Australian Potash (APC)

Rating: Buy | Risk: High | Price Target: $0.32

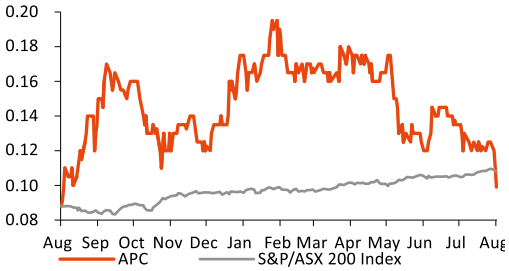
Muddied waters don't change the thesis; reiterate BUY

Key Information	
Current Price ($ps)	0.10
12m Target Price ($ps)	0.32
52 Week Range ($ps)	0.09 - 0.20
Target Price Upside (%)	223.8%
TSR (%)	223.8%
Reporting Currency	AUD
Market Cap ($m)	55
Sector	Materials
Avg Daily Volume (m)	1.0
ASX 200 Weight (%)	0%

Fundamentals				
YE 30 Jun (AUD)	FY20A	FY21E	FY22E	FY23E
Sales ($m)	0	0	0	0
NPAT ($m)	(1)	(2)	(6)	(7)
EPS (cps)	(0.2)	(0.4)	(0.7)	(0.6)
EPS Growth (%)	nm	nm	(48.8%)	6.6%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	100%	100%	100%	100%

Ratios				
YE 30 Jun	FY20A	FY21E	FY22E	FY23E
P/E (x)	(29.9)	(22.7)	(15.2)	(16.3)
EV/EBITDA (x)	(147.6)	(38.2)	(38.8)	(103.7)
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance				
YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(28.9%)	(19.4%)	(46.3%)	(10.2%)
Absolute (%)	(26.7%)	(17.5%)	(40.0%)	12.5%
Benchmark (%)	2.2%	1.9%	6.3%	22.7%



Price performance indexed to 100 *Source:*

Major Shareholders	
Yandal Investments Pty Ltd	7.8%
INDRISIE HENDRICUS PETRUS	4.0%
Acuity Capital Investment Management Pty	3.3%
FEATHERBY NATHAN JOHN	3.0%
CEN Pty Ltd.	2.7%

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Event

There has been significant newsflow for the Potash Sector over the past several months. In our view this newsflow has potentially negatively impacted APC's share price. In this note we re-iterate our high conviction BUY recommendation and A$0.32ps PT.

There is no change to our APC investment thesis, which is predicated on solid Lake Wells financials backed by a high-quality resource and a risk averse approach from management. In addition, we believe potash market fundamentals are strong, supported by current pricing and BHP's Final Investment Decision on Jansen.

Highlights

APC's peers are potentially polluting the waters – SO4 and KLL (not covered)

- In our view one of the reasons institutions are hesitant to buy into the Australian Potash Sector – despite the 20% re-rate in potash prices since July – is the difficulties at Salt Lake Potash (SO4) and Kalium Lakes (KLL). Each company is in the final stages of development / commissioning their respective Sulphate of Potash (SOP) projects.
- Both Kalium Lakes and Salt Lake Potash have encountered difficulties with brine abstraction, production of harvest salts, and project execution. We note the technical veracity of these type of solar salt projects has been proven by numerous operations globally for many decades.
- We believe APC's approach for a Lake Wells development is conservative given:
  - APC is factoring in two summers of pond evaporation prior to commissioning. This is to ensure there is a sufficient quantum and quality of harvest salts to feed to the process plant.
  - Brine borefield abstraction is used, which we believe carries less technical risks compared to salt lake trenching (most of its peers).
  - An EPC (Engineering, Procurement and Construction) contracting style is used for more than 75% of the construction contracts by value, which ensures cost, schedule and performance guarantees.

BHP's Jansen Final Investment Decision is indicative of positive commodity fundamentals

- Earlier this week BHP took a Final Investment Decision for the US$5.7B 4.4Mtpa Jansen Phase 1 Muriate of Potash (MOP) project.
- BHP gave a detailed analysis of MOP markets at its June potash briefing (90% of global potash sales). BHP believes long run cost curve support for FOB Canadian MOP production is mid-US$300s/t. Consensus inducement greenfield project costs are in the US$300-500/t range. We conservatively model US$270/t for long run FOB MOP prices.
- BHP refers to SOP as an 'MOP derivative.' The long-term SOP/MOP pricing differential is ~US$200/t due to the marginal SOP tonne derived via the Mannheim Process.
- BHP's view of MOP prices implies an APC valuation of A$0.38ps (vs Shaw 0.32ps). Every $50/t in SOP realised pricing adds A6cps to our APC model.

APC well placed relative to existing producers – Compass Minerals (not covered)

- In our view Compass Minerals' Great Salt Lake Project is the closest analogue to the Australian SOP developers. It continues to have operational difficulties.
- The evaporation pond resonance time at the Great Salt Lake is 3 years, compared to ~7 months for APC's :Lake Wells (once at steady state operations). The difference in resonance time is primarily down to Australia's climate being much hotter, drier, and evaporation season (summer) being longer.
- Pond resonance times being ~20% of Compass' is one of the reasons we forecast cash operating costs for APC to be ~US$260/t (~50% of Compass' 2Q21).

Recommendation

We maintain our Buy recommendation and A$0.32ps valuation on Australian Potash.

