

Australian Potash Ltd

INITIATION REPORT

Leading the race to potash production

Mining – Dev

Overview

Australian Potash is developing the Lake Wells Sulphate of Potash project in the North-Eastern Goldfields of Western Australia. The project is on track to potentially become the first producing Potash Project in Australia.

The company completed a positive Scoping Study in early 2017, which outlined a **long life (20yrs), low capital (initial - \$175m) Sulphate of Potash operation**, initial production 150,000tpa, before doubling production to 300,000tpa in the future.

The Company is currently working towards a **Feasibility Study which will be released in early 2018**, with project financing and development to commence later that year. First production from Lake Wells is targeted for 2020.

Like many other commodities, the future demand for SOP is largely driven by China, with predicted by 2020 **China will consume around 50% of global supply**.

Australian Potash has signing **two non-binding Memorandum of Understanding (MOU) for the supply of SOP with Chinese groups**. Combined these contracts are for the sale of up to 200,000t of SOP per annum.

There are several types of potash, however the two most common are Muriate of Potash (MOP) or Sulphate of Potash (SOP). **SOP is the premium form of potash** as it contains no chloride which can cause damage to certain crops, whilst it also contains sulphur, which is a key macronutrient.

Comment

Unfortunately, due to limited global demand for SOP, we believe it's unlikely all the current Australian developers will commence production in the near term.

However due to several unique and critical aspects, we believe Australian Potash's Lake Wells project is **potentially ahead of their peers in the race towards production**.

Firstly, they have the **lowest initial capital cost of the peer group**, due to the significant existing infrastructure that Lake Wells can utilised. Secondly it will be the **only project to extract potash exclusively via bore field pumps** (proven and tested method) and finally it the only project that is **not subject to a native title claim**, which should speed up the development process.

Valuation

We initiate coverage for **Australian Potash with a valuation of \$0.37 / share (SP - \$0.10 / share)**. Full details of our valuation analysis can be accessed at www.thesophisticatedinvestor.com.au

August 2017

Share Price	A\$0.37
TSI Valuation	A\$0.10
Implied Return	270%

Company Information

ASX Code	APC
Ord Shares	251M
Market Cap	A\$25M
Cash & Inv. (Aug17)	A\$5M
Total Debt (July 17)	nil

Board & Management

Matt Shackleton	Exe. Chair
Rhett Brans	NED
Brett Lambert	NED

Substantial Shareholders

Mark Creasy	13%
Board & Management	8%

Share Price

52 week High	\$0.16
52 week Low	\$0.07
3m avg dail vol	260k
3m avg daily value	\$31k

Valuation Update



Australian Potash Limited

Company Ticker	APC.ASX	Cash & Investment - (August 17) (A\$ m) - TSI Estimate	5.0
Shares on issue - current (m)	251	Debt - (June 17) (A\$ m)	0.0
Share Price (A\$)	0.10	EV (A\$m)	20.1
Market Cap (A\$m)	25.1	Valuation/share (\$A)	0.37
Industry	Potash - SOP	Intrinsic Value - TSI (A\$m)	324.4
Stage of Development	Dev.	Implied Return (%)	266%
Project Location	Australia	P/NAV (x)	0.27

Year end: 30 June

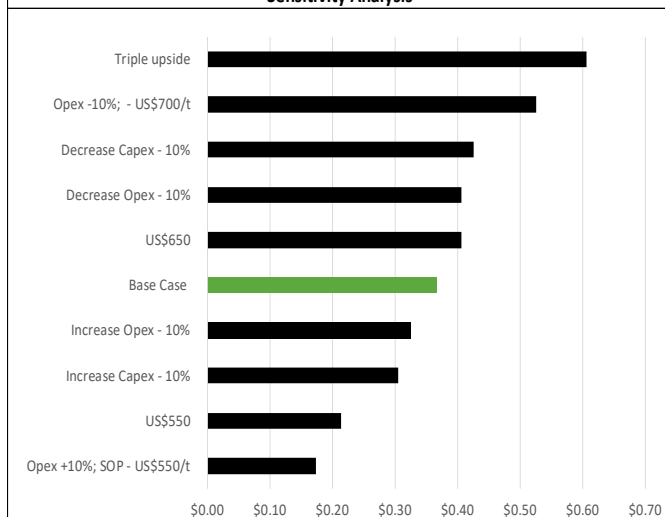
Valuation	Disc' rate	Ownership	Valuation (A\$m)	Valuation / share (A\$)*	Price Assumptions	2020	2021	2022	2023
Lake Wells - Base Case	10.0%	100%	\$214.6	\$0.240	SOP (US\$ / t)	\$625	\$625	\$625	\$625
Unpaid cap. & new equity			\$104.9	\$0.120	SOP(A\$ / t)	\$822	\$822	\$822	\$822
Current Cash & Investment			\$5.0	\$0.006	FX (A\$:USD\$)	\$0.76	\$0.76	\$0.76	\$0.76

