

This is an extract of our full report.
Please refer to our full report before making any investment decisions.

Agrimin Limited

Time to Grow

February 2017

Recommendation: BUY

- **Lake Mackay is a globally significant SOP project**
- **SOP has a robust demand thematic that should provide strong price support**
- **Agrimin's development timeline to underpin share price performance**

ASX: AMN

Share Price: \$0.59

Target Price: \$1.35/share

M/Cap.: \$74M

Valuation: \$1.35/share

Valuation: \$481M

Shares/options: 124M

Monthly T/over: \$0.271M



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Petra Capital Pty Ltd

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Agrimin Limited (AMN)

BUY

Share Price: A\$0.59

Time to Grow

Target Price: A\$1.35

We initiate coverage on Agrimin (AMN.ASX) with a BUY rating and a target price of A\$1.35/sh in line with our NPV. Agrimin is a sulphate of potash (SOP) development company with 100% of the globally significant Lake Mackay SOP project in Western Australia. The project has very favourable technical characteristics which, in our view, will ensure Agrimin becomes a leading producer in this market.

SOP is an increasingly important fertiliser as demand grows for high value cash crops. SOP is distinguished from the more common potash variety, muriate of potash (MOP), by its chloride free chemical composition (K₂SO₄ vs KCl). This allows SOP to be applied to chloride sensitive crops which tend to be of higher value such as fruits, vegetables and tree nuts. To highlight the potential demand, we believe 21% of potash is currently applied to chloride sensitive crops, whilst only 10% of potash supply currently is chloride free. We believe this to be a robust and long term demand dynamic that will be positive to pricing.

Agrimin to be an industry leader

- Lake Mackay's large surface area and near surface brines make it amenable to the low cost trenching method of brine extraction. This will lead to both opex and capex savings for the project.
- Once in production, it will be one of only ten SOP projects in the world to have a capacity >300ktpa.
- Lake surface area, grade, evaporation rates, scale and capital intensity are all favourable attributes.

SOP industry structure highly favourable

- 60% of supply is from the Mannheim process which converts MOP to SOP through a high temperature reaction with sulphuric acid. The additional cost ensures a price premium is maintained between MOP and SOP.
- Mannheim is the industry's high cost, marginal producer. Its high variable cost base ensures that any reduction in the SOP/MOP premium rapidly reduces supply.
- 30% of SOP supply is from brine projects which define the lowest cost producers.

Sulphate of Potash (SOP) pricing

- SOP has averaged US\$516/t over the last 12 months representing a premium over MOP of US\$292/t.
- We forecast a robust long term price of US\$550/t due to; 1) a strong demand dynamic; 2) stable, if not, rising MOP prices and; 3) the high marginal cost of production supplied from Mannheim.

Company Data

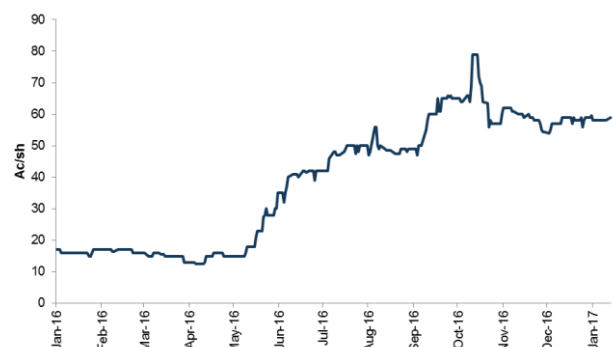
Shares – ordinary (M)	124
Dilution (M)	220
Total (fully diluted) (M)	344
Market cap. (M)	74
12 month low/high (\$)	13 / 79
Average monthly turnover (\$M)	0.3
GICS Industry	Materials

Financial Summary (fully diluted/normalised)