Australian Potash
Materials
Materials
FactSet: APC-AU / Bloomberg: APC AU

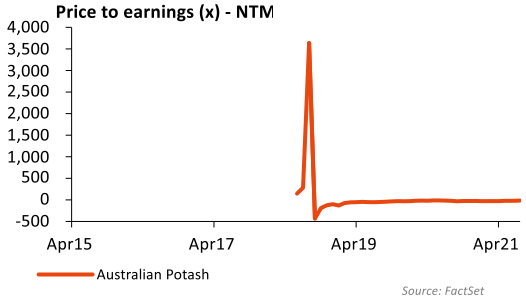
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.10
Target Price ($ps)	0.32
52 Week Range ($ps)	0.09 - 0.20
Shares on Issue (m)	553
Market Cap ($m)	55
Enterprise Value ($m)	94
TSR (%)	223.8%

Valuation NPV	Data
Valuation ($m)	391
Valuation per share (cps) (AUD)	0.71

Company Description

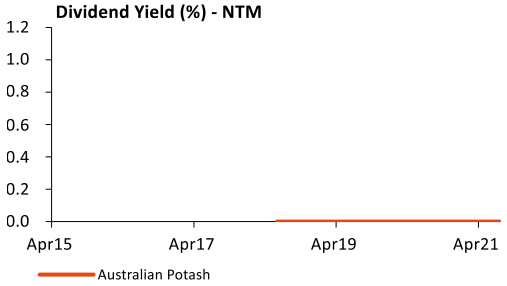
APC is preparing for start-up of its flagship 100%-owned Lake Wells Sulphate of Potash Project (LSOP) in Western Australia. The project is based on a 30-year mine life producing 170ktpa premium Sulphate of Potash (SOP). With full environmental approval, 90% of offtake secured, $140m NAIF financing approved, a Final Investment Decision (FID) for the LSOP project is pending. The company believes first production can be achieved within 24 months of an FID.

Price to earnings (x) - NTM



Source: FactSet

Dividend Yield (%) - NTM



Source: FactSet

Financial Year End: 30 June

Investment Summary (AUD)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS (Reported) (cps)	**0.0**	**(0.2)**	**(0.4)**	**(0.7)**	**(0.6)**
EPS (Underlying) (cps)	**0.0**	**(0.2)**	**(0.4)**	**(0.7)**	**(0.6)**
EPS (Underlying) Growth (%)	n/a	nm	nm	(48.8%)	6.6%
PE (Underlying) (x)	**nm**	**(29.9)**	**(22.7)**	**(15.2)**	**(16.3)**
EV / EBIT (x)	**722.3**	**(130.9)**	**(38.2)**	**(38.8)**	**(103.7)**
EV / EBITDA (x)	**591.7**	**(147.6)**	**(38.2)**	**(38.8)**	**(103.7)**
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(12.4%)	(18.9%)	(4.4%)	(113.8%)	(123.7%)

Profit and Loss (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	0	0	0	0	0
Sales Growth (%)	*n/a*	*n/a*	*(100.0%)*	*n/a*	*n/a*
Other Operating Income	2	2	0	0	0
EBITDA	**0**	**(1)**	**(2)**	**(2)**	**(2)**
EBITDA Margin (%)	*nm*	*nm*	*nm*	*nm*	*nm*
Depreciation & Amortisation	0	(0)	0	0	0
EBIT	**0.1**	**(0.8)**	**(2.5)**	**(2.5)**	**(2.5)**
EBIT Margin (%)	*nm*	*nm*	*nm*	*nm*	*nm*
Net Interest	0	0	0	(4)	(7)
Pretax Profit	0	(1)	(2)	(6)	(10)
Tax	0	0	0	0	2
Tax Rate (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*(25.0%)*
NPAT Underlying	**0**	**(1)**	**(2)**	**(6)**	**(7)**
Significant Items	0	0	0	0	0
NPAT Reported	**0**	**(1)**	**(2)**	**(6)**	**(7)**

Cashflow (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	0	(1)	(2)	(2)	(2)
Tax Paid	0	0	0	0	0
Change in Working Capital	0	0	0	(2)	0
Depreciation & Amortisation	0	(0)	0	0	0
Other	(1)	1	0	0	3
Operating Cashflow	**(1)**	**0**	**(2)**	**(4)**	**1**
Capex	(3)	(5)	0	(100)	(150)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	**(3)**	**(4)**	**0**	**(100)**	**(150)**
Free Cashflow	**(4)**	**(4)**	**(2)**	**(104)**	**(149)**
Equity Raised / Bought Back	4	6	10	111	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	100	120
Other	(0)	(0)	0	(9)	(11)
Financing Cashflow	**4**	**5**	**10**	**202**	**109**
Net Change in Cash	**(0)**	**1**	**8**	**99**	**(40)**

Balance Sheet (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	2	3	11	109	70
Accounts Receivable	2	0	0	0	0
Inventory	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE	0	0	0	100	250
Total Assets	**9**	**13**	**21**	**219**	**329**
Accounts Payable	3	2	2	0	0
Short Term Debt	0	0	0	0	35
Long Term Debt	0	0	0	100	185
Total Liabilities	**3**	**2**	**2**	**100**	**218**

Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
ROE (%)	n/a	(9.1%)	(16.3%)	(8.7%)	(6.4%)
Gearing (%)	(48.1%)	(42.2%)	(139.0%)	(8.6%)	57.5%
Net Debt / EBITDA (x)	(11.2)	4.8	4.4	3.8	(61.1)

