



Danakali Ltd

Jun 10th 2016

Danakali Ltd: Broker initiates coverage with Buy recommendation, \$0.50 target

Danakali Ltd (ASX:DNK) has received a Buy recommendation and \$0.50 per share price target from Baillieu Holst, after the broker initiated coverage.

The following is an extract from the report.

Fertile ground

Initiation of coverage:

We initiate coverage of Danakali with a BUY recommendation and target price of \$0.50ps on a diluted basis based on our modelling of the NPV over time.

Our valuation for DNK is \$402m or \$0.66ps after diluting for an equity raising at \$0.30ps to fund the equity portion of the project development (assumed to be 30%).

The risk rating is Speculative as the company needs to arrange debt and equity financing to take the Colluli Sulphate of Potash Project forward.

Cost and capital advantage from open pit hard rock potash:

Hard rock mining of potash has been carried out for centuries however it is typically done utilising capital intensive underground mining operations.

The muriate of potash mined then needs to be processed to produce sulphate of potash, adding further to the cost.

The traditional low cost route for sulphate of potash (SOP) production is from brines.

DNK's Colluli project benefits from low capex and opex through shallow open pit mining and a mineral assemblage which lends itself to established processing methods to produce SOP.

Danakali's DFS indicates that the Colluli project could be the lowest cost producer of SOP globally.

Eritrea is pro-development:

There are a lot of mixed messages regarding Eritrea. However, the government does need income and mining is viewed as a key means of acquiring foreign income and investment.

China is actively investing in mining and infrastructure.

The development of Colluli would see the government receiving income through its 50% ownership of the operating company, and through its corporate taxation.

We estimate that the long run annual income when Phase 1&2 are up and running will return ~US\$170m to the government per annum.

It is therefore in the government's interest to support the development of Colluli and other mining projects in Eritrea.

Price: A\$0.38

Market Cap: A\$76.244M

1 Year Share Price Graph



Share Information

Code: DNK

Listing: ASX

Sector: General Mining

Website: www.danakali.com.au

Company Synopsis:

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

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Investment thesis and risks:

Scalable project, discount due to location, potential corporate appeal for companies familiar with the region, offtake MOU's in place, and operating costs are forecast to be at the bottom of the cost curve and competitive with brine production.

We would therefore expect that production from Colluli would go to new markets or displace high cost Mannheim production.

Colluli's position in the cost curve should assist in raising equity and debt funding from producers and consumers as well as traditional markets.

Funding an Eritrean development, given the perception of its political instability is likely to fall to those investors, companies or governments willing to cope with the risk.

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