

KORE POTASH – CONFIRMS SIGNIFICANT PROGRESS IN Q2

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By Dr. Michael Green

Kore Potash has all the makings of becoming the lowest cost potash supplier to the giant Brazilian market from its globally significant deposits in the Congo. The company has been developing its Sintoukola potash basin for a while now, but all the recent news points towards improving chances that an initial project could be in production as early as Q4 2023. This morning, the company was able to remind investors of the tremendous progress that has been made over just the last three months.

Q2 2020 was a big quarter for Kore which saw the results being published of the Pre-Feasibility Study (PFS) on the Dougou Extension (DX) which showed that DX has the potential to be a strong cash generator with a low capital cost but also low technical risk.

The DX PFS outlined a compelling annual average EBITDA of US\$118 million. This was based on the mining of the maiden Sylvinitic Ore Reserves of 17.7Mt at 41.7% KCl at a nameplate production target of 400,000tpa Muriate of Potash (MoP) over an initial 18-year life of mine based on the Probable Ore Reserves. The real un-g geared post-tax IRR was 22.9% and NPV10 (real) was US\$319 million on an attributable basis.

In the DX PFS, an average MoP price for granular product of US\$422/t MoP was used over the life of the mine which is a price forecast for DX's target markets by industry experts Angus Media. Initial pre-production capex is estimated at US\$286 million (real 2019).

Apart from the obvious cracking returns, what powerfully stands out is the highly competitive costs to supply MoP to target markets which goes something like this. Average mine gate operating costs are an enviably low US\$65.26/t MoP with free on board (FOB Pointe Noire) costs of just US\$86.61/t MoP. In fact, the average cost of MoP delivered around US\$114.61/t MoP to Brazil against that forecast selling price of US\$422/t. This speaks volumes for the robust economics and high profitability that DX could potentially deliver.

The back story here is really compelling. Kore has been developing its vast Sintoukola potash basin in the Republic of the Congo since 2010. The company has been blessed as Kore has a district scale development with 6 billion tonnes of potash which is just 12km from the coast. There is no shortage of technical data and existing feasibility studies as c.US\$150 million has already been spent here.

The vast scale of this potash basin will eventually require a big project to do it justice that will need a big budget. Its flagship 2.2Mtpa Kola project came through DFS with flying colours but needed US\$2.1 billion capex, which is not easy for a small cap player to raise for a new project in the Congo. All this has

resulted in the team devising the smaller starter DX project which will mark the first stage in the district wider development of the Sintoukola potash basin.

Given the progress to date we are highly optimistic that the 400,000tpa DX project could be in production by Q4 2023. Early signs are that DX can rapidly come on stream with capex under US\$300 million, making it financially possible for a greenfield operation in the Republic of the Congo. DX is a scalable solution mine which is low risk as there are many such successful potash projects around the world. Getting DX into production is a game changer as it will make the financing of Kola possible and begin to unlock the tremendous value here.

The team is letting the grass grow under its feet as DX is now being rapidly moved towards the Definitive Feasibility Study (DFS) stage which should allow the project to be pushed smartly further up the valuation curve. The work programme for the DX DFS looks as though it could be finalised reasonably rapidly, which would allow work to commence in the current quarter (Q3 2020). To this end the company is engaging with its major shareholders concerning financing plans for the DX DFS.

Our view is that Kore will either be allowed to grow or be acquired. DX and Kola put Kore on a real journey with its 6 billion tonnes of potash. Not only are the company's production costs very cheap but also Kore has the shortest shipping route to the African markets and Brazil. Moving ahead, the development of the Sintoukola Potash District will be serving to replace potash from the Northern Hemisphere.

Almost all the pieces are now in place to allow Kore to commence a dramatic growth trajectory. But it remains to be seen whether the majors will be prepared to concede market share to them or buy them up. Either way there looks to be substantial value to be created at Kore for the benefit of all shareholders over the coming years. We [initiated coverage](#) on Kore Potash with a Conviction Buy stance in June 2020 with a target price of 6.51p.

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