APC's peers potentially polluting the waters – SO4 and KLL

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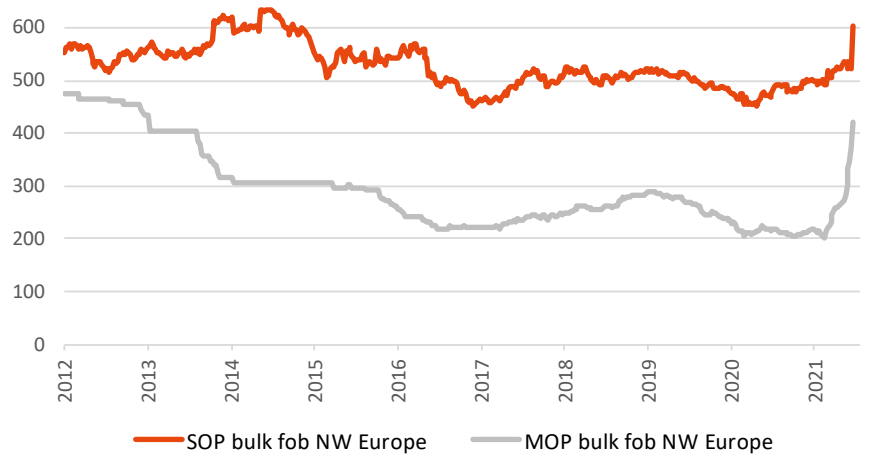
We believe APC's approach for a Lake Wells development is more conservative than its peers given:

- APC is factoring in two summers of pond evaporation prior to commissioning. This is to ensure there is a sufficient quantum and quality of harvest salts to feed to the process plant.
- Brine borefield abstraction is used, which we believe carries less technical risks compared to salt lake trenching (most of its peers).
- An EPC (Engineering, Procurement and Construction) contracting style is used for more than 75% of the construction contracts by value, which ensures cost, schedule and performance guarantees.

Figure 1: NW Europe MOP and SOP prices (US$/t) – a 20% re-rate since July



Source: Argus, Shaw analysis

How solar salt projects work

Solar salt projects work via the extraction of brine from bores, sea water or salt lake trenches. The brine is fed into an evaporation pond network, to evaporate the water, and remove some of the less desirable salts (such as sodium and magnesium).

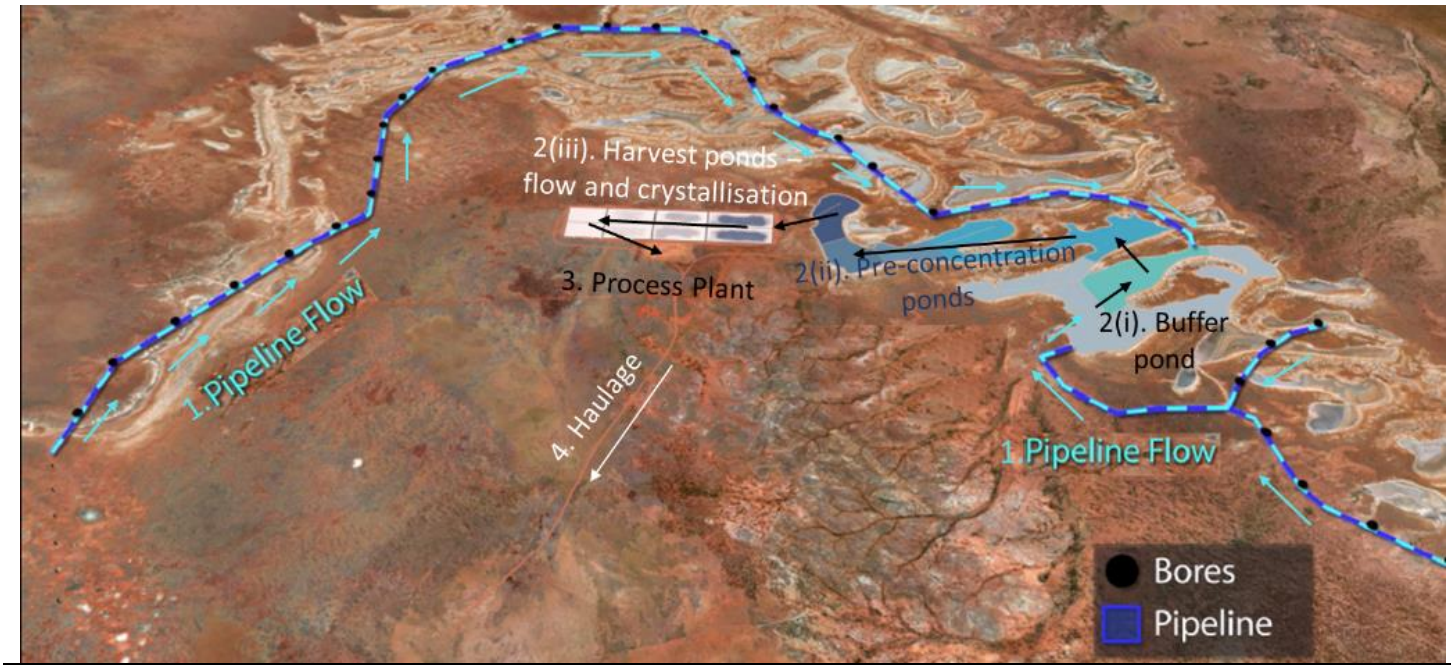
The evaporation pond network follows a 12-month cycle - most of the evaporation (/ cation dropout) takes place January - March. Evaporation rates slow down materially through winter.

