

# KORE POTASH – GOOD READING SO FAR FROM KOLA OPTIMISATION STUDY

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The latest news out of Kore Potash is that the Kola Optimisation Study is on track to be completed in Q1 2022. This morning, investors got a taster of the results of that study from an interim report which made for good reading.

Decent progress has been made so far on the Optimisation Study on the Kola Potash Project from the Summit Consortium. The interim report highlighted not only that already some 50 capital cost reduction opportunities have already been considered but also that further capex reduction opportunities will be reviewed ahead of completion of this study. The board would like to have put some numbers to the savings, but ASX rules don't allow this until they get the final study report – but it looks as though it will be well worth waiting for.

The big message that came out of this announcement is that the Summit Consortium has reconfirmed that it remains on track to present a financing proposal for the full Kola construction costs in the first half of 2022.

CEO Brad Sampson commented that *“We are pleased at the quantum of potential capital cost saving initiatives being identified in the Interim Report, and that the process to finance Kola remains on track. We will review the interim information and proposed changes to the Kola design while the Consortium continues the Study. There are additional capital cost reduction opportunities for the Consortium to consider over the next few months, and we look forward to delivery of the full Study report in early 2022.”*

Kore Potash's Kola and DX Potash Projects are both located in the Sintoukola Basin, Republic of Congo (RoC). April 2021 saw the company signing an MOU with the Summit Consortium for the full financing of the construction of the Kola Potash Project. This process kicked off with the consortium moving to complete an Optimisation Study and, if successful, then provide Engineering, Procurement and Construction (EPC) contract proposals together with potential royalty and debt financing to cover the full construction costs of the Kola Potash Project.

The Kola Optimisation Study is being undertaken by the key engineering and construction partner of the Consortium, SEPCO Electric Power Construction Corporation. The target is to get the capex under US\$1.65 billion and shrink the construction timetable down to 40 months. These are seen to be aspirational targets but so far Summit looks on course to achieve them in this study.

Looking at those cost reduction initiatives, almost 85% have been incorporated into the optimisation of Kola. Such initiatives that are being fully investigated include moving the processing plant from swampy area near the coast closer to the mine for cheaper foundations, hauling run-of-mine (ROM) a shorter distance to the processing plant (as 1t of product comes from 3t of ROM), sourcing of major equipment

from China and reducing the number of large components as well as optimisation of the processing and making changes to the design of the infrastructure. The team is systematically working through the whole project design seeking to cut capex.

We believe Kore has a Tier 1 potash play in the RoC which looks clearly set to become the lowest cost potash supplier to the giant Brazilian market. The company has been developing the Sintoukola potash basin in the RoC since 2010. Kore has a district scale development with 6 billion tonnes of potash, just 15km from the coast. So far, some US\$230 million has been spent here on its 97%-owned Kola and DX Potash Projects.

The back story here is that the flagship 2.2Mtpa Kola project came through the DFS with flying colours but needs US\$2.1bn of capex (since reconfigured to US\$1.65bn with sub-US\$1.6bn now being targeted). This is not easy for Kore to raise for a greenfield project in such a jurisdiction. Just as the team began rapidly advancing the smaller DX project, potential investors came knocking with the promise of a fully financing Kola.

That MOU with Summit to arrange the total financing is based on the understanding that the company will retain a 90% stake in Kola. The MoU sets out a roadmap to optimise, fully finance and construct Kola via a mix of debt and royalty financing. Of course, waiting in the wings is the smaller DX project which is also being progressed in parallel as it provides good backstop if anything should go wrong with the negotiations at Kola.

If Kore gets 90% of that cash flow and even after deducting royalty finance costs once in production, we believe that even on modest multipliers Kore could well deserve to have a market capitalisation well in excess of US\$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.

The potash price curve is starting to look like the Bitcoin chart. When Kore completed the DFS in early 2019, the potash price CFR Brazil was around US\$360/t. With the start of the Covid-19 pandemic, this fell to US\$250, but now it stands at US\$820. The potash price in SE Asia is US\$600 plus and FOB Vancouver US\$700 plus. The feeling is that the potash price will remain strong over the long term and sit within a band. The potash market is currently controlled by a handful of large companies that have temporarily lost control of the price but will be making moves to regain control. So, the US\$800/t price might not be sustainable but moving ahead it looks as though it is going to be significantly higher than it has been in the past.

It has to be pointed out that Kore's dramatic opportunity is gaining momentum against a background of rising potash demand as it is forecast that the world needs to grow 50% more food by 2050. It has to be highlighted here that arable land per person is sharply declining and farmers are increasingly using more fertiliser to feed an anticipated population of 9 billion people by 2050. Actually, it is worse than this because as global temperatures rise, crop yields drop. This means more intensive farming is required, which calls for a higher use of fertiliser.

In May 2021, [we updated our analysis](#) on Kore Potash with a conservative price target of 11.2p and a Conviction Buy stance when the stock was trading at 1.175p. Now with the share standing at 1.15p, we are more than happy to reiterate our **Conviction Buy** stance.

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