



Danakali

Oct 19th 2015

Danakali Limited is undervalued: broker

Danakali Limited (ASX:DNK) has received a Speculative Buy from broker Hartleys, with a price target of \$0.49 in 12 months.

With Danakali last trading at \$0.32, this represents a 50% premium to current price.

The following is an extract from the report.

Great project, but there is a country sentiment risk discount

Danakali is developing a large potash (SOP) project in Eritrea. SOP (sulphate of potash) is a chloride free potash type that trades at a premium to MOP.

The resource is very large (1.289Bt @10.76% K₂O) and can sustain a very long mine life (PFS 30 years, reserve implies >200years), producing 425kt-850kt pa.

The Company completed a PFS in March 2015, and is currently finalising a DFS (expected end December 2015).

Mining is open pit mining using conventional truck and shovel and surface miners (no blasting required), with a low strip ratio (2.19x) such that costs should be low.

The PFS estimated bottom quartile C1 mine gate cash cost of US\$141/t of SOP (LOM Average) and total cash cost of US\$189/t of SOP (LOM Average). First production is possible in CY18/CY19.

High quality SOP

Pilot plant tests conducted throughout March 2015 demonstrated high purity SOP, with average grades of 52.9% K₂O (98% pure) in contrast with an industry average of approximately 51% (94% pure).

Chloride levels were determined to be <0.1%.

Large capital requirement for DNK

The project is via a 50/50 JV with the Eritrean Government (ENAMCO). The agreement states that DNK is responsible to fund 30% of the equity (implicitly this is a loan to the JV for the Governments share).

The Company anticipates that the project can be funded with 70% debt, and hence DNK requires funds for the 30% equity (US\$132m based on PFS).

Hartleys estimates Stage 1 EBITDA ~A\$75m pa to DNK

We assume Stage 1 EBITDA of ~A\$75m pa (DNK share), which should more than double after Stage 2 (year 5).

Our pre-tax NPV12 for DNK is ~A\$420m (project NPV roughly double). Consequently, despite the large capital requirement (PFS estimates Stage 1 US\$442m capex), the project is highly economic.

Price: A\$0.29

Market Cap: A\$54.068M

1 Year Share Price Graph



Share Information

Code: DNK

Listing: ASX

Sector: General Mining

Website: www.danakali.com.au

Company Synopsis:

Danakali (ASX:DNK) formally known as South Boulder Mines is focussed on the world class Colluli Potash Project in Eritrea.

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Note we assume declining SOP prices in our model.

Using spot prices (US\$725/t), our pre-tax NPV12 for DNK is ~A\$1b (project NPV roughly double), with Stage 1 EBITDA ~\$125m pa (\$250m pa to JV).

Our DNK base valuation is 49cps. Our spot price valuation is \$1.00.

Initiate with Speculative Buy

We are initiating with a Speculative Buy recommendation.

The Colluli project is highly economic, but it is likely to be very volatile given the country and financing risk.

The DFS (due by end CY15) will be an important milestone to engage potential financiers.

We see a trade sale to a larger company as a distinct possibility. We have a twelve month price target of 49cps.

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