In order to commission an asset, two summers of evaporation are typically required to ensure there is sufficient quantum and quality of harvest salts in the stockpile to feed the process plant.

Figure 2: APC - Production process block diagram

Source: Company reports

Figure 3: Production process – bore field development, followed by brine evaporation, salt crystallisation and salt conversion.



Source: Company reports, Shaw analysis

Salt Lake Potash (SO4, not covered) – in a voluntary suspension

Salt Lake Potash is currently in a voluntary suspension pending finalisation of an announcement in relation to funding for its Lake Way Project. The announcement is expected to occur no later than 30 August.

We make the following observations:

- SO4's salt lake (Lake Way) is much "skinnier" than APC's Lake Wells.
- The Lake Way operation is a 245kpta SOP operation for A$282m capital expenditure (11/2020 – includes $14m contingency). Since arranging financing for Lake Way at an FID in August 2020, the company has completed:
  - A $8m equity raise in January,
  - A $28m equity raise in May, and
  - is suspended pending another equity raise.
- SO4 uses a combination of bore wells and trenching to extract brine. The company has found more success with bore wells than its trenching programme. Going forward, it is focussing its attention towards bore wells (APC uses solely bore wells).
- SO4 has ~12 months of production contained in the primary evaporation ponds (i.e. only one summer).
- We understand SO4 is currently processing low quality feed salts. This may be due to resonance time in the evaporation ponds being too short (i.e. not two summers).
- Given the feed to the processing plant has too much sodium, it may lead to higher operating costs. This may be part of the reason for another working capital raise.
- We believe it would be sensible for SO4 to look for working capital to ensure the company can operate through to the end of the evaporation season, which is March.

Kalium Lakes (KLL) – seeking to upsize their Beyondie project but at what cost?

- Kalium is targeting first SOP production and ramp-up September/October 2021 for its Beyondie project.
- Beyondie uses a combination of trenching and bores. We note the resource is across a wider area compared to APC's Lake Wells project.
- KLL announced on 24 March 2021 a "debottlenecking" review of the SOP purification plant revising steady state SOP production estimates upwards by 10ktpa to at least 100ktpa (from 90ktpa).
- The company recently announced the completion of its Feasibility Study for a production increase to 120ktpa (from 90ktpa) as the new base case. Key highlights include:
  - Incremental capital expenditure of $45m.
  - 120ktpa production achieved by October quarter 2022 (i.e. after the company's second evaporation cycle (Jan-Mar 2022).
  - The company sold off 14% to 18.5cps on the day of this announcement. In our view investors may be concerned at the prospect of another equity raising to support an expanded development.

In our view APC's Lake Wells development is lower risk compared to peers

APC used brine borefield abstraction, which we believe carries less technical risks compared to salt lake trenching (most of its peers).

- APC has the largest JORC compliant Measured SOP Resource across its peer space; 18.1Mt SOP Measured with no Inferred or Indicated Resource.
- Lake Wells' 30-year mine life uses ~23% of the Measured Resource.
- Lake Wells is a borefield development into a palaeochannel.
- Borefield developments supply process water for the majority of mine sites in Western Australia.