Total NAV	Valuation (A\$m)	Valuation / share (A\$)*	Production Profile - 100% project	2020	2021	2022	2023
	\$324.4	\$0.37					

* Fully diluted for project development & options

**Inclusive of tax & corporate costs

Sensitivity Analysis



	2020	2021	2022	2023
Contained SOP Pumped	96,154	192,308	192,308	192,308
Evaporation period (months)	4	4	4	4
Recovery (%)	50.0%	50.0%	50.0%	50.0%
SOP produced - harvested (t)	24,760	99,038	99,038	99,038
MOP upgraded to SOP (t)	24,760	49,519	49,519	49,519
Total SOP Produced (t)	49,519	148,558	148,558	148,558

	2020	2021	2022	2023
Opex / t of SOP produced				
Operating Costs (A\$ / t)	\$276	\$368	\$368	\$368
Operating Costs (US\$ / t)	\$210	\$280	\$280	\$280

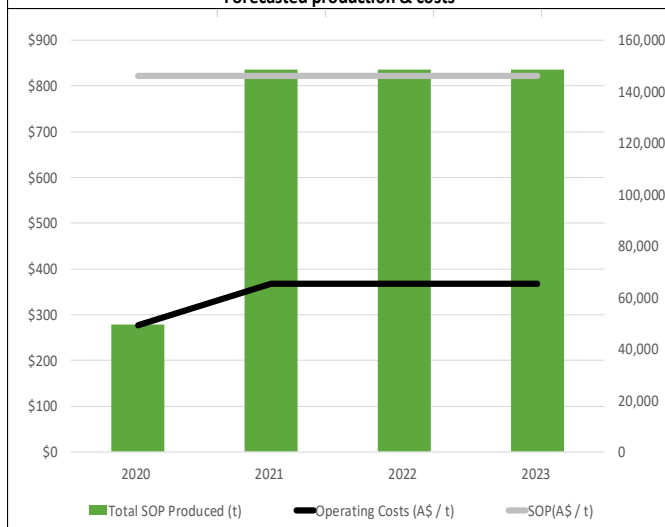
Financial Ratios	2020	2021	2022	2023
EPS (A\$)	\$0.01	\$0.04	\$0.04	\$0.04
FCFPS (A\$)	(-\$0.09)	\$0.05	\$0.05	\$0.04
P/E ratio (x)	10.0	2.3	2.4	2.3
P/FCF (x)	-1.1	2.0	2.1	2.2
Shares on issue (m)	888	888	888	888

Earnings (A\$ m)	2020	2021	2022	2023
Revenue & other Inc.	\$30.5	\$122.2	\$122.2	\$122.2
Operating Costs	\$13.7	\$54.8	\$54.8	\$54.8
Other Expenses	\$3.0	\$4.0	\$4.0	\$4.0
Exp & Eval	\$0.0	\$0.0	\$0.0	\$0.0
EBITDA	\$13.9	\$63.4	\$63.4	\$63.4
Depreciation	\$1.3	\$5.1	\$5.1	\$5.2
Interest Expense	\$3.7	\$7.0	\$5.3	\$3.4
Tax	\$0.0	\$12.7	\$16.3	\$16.7
Profit (loss) after tax	\$8.9	\$38.6	\$36.7	\$38.1

Balance Sheet (A\$ m)	2020	2021	2022	2023
Assets				
PPE & Exp. & Dev.	\$0.0	\$0.0	\$0.0	\$0.0
Total Assets	\$14.3	\$43.0	\$64.9	\$84.6
Liabilities				
Debt Facility	\$80.0	\$65.0	\$45.0	\$25.0

Cash flow Generation	2020	2021	2022	2023
Cash flow generated	\$11.2	\$28.7	\$21.8	\$19.7
Equity Placement	\$89.2	\$0.0	\$0.0	\$0.0
Capital Expenditure	\$89.2	\$0.0	\$0.0	\$3.6

Forecasted production & costs



Source: Company Data, TSI Assumptions

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