at 20c per share with its Beyondie Project Potash in the Pilbara region of Western Australia. It sought to develop a sub-surface brine deposit to produce an SOP product, by undertaking an evaporation and processing operation. This would mean lower costs compared to other production methods (at an AISC of just \$492/t), not to mention a lower environmental impact.

Beyondie is expected to produce 90kt of SOP per year for at least 30 years, and that was just at Phase 1. This phase of the project has an NPV of A\$364m (8% discount rate) with Phase 2 having a pre-tax NPV of A\$603m. Phase 2 would see production expand to 180kt per annum. Beyondie has a mineral resource of 5.95m tonnes at 17,490mg/l SOP and could offer a total mine life of 50 years. Sounds good, doesn't it?

Well, the icing on the cake is that Kalium Lakes has made its first commercial sales of SOP back in July with German fertiliser giant K+S, an important milestone. It is still only early days, but the company already gotten further than its peers. It claims there are no other SOP producers in Australia, ASX listed or not. Plus, fertiliser prices are going well right now given global supply chain disruptions. SOP prices are at levels not seen since 2008. Why then, have Kalium shares collapsed in the last year?

What's gone wrong?

[As we noted the last time we covered Kalium Lakes in mid-2021](#), Beyondie was supposed to come into production in 2020. What went wrong? We think there are two reasons. The first is that Kalium Lakes has undertaken two capital raisings in 12 months, both at hefty discounts to its share prices at the time. In mid-October 2021, it raised \$50m at 18c per share, while trading at 22c per share. And just a few weeks ago, it announced a raise of \$22m at 4c a share, a 56.5% discount to the 9.2c share price it closed at just prior to entering a trading halt pending the raising.

The fact that its major shareholder Greenstone Resources chipped in was enough to get the deal over the line, but not enough to invigorate investors to re-rate the company. Kalium Lakes also restructured its debt facilities, now possessing a \$20m in the form of a liquidity facility and doesn't have to repay principal until March 2025. Now, the company says it has enough working capital for production ramp-up through to 120ktpa in Q3 CY24.

The second reason were the various operational issues which occurred in between the two capital raisings. In December, Kalium Lakes announced that potassium salts harvested during CY22 were expected to be lower grade than targeted, and that later-stage commissioning issues had been identified in the SOP purification plant. Despite the company saying these issues were resolvable and having some pieces of good news (such as the granting of an Operating license), it wasn't enough. In March, the company revealed some COVID-related hiccups and that it would need funding by the end of this year. With Salt Lake's fate, investors arguably feared Kalium Lakes wouldn't get the funding it needed or that there would be a significant dilution to investors. In the end the latter eventuated.

Is it your best bet in the potash sector?

Kalium is already ahead of its peers in that it has already begun SOP production. Companies such as Minbos (ASX: MNB) and BCI Minerals (ASX: BCI) are still another year or two away. Arguably, however, the operational issues have left investor scarred. It's one thing if it happens once and arguably everyone is entitled to a second chance, but the fact that issues persisted for some months has turned many investors off.

We certainly are more confident in fertiliser companies that haven't had their reputations plagued – newly minted phosphate producer Centrex (ASX: CXM) is one such example. But if you assume the worse of the operational issues are behind Kalium Lakes, then your choice amongst potash companies is either one company in production or several that are still some time away from production.

So, this one is four stars for us given where the share price is at right now, albeit that Kalium Lakes is one of the riskier four-star stocks we have written about.

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