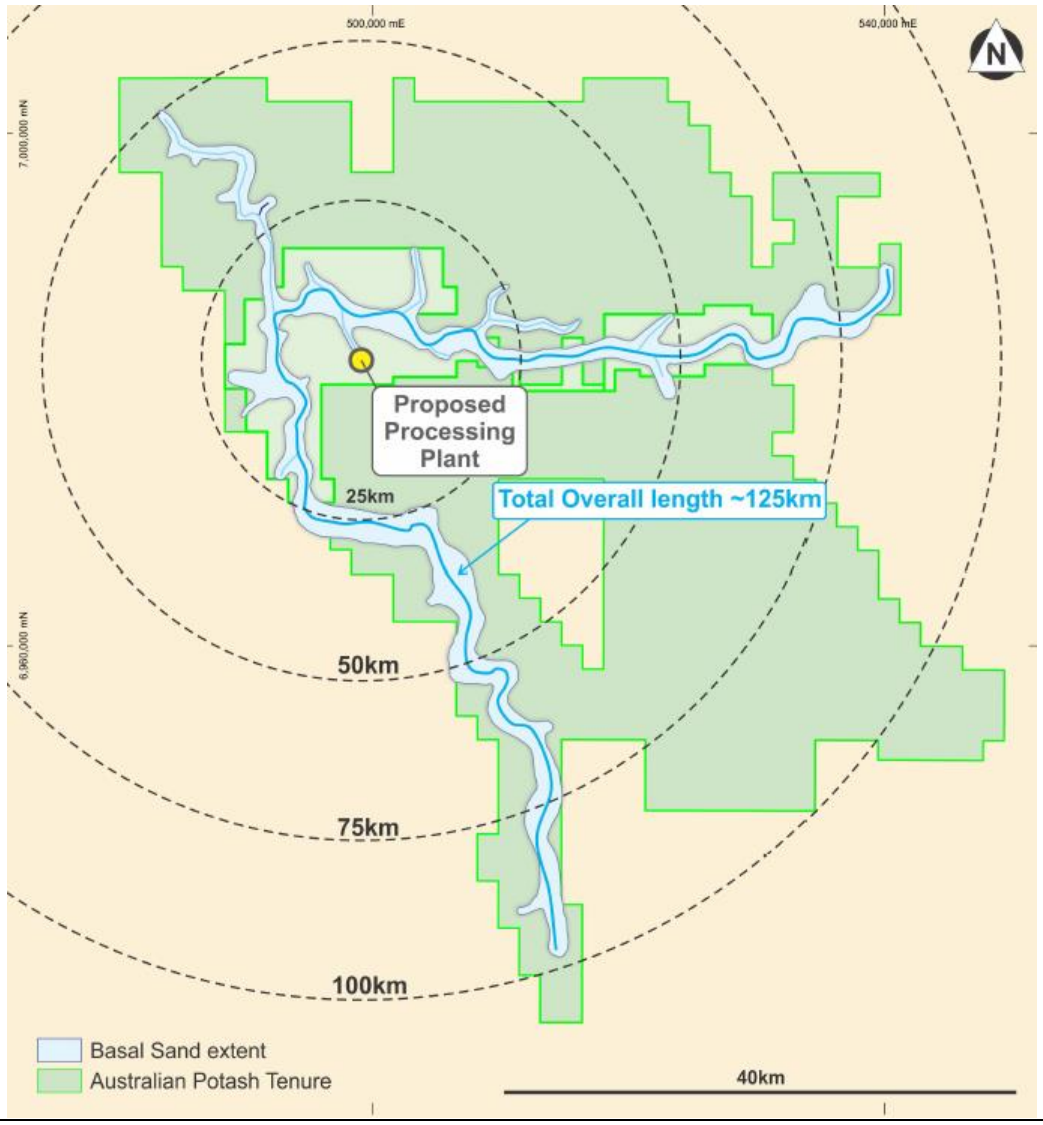
APC is producing SOP from an underground solution mine. This means the 'mined ore' is effectively the brine that is abstracted from the aquifers.

APC has completed extensive fieldwork to prove up the Reserve and Resource, with 700km of seismic surveys and 60,000m of exploration drill data across the LSOP area. Hydraulic properties have been determined from downhole bore magnetic resonance logging, test pumping and particle size distribution analysis.

The resource covers >70km length of paleochannel thalweg (i.e. the valley of an inactive river that has been filled by sediment), and many additional kilometres of tributary river and streambeds.

Figure 4: APC has delineated the paleochannel over ~125km^2

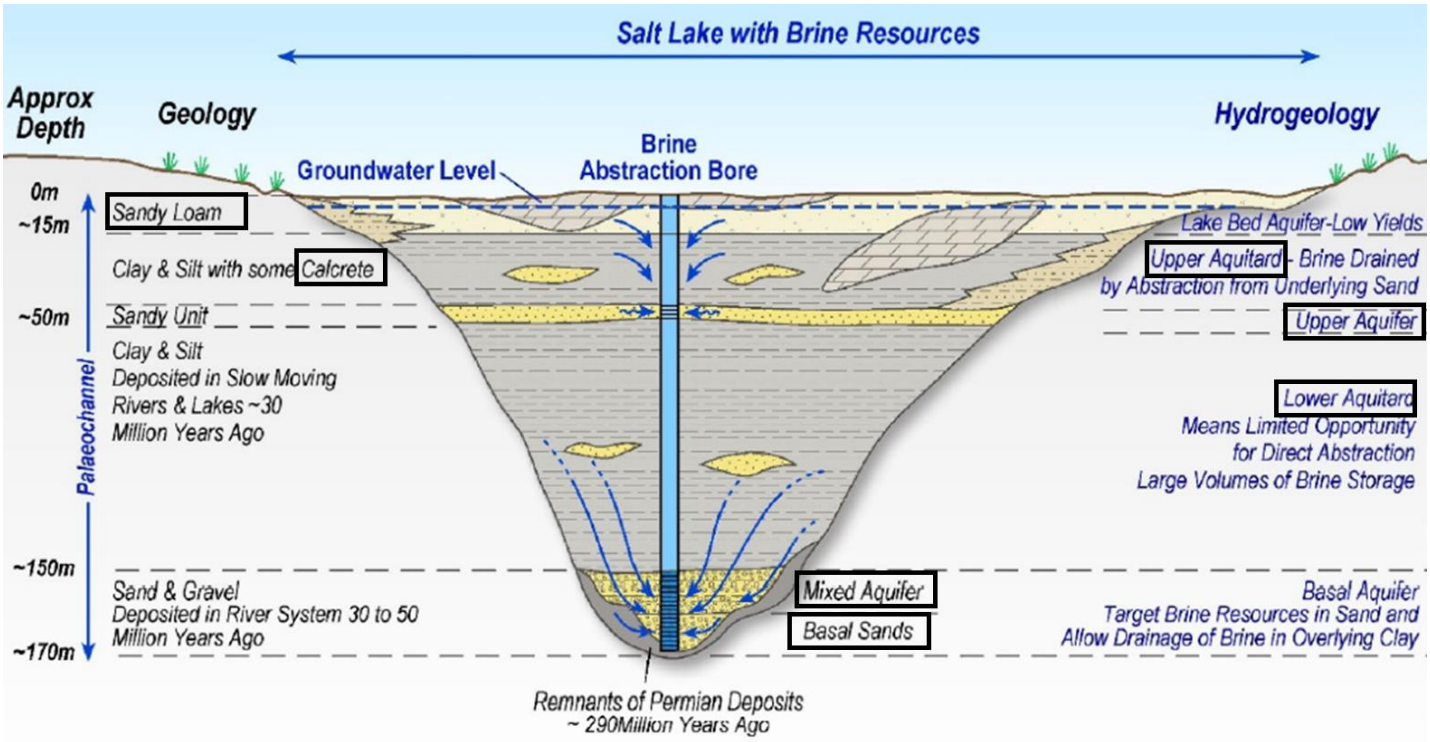
The Lake Wells SOP Project covers an area of 1,300km^2 and comprises six granted Mining Leases and fifteen exploration licenses, on the edge of the Great Victorian Desert. APC has delineated the paleochannel over ~125km^2 of this tenure. Bore field design comprises 79 bores located along the thalweg of the paleochannel at ~700m spacing.