Year end June	2020F	2021F	2022F	2023F	2024F
Revenue (\$M)	0	109	145	254	291
Costs (\$M)	1	101	135	140	142
EBITDA (\$M)	-1	8	11	114	149
NPAT (\$M)	-3	-19	-21	43	71
EPS (¢ps)	-2.7	-15.4	-17.3	12.6	20.8
PER (x)	na	na	na	5	3
Cashflow (\$M)	-3	-4	-3	73	103
CFPS (¢ps)	-3	-4	-3	21	30
PCFPS (x)	-22	-17	-23	3	2
Enterprise Value (\$M)	236	293	305	240	146
EV / EBITDA (x)	-281	37	28	2	1
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0	0	0	0	0

Director	Position	Executive
Brad Sampson	Chairman	Non-Executive
Mark Savich	Chief Executive Officer	Executive
Alec Pismiris	Director & Co. Secretary	Non-Executive

AMN code – performance over one year



Executive Summary

Agrimin to Grow with Lake Mackay

Agrimin (AMN.ASX) is a sulphate of potash (SOP) developer providing strong leverage to the commodity's robust thematic. The company owns 100% of the Lake Mackay project, located in Western Australia, 500km west of Alice Springs. Over the last 18 months the company has achieved a number of significant milestones and is focused on advancing the project towards production by 2020. Agrimin proposes to develop Lake Mackay as a brine based SOP project. Trenches would extract SOP rich brines which would be further concentrated in evaporation ponds and then processed on site to produce a fertiliser grade SOP for sale into domestic and international markets.

Globally significant project

Lake Mackay is a globally significant project. Its proposed capacity of 370ktpa will make it larger than existing producers SQM (SQM.NYS) and Compass Minerals (CMP.NYS), and one of only ten projects worldwide with a capacity >300ktpa SOP. We model an AISC cash cost of US\$286/t which will provide for strong margins whilst the EXW (ex-works) cash cost of US\$106/t will be one of the lowest on the cost curve. The project's 8.25kg/m³ grade is comparable to Compass Minerals whilst having nearly twice the evaporation rate which will reduce pond size and improve production rates.

Low pre-construction costs and strong future cash flows

Agrimin aims to complete a definitive feasibility study (DFS) in late CY'18 for a total cost not exceeding A\$15m. This will allow earthworks to commence at the beginning of CY'19 with first production and early cash flows in CY'20. Steady state production would be achieved in CY'22 generating operating cash flow at an annualised rate of over A\$100mpa.

Large resource

The resource has defined 23.2Mt of SOP at a grade of 8.25kg/m³, with 42% of this within 6 metres of the surface and amenable to trench extraction. At the proposed production rate of 370ktpa SOP, accounting for recoveries and importantly assuming no recharge of the aquifer from external sources, this near surface resource would support a mine life of 17.5 years. We assume a 30 year mine life which is underpinned by the current upper resource plus some assumed recharge from both the surrounding lake sediments and lower sequences.

Trenching is the key to lower operating and capital costs

The project is able to utilise trenching as a low cost extraction method because Lake Mackay has a large surface area and has a large near surface resource. This extraction method will reduce lake infrastructure capital costs by up to 50% compared to the establishment of a traditional borefield and significant reduction in operating costs.

Scoping study

We believe there to be significant conservatism within the study. A shortage of experience in SOP projects in Australia led Lycopodium to complete a more detailed analysis of components and costs that would otherwise not have been undertaken for a more conventional commodity. The scoping study details a 20 year, 370ktpa project with a capital expenditure of US\$259m (including 25% contingency) and low cash costs. We believe the project represents one of the best undeveloped SOP brine projects globally.

Valuation

Our valuation of A\$1.35/sh is set in-line with our NPV for our base case production plan at a 10% discount rate. Our share count is on a fully diluted basis which assumes A\$171m of new equity is raised at an average share price of A\$0.78/sh (A\$15m @ 60¢/sh and A\$156m @ 80¢/sh) with the cash proceeds accounted for in the valuation.

