
Mining

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Australian potash explorers to attract M&A interest amid industry hiccups, booming commodity prices

Analysis

- Early starters run into problems
- Strategics looking for low-cost acquisitions
- Macro drivers strong with global supply issues

Australia's potash explorers are set to attract M&A dealmakers' interest as some early starters have recently run into hurdles, while at the same time the booming commodity prices could bring investors' attention back to these pioneers in a nascent industry, according to industry experts.

A sale process is currently on for **Salt Lake Potash** [ASX:S04], which had a market cap of AUD 253m (USD 188m) before suspending its trading at the end of July 2021, after the company entered voluntary administration and receivership in October. More recently, the receivers and **Macquarie Capital** started a process to sell the company's flagship Lake Way project or recapitalize the company, according to an announcement to the ASX on 10 March.

The sale process has attracted "in excess of 20 interested parties" that have entered into confidential agreements, according to an update by **KPMG**, the voluntary administrator, on 29 March.

Salt Lake Potash, which is in a more advanced development stage in comparison with other Australian potash companies, would need a buyer with a stronger balance sheet to help restart its project, an industry advisor told *Mergermarket*. Potential interest could come from private equity firms or larger companies like **Wesfarmers** [ASX:WES], **Incitec Pivot** [ASX:IPL], Kansas, US-based **Compass Minerals** [NYSE:CMP], north-Chilean global miner **SQM** [NYSE:SQM], or others in the fertilizer industry, the industry advisor said.

Without speculating on specific names, **Morgans** mining analyst Mat Collings agreed that Australian potash companies would need someone that has the time, patience and a "deep enough pocket" to push through to production. "It could be another 12 months before these projects can actually produce revenue," he said.

Australia's potash sector is also attracting more attention now given the massive disruption to the global supply and surging prices in the past year, said Keren Paterson, MD and CEO of **Trigg Mining** [ASX:TMG], another potash hopeful.

“From an M&A perspective, there are a number of ASX-listed, single-asset companies with development projects in Western Australia. These companies all have long-life, low carbon footprint, natural sources of potassium fertilizer and are trading at well below project NPV’s,” Paterson told *Mergermarket* recently.

Trigg itself, as well as **Agrimin** [ASX:AMN], are both looking at M&A opportunities in the Australian potash space, as reported by this news service. Agrimin CEO Mark Savich last week told *Mergermarket* that the company would look at opportunities that align with its future plans, adding that it is specifically focused on potash used for fertilizer. “That’s the only commodity that we’ve been really focusing on in terms of M&A,” he said.

Growing pains in nascent industry

Potash is a naturally occurring substance containing large amounts of potassium to be used in making fertilizers. The potash these Australian players are looking to produce is predominantly sulphate of potash (SOP), which is seen as superior over the more abundant muriate of potash (MOP).

Australia currently has no potash production, with all SOP being imported from overseas, while Salt Lake Potash would have been the first to produce SOP locally if its project went as planned, according to local media reports. **Kalium Lakes** [ASX:KLL] is likely to be next to reach production, and **Australian Potash** [ASX:APC], the SOP developer with tenures in four project areas in Western Australia’s north-eastern Goldfields, is next in line, Australian Potash’s MD Matt Shackleton told *Mergermarket* in August 2021.

However, some early starters have come across problems with commissioning complicated chemical process plants, with the pandemic-triggered border closure also denying access to overseas labor and expertise, according to Morgans’ Collings.

“It is more difficult than they thought and at the same time the Australian cost environment is not helpful,” he said. “It is just a learning process that everyone has underestimated.”

For example, Kalium Lakes’s website noted that its 100%-owned Beyondie SOP Project was slated to reach production by September 2021, but the company said in its March update that Beyondie is now expected to reach production by the first quarter of 2023.

Investors in Kalium Lakes and Salt Lake Potash have been caught