Source: Company reports

The valley fill is consistent through the deposit and seven hydro-stratigraphic units have been identified, divided on hydrogeologic characteristics. The upper and basal sand aquifer units are targeted as producing intervals given their better flow characteristics (i.e. higher permeabilities and porosities).

Figure 5: Conceptual brine abstraction scheme with seven hydro-stratigraphic units



Source: Company reports

Both field and laboratory test work studies have been completed to test the efficiency and viability of extraction method options. Test pumping over long periods of time (~30 days) has been conducted at the seven production bores to determine aquifer flow properties. The produced potassium concentration was consistent over the course of each pumping test, showing no evidence of blending with low grade groundwater.

The brine contained in the aquifer sequence is enriched in potassium, at a weighted mean average potassium concentration of 3,402mg/L. The overall grade of the entire borefield remains above 0.3% (3,000mg/L K) for the life of mine, which means the company does not need to apply a cut-off grade to its resource (the constraining factor on the resource is the physical extent of the aquifer system or tenement boundaries).

The combined resources of 8.1 Mt potassium imply 18.1Mt SOP. The measured potassium content in brine can be expressed in units of sulphate of potash (SOP or K_2SO_4) by multiplying by 2.229 (= 174 / 78, the MW of K_2SO_4 is 174 g/mol, of which 2K is 78g/mol).

Figure 6: Measured Resource for APC Lake Wells SOP Project – the largest JORC compliant Measured SOP Resource across its peer space

Measured Mineral Resource estimate is measured using Specific Yield (drainable porosity). 100% of the Resource is in the Measured category.

Hydrogeological Unit	Volume of Aquifer MCM	Specific Yield Mean	Drainable Brine Volume MCM	K Conc (mg/l) Wgt Mean Ave	K Tonnes Mt	SOP Mt
	A	B	C = A x B	D	E = C x D	F = E x 2.229
Loam	5,180	10%	518	4,009	2.08	4.6
Upper Aquitard	10,772	7%	754	3,020	2.28	5.1
Crete	479	5%	24	2,386	0.06	0.1
Upper Sand	801	17%	136	3,435	0.47	1
Lower Aquitard	9,502	8%	760	3,367	2.56	5.7
Mixed Aquifer	440	17%	75	3,645	0.27	0.6
Basal Sand	503	23%	116	3,415	0.4	0.9
Total	27,677	9%	2,383	3,402	8.11	18.1

Source: Company reports

The EPC contracting approach is risk averse from APC's management team

In our view APC's development contracting strategy for Lake Wells is a conservative, risk-averse approach from management. By paying more up front for an EPC (Engineering, Procurement and Construction) contract, the company minimises the risk of cost overruns, schedule creep and process underperformance. There are schedule, process and price guarantees.

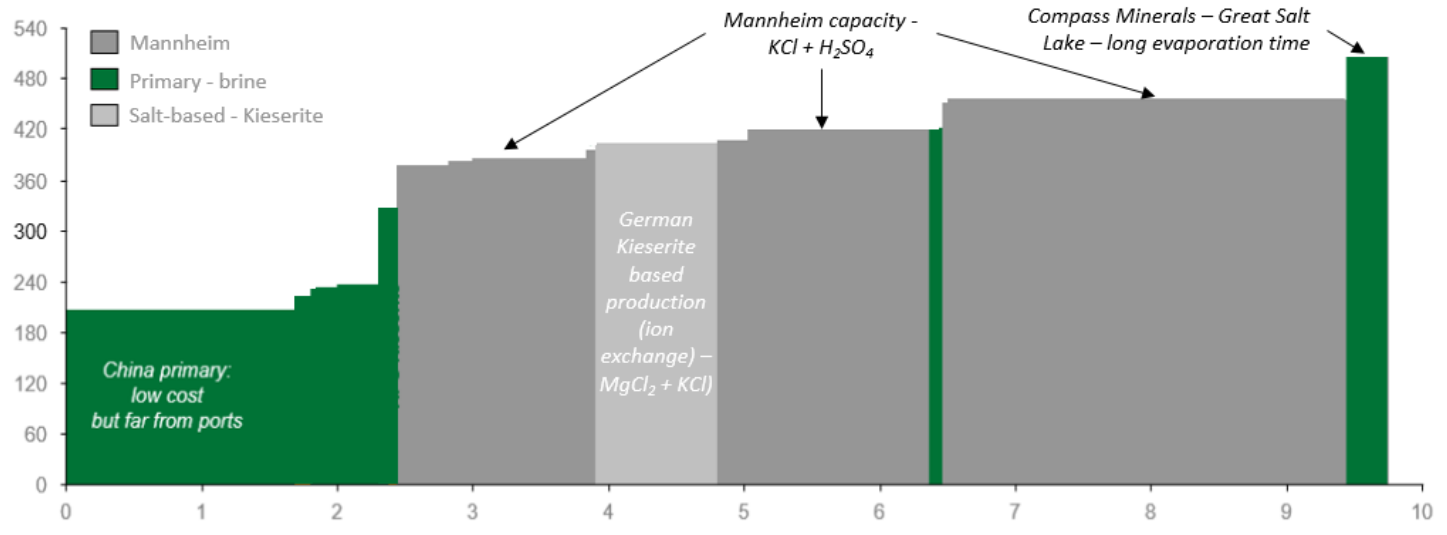
Figure 7: APC's development contracting strategy for Lake Wells is a conservative approach from management