Risks

A comprehensive assessment of the risks facing Agrimin is included in the main section of the report. Key areas of risk to achieving our target price include; a) commodity price b) licences and approvals c) offtake d) funding, and; e) technical challenges.

February 2017

Analysis

Agrimin (AMN) 3-Feb-17										Share Price (\$)									
Year End June										Mkt Cap. (\$M)									
PROFIT & LOSS	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	
Revenue	AS\$	0	0	0	109	145	254	291	291	Resource									
Operating Costs	AS\$	0	0	0	100	134	139	141	141	Lake Mackay									
Exploration	AS\$	0	0	0	0	0	0	0	0	Volume (Mm3) 44,088									
Other	AS\$	4	5	1	1	1	1	1	1	SOP Grade (K2SO4) 8.25									
EBITDA	AS\$	(4)	(5)	(1)	(1)	8	11	114	149	Specific Yield (%) 6%									
D&A	AS\$	0	0	0	15	18	29	31	29	Contained SOP (kt) 23,278									
EBIT	AS\$	(4)	(5)	(1)	(7)	(7)	85	117	120	Lake Mackay									
Net Interest	AS\$	(0)	(0)	(2)	4	20	23	23	15	Production									
Pre-Tax Profit	AS\$	(4)	(5)	1	(5)	(27)	(31)	62	102	Brine Pumped M m3 0.0 0.0 0.0 0.0 24.9 33.3 58.2 66.5 66.5									
Tax	AS\$	(1)	(1)	0	(1)	(8)	(9)	19	31	SOP Grade kg/m3 0.0 0.0 0.0 0.0 8.3 8.3 8.3 8.3 8.3									
Net Profit	AS\$	(3)	(3)	0	(3)	(19)	(21)	43	71	Recovery % 0% 0% 0% 0% 67% 67% 67% 67% 67%									
Abnormal	AS\$	0	0	0	0	0	0	0	0	SOP Produced kt 0.0 0.0 0.0 0.0 139 185 324 370 370									
Reported Profit	AS\$	(3)	(3)	0	(3)	(19)	(21)	43	71	SOP Sold kt 0.0 0.0 0.0 0.0 139 185 324 370 370									
Dividends Paid	AS\$	0	0	0	0	0	0	0	0	C1 Costs									
Adjustments	AS\$	0	0	0	0	0	0	0	0	AS/t 0 0 0 0 684 684 391 342 342									
CASHFLOW										AISC									
Net Op Cash Flow	AS\$	(4)	(5)	(1)	8	11	114	149	149	REVENUE									
Net Interest	AS\$	0	0	2	(4)	(20)	(23)	(15)	(6)	Lake Mackay AS\$ 0 0 0 0 109 145 254 291 291									
Tax Paid	AS\$	1	1	(0)	1	8	9	(19)	(34)	Total									
Op Cash Flow	AS\$	(3)	(3)	0	(3)	(4)	73	103	109	AS\$ 0 0 0 0 109 145 254 291 291									
OPERATING COSTS										CAPEX									
Net Capex	AS\$	0	0	(139)	(185)	(52)	(8)	(8)	(8)	Project AS\$ 0.0 0.0 138.8 185.0 46.3 0.0 0.0 0.0 0.0									
Exploration	AS\$	0	0	0	0	0	0	0	0	SIBC AS\$ 0.0 0.0 0.0 0.0 6.2 8.3 8.3 8.3 8.3									
Inv Cash Flow	AS\$	0	0	(139)	(185)	(52)	(8)	(8)	(8)	Total									
Free cash flow	AS\$	(3)	(3)	(138)	(188)	(57)	(11)	64	94	AS\$ 0.0 0.0 138.8 185.0 52.5 8.3 8.3 8.3 8.3									
Net Borrowings	AS\$	0	0	0	187	47	0	(50)	(100)	ASSUMPTIONS									
Dividends	AS\$	0	0	0	0	0	0	0	0	Exchange Rate A\$/US\$ 0.70 0.70 0.70 0.70 0.70 0.70 0.70 0.70 0.70									
