

KORE POTASH – SIGNS MOU FOR FULL FINANCING OF KOLA POTASH PROJECT

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By Dr. Michael Green

There was cracking news this morning from Kore Potash which has signed a non-binding MOU to arrange the full financing required for the construction of the Kola Potash Project.

This latest announcement brings news that Kore and Summit Africa Limited (Summit), on behalf of a consortium of investors and engineering firms, have signed a non-binding MoU to arrange the total financing required for the construction of the Kola Potash Project (Kola). Potash development company Kore has a 97%-interest in the Kola and DX Potash Projects in the Sintoukola Basin, which are located within the Republic of Congo (RoC).

Apparently, this MoU sets out a roadmap to optimise, fully finance and construct Kola via a mix of debt and royalty financing. Summit and its technical partners SEPCO Electric Power Construction Corporation (SEPCO) and China ENFI Engineering Corporation (ENFI – which has been subcontracted by SEPCO), will work with Kore to undertake an optimisation study to reduce Kola's capital cost with a target of getting it under US\$1.65 billion.

The plan is that Summit will work with potential financing partner BRP Global Limited to complete DD and get to this target capex through an optimisation study, present a financing proposal on behalf of the Summit Consortium based on debt and royalty funding for 100% of the Kola construction capital costs. Importantly, under the proposed financing structure, the company would not have to contribute any capital needed to build the project and would retain a 90% equity interest in Kola. Sounds as though we are learning about a very neat deal.

At the time, Brad Sampson Kore's CEO was quick to point out that "...We welcome the consortium's innovative proposal to potentially fully finance the construction of Kola through debt and royalty financing. The DFS for Kola demonstrated that it will have large operating margins and a long project life which is ideally suited to royalty financing. This approach by the Summit Consortium to the financing of Kola would eliminate the requirement for further equity contributions by the Company's shareholders to the capital cost of the construction of the Project. Kola and our other potash projects at Sintoukola have the potential to help feed the world's population for many generations to come.."

The Kola Definitive Feasibility Study (DFS) included the forecasted generation of US\$500million post tax free cash per annum. This project has a Measured and Indicated sylvinitic Mineral Resource of 508Mt grading at 35.4% KCl, which is comparable to the grades of some of the world's leading potash deposits. This DFS was

completed in December 2018 and, at an estimated US\$102/t CFR granular potash, it would represent one of the lowest cost MOP global producers.

Kola Potash Project – Highly compelling project economics	
Average annual free cash flow	US\$500m
Average cash operating margins	75%
Post-tax attributable IRR (ungeared)	17.2%
Post-tax attributable NPV (10% real)	US\$1,452m
Pre-production capital cost (EPCM basis)	US\$2,103m
Life of Mine free cash flow	US\$14,545m
Payback period	4.3 years

DFS economics for the Kola Sylvinite Project. Source: Company

The project scores highly on many points. Shipping costs from the export facility to Brazil are low due to the directness of the shipping route, which results in the lowest cost viable source of potash supply to Brazil. The ore body lies just 35km from the planned export facility on the coast, with a proposed overland conveyor and dedicated jetty for export to Brazil and West Africa. The potash will be processed with brine disposed into the ocean, which means that there is no need for any surface tailings storage facility. The project will also benefit from an abundant water supply available at a low cost along with competitive gas and power costs available locally. Imported equipment for the construction of the mine will only need to be transported 90km by road from the Port of Pointe Noire.

Our analysis is that if Kore gets 90% of that cash flow and even after deducting royalty finance costs once in production, even on modest multipliers Kore could well deserve to have a market capitalisation well in excess of \$2 billion. Successful close of this financing on the terms proposed will allow Kore to retain 90% ownership of this world class asset without Kore shareholders having to inject the equity up front to construct the project. Very neatly, what would have been equity from Kore shareholders is now proposed to be replaced with royalty financing. All of which should set the scene for potentially dramatic share price growth.

Truth is that Summit and their partners are well known to Kore management. The company first met with SEPCO and ENFI in the second half of 2019 and they have been working in the background since then on this proposed financing with Summit. It is well worth drawing investors' attention to the fact that this financing for Kola will be moving ahead just when the market will be seeing increasing potash prices. There is no doubt that demand for potash remains strong despite challenging times in the global economy.

Most recently, Kore had been rapidly moving its smaller starter DX project going through feasibility studies with production expected in Q4 2023. This morning's announcement looks as though it has dramatically changed the priorities at Kore HQ. On this matter the company has commented that *“.. is currently reviewing its allocation of resources to Kola and DX and intends to update shareholders on DX in coming weeks....”*

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 the company with a Conviction Buy stance in June 2020 when the price was sitting at 0.85p with a target price of 6.51p. Now with the shares trading at 1.75p, we are more than content to reiterate our stance.

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