Source: APC company reports

BHP's Jansen Final Investment Decision is indicative of positive commodity fundamentals

- Earlier this week BHP took a Final Investment Decision for the US$5.7B 4.4Mtpa Jansen Phase 1 Muriate of Potash (MOP) project.
- BHP gave a detailed analysis of MOP markets at its June potash briefing (90% of global potash sales).
- BHP believes the long-term marginal cost of FOB Canadian MOP sits at ~US$350/t (Shaw US$270/t). BHP's price assumptions reflect average of CRU and Argus prices (US$341/t CRU and US$292/t Argus, 2027-37).
- BHP believes demand is playing 'catch-up' in the industry's fourth supply / demand wave. An inducement pricing regime will be the most likely outcome in the late 2020s/ early 2030s.
- Consensus inducement greenfield project costs are in the US$300-500/t range; we conservatively model US$270/t for long run FOB MOP prices.
- BHP refers to SOP as an 'MOP derivative.' The long-term SOP/MOP pricing differential is ~US$200/t due to the marginal SOP tonne derived via the Mannheim Process. The Mannheim process is responsible for ~50% of global SOP supply. It is the conversion of MOP / KCl to SOP using sulphuric acid and very high temperatures, with hydrochloric acid waste product.
- Australian potash developers will benefit from tight MOP markets. Each company intends to produce SOP from natural brines. Brine SOP producers have a cost curve advantage versus Mannheim Process derived SOP. According to our cost curve analysis the difference is ~US$150-200/t.
- BHP's view of MOP prices implies an APC valuation of A$0.38ps (vs Shaw 0.32ps). Every $50/t in SOP realised pricing adds A6cps to our APC model.
    - BHP's view implies a realised SOP price for APC of ~US$600/t (vs Shaw US$550/t).
    - That is assuming a ~US$200/t Mannheim Process MOP -> SOP conversion, and a US$50/t premium for APC's product being green, granular and richer in potassium than the benchmark.

Figure 8: 2019 global FOB SOP cash cost curve (US$/t vs nameplate capacity Mt)



Source: APC company reports, Argus, Shaw analysis

APC well placed relative to existing producers – Compass Minerals

In our view the closest analogue to Australia's burgeoning SOP producers is Compass Minerals. The company continues to have operational issues at its Great Salt Lake SOP project in Utah, USA. 2Q21 cash operating costs were ~US$550/t SOP.

- For over 50 years, Compass Minerals' Ogden facility has leveraged the high mineral concentrations within the ambient lake brine from the North Arm of the Great Salt Lake to produce sulfate of potash (SOP), salt and magnesium chloride products.
- The Ogden facility is the largest operation of its kind in the Western Hemisphere - ~320ktpa SOP.
- Compass announced their 2Q21 results on Friday last week, with cash operating costs at its Odgen facility of ~US$550/t SOP. The company continues to have operating issues due to a low-quality pond harvest and a shortened production year.
- We note there is a longer resonance time at Odgen compared to the Australian potash developers.
    - The evaporation pond resonance time at Odgen is 3 years, compared to ~7 months for APC once at steady state operations.
    - The difference is primarily down to Australia's climate being much hotter, drier, and evaporation season (summer) being longer.
    - Pond resonance times being ~20% of Compass' is one of the reasons we forecast cash costs for APC to be ~US$260/t (~50% of Compass' 2Q21).

Figure 9: Compass Minerals Plant Nutrition Segment Performance

*~US$550/t SOP cash operating costs = (53.8 - 0.7 - 9.1 [$m]) / (88 short tons) / (0.9 tonnes / ton) * (1000 kg/t)*

Plant Nutrition Segment Performance (unaudited, dollars in millions, except for prices per short ton)	Three Months Ended June 30,	
	2021	2020
Sales	$ 53.8	$ 51.0
Operating earnings *(2020 restated)*	$ 0.7	$ 6.3
Operating margin *(2020 restated)*	1.3%	12.4%
EBITDA[(1)] *(2020 restated)*	$ 9.8	$ 15.9
EBITDA[(1)] margin *(2020 restated)*	18.2%	31.2%
Sales volumes (in thousands of tons)	88	89
Average sales price (per ton)	$ 610	$ 575