Equity Issues	AS\$	10	0	156	0	0	0	0	0	Interest Paid % 5% 5% 5% 5% 5% 5% 5% 5% 5%									
Other	AS\$	0	0	0	0	0	0	0	0	Interest Rec % 2% 2% 2% 2% 2% 2% 2% 2% 2%									
Fin Cash Flow	AS\$	10	0	156	187	47	0	(50)	(100)	Diesel Price A\$/L 1.2 1.2 1.2 1.2 1.2 1.2 1.2 1.2 1.2									
Net Cash Flow	AS\$	8	(3)	18	(1)	(10)	(11)	14	(6)	Gas Price \$6/GJ 6.0 6.0 6.0 6.0 6.0 6.0 6.0 6.0 6.0									
BALANCE SHEET										SOP Price US\$/t 550 550 550 550 550 550 550 550 550									
Cash	AS\$	11	7	25	24	14	2	17	11	SOP Price A\$/t 786 786 786 786 786 786 786 786 786									
Other Current	AS\$	0	0	0	0	0	0	0	0	CASH FLOW FORECASTS INCL DEBT & EQUITY									
Cur Assets	AS\$	11	7	25	24	14	3	17	11										
Fixed Assets	AS\$	0	0	139	324	376	385	393	401										
Exploration	AS\$	3	3	3	3	3	3	3	3										
Other	AS\$	0	0	0	0	0	0	0	0										
Non Cur Assets	AS\$	3	3	142	327	379	387	396	404										
Total Assets	AS\$	14	10	167	351	393	390	413	415										
Borrowings	AS\$	0	0	0	0	0	0	0	0										
Payables	AS\$	0	0	0	0	0	0	0	0										
Other	AS\$	0	0	0	0	0	0	0	0										
Cur Liab	AS\$	0	0	0	0	0	0	0	0										
Borrowings	AS\$	0	0	0	187	234	234	184	84										
Provisions	AS\$	0	0	0	0	0	0	0	0										
Other	AS\$	0	0	0	0	0	0	0	0										
Non Cur Liab	AS\$	0	0	0	187	234	234	184	84										
Total Liabilities	AS\$	0	0	0	187	234	234	184	84										
Total Equity	AS\$	13	10	167	163	159	156	229	331										
RATIO ANALYSIS										NPV (+1Yr)									
EPS	€	(2.1)	(2.6)	0.4	(2.7)	(15.4)	(17.3)	12.6	20.8	Lake Mackay AS\$ 304 \$ 0.88									
PER	x	na	na	167.9	na	na	na	4.7	2.8	Corporate costs AS\$ -7 \$ (0.02)									
EPS Growth	%	172	24	(113)	(864)	474	12	(173)	65	Net Cash (Debt) AS\$ 168 \$ 0.49									
CFPS	€	(2.1)	(2.6)	0.4	(2.7)	(3.5)	(2.5)	21.1	29.9	Total AS\$ 465 \$ 1.35									
PCFR	x	na	na	167.9	na	na	na	2.8	2.0										
DPS	€	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0										
Yield	%	0%	0%	0%	0%	0%	0%	0%	0%										
Payout Ratio	%	0%	0%	0%	0%	0%	0%	0%	0%										
Gearing NDE	%	-79%	-73%	-15%	100%	138%	149%	73%	22%										
Interest Cover	x	44.2	17.0	0.7	na	na	na	3.7	7.6										
EBITDA Margin	%	na	na	na	na	7.2	7.4	44.9	51.2										
EBIT Margin	%	na	na	na	na	(6.3)	(5.1)	33.4	40.4										
Return On Assets	%	(28.2)	(47.7)	(0.7)	(0.2)	(1.7)	(1.9)	20.6	28.3										
Eff Tax rate	%	30%	30%	30%	30%	30%	30%	30%	30%										

Source: Petra Capital



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