Reconciliation for Plant Nutrition Segment EBITDA (unaudited, in millions)	Three Months Ended June 30,	
	2021	2020 (Restated)
Reported GAAP segment operating earnings	$ 0.7	$ 6.3
Depreciation, depletion and amortization	9.1	9.6
Segment EBITDA	$ 9.8	$ 15.9
Segment sales	53.8	51.0
Segment EBITDA margin	18.2%	31.2%

Source: Compass Minerals 2Q21, Shaw analysis

Key risks

As a small mining company broadly exposed to a single commodity and a single asset we consider an investment in Australian Potash to be high risk. The key risks include;

- Potash markets are opaque and difficult to forecast. The actual SOP price may differ substantially from our forecasts.
- Several secondary approvals are required before pre-mining operations can begin, and there is no guarantee that these may be obtained in a timely manner.
- Operations for APC have not yet started and there is a risk that they may be unable to bring the LSOP to production. The project may cost more than expected and may not operate as expected.
- APC will need to recapitalise to fund the commencement of operations. There is a risk that capital markets are not willing to fund the project.
- Forecasting future operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic. If each company's costs are higher than we expect then our cash flow forecasts will be too high.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart APC it could delay projects or exacerbate operational risks.
- Safe and reliable production from operations once projects are operational. The inability to maintain safe and reliable operations may result in a sustained, unplanned interruption to production and impact the company's licence to operate and financial performance. Production facilities are subject to operating hazards associated with major accident events, cyber-attack, inclement weather and disruption to supply chain, that may result in a loss of uranium (radioactive material) containment, harm to personnel, environmental damage, diminished production, additional costs, and impacts to reputation or brand.

Core drivers and catalyst

- **APC holds a 100% interest in the LSOP project**, located approximately 500kms northeast of Kalgoorlie, in Western Australia's Eastern Goldfields. The LSOP project is a brine, solar salt project; the brine contains the potassium and sulphate bearing minerals from which SOP is refined.
- We believe the **LSOP project is NPV positive at realised SOP prices of US$380/t. Using our base case realised SOP price deck of US$550/t (2021 Real) the project has a post-tax NPV of $251m and IRR of 17%.** Key components of our model include (1) 170ktpa SOP operation over 35 years. (2) Total capital expenditure of A$292m and competitive capital intensity of A$1,720/t. (3) Opex of US$251/t over LOM, which is first quartile.
- **The LSOP project is progressing and derisking.** Recently, APC announced: (1) Full environmental approval. (2) 90% of offtake secured. (3) $140m Northern Australia Infrastructure Facility (NAIF) funding approved and $45m funding from Export Finance Australia. We believe APC can proceed to gain the licences and permits required to commence the development of the project and look to secure the balance of project financing. A Final Investment Decision is pending.
- **We are positive Sulphate of Potash (SOP) markets.** SOP is a premium type of potassium carrying fertiliser with no substitutes. Arable land per capita is reducing over time, and industry consensus SOP demand forecasts are for mid-single digit growth over the coming decades. Consensus forecasts are for a long-term SOP price in the range of US$450-550/t (2021 Real). Our long-term realised price forecast is US$550/t, in the middle of this range once factoring in the ~10% premium for APC's product.
- **A premium product and asset strategically located.** APC intends to produce a premium quality SOP from brine production (i.e. no Mannheim Process) in Australia. Australia is proximate to emerging Asian markets, which are driving the globe's mid-single digit SOP growth. In addition, the company expects realised product prices to include a ~10% product quality premium for the product being 'green' (i.e. organic / non-Mannheim Process), granular (as opposed to powdered) and higher K_2O content than standard SOP (usually on a pro rata basis above standard SOP K_2O content of 50%). Offtakes have been structured to pass through this price premium.
- **Other exploration assets close to Lake Wells appear interesting.** APC also holds significant tenement positions at the Lake Wells Gold Project and Laverton Downs Project. APC recently announced that its diamond hole drill programme targeting nickel sulphide mineralisation has commenced at Laverton Downs.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

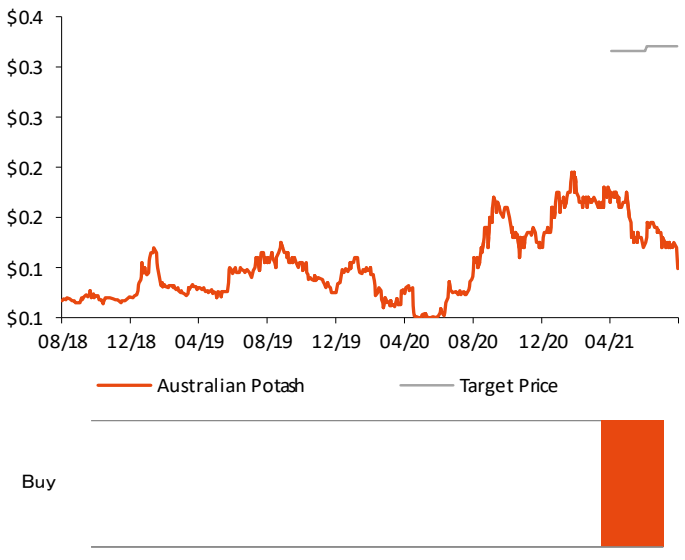
RISK STATEMENT: Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	72	81%
Hold	15	17%
Sell	2	2%

History of Investment Rating and Target Price - Australian Potash

Date	Closing Price ($)	Target Price ($)	Rating
24-Jun-21	0.13	0.32	Buy
22-Apr-21	0.18	0.32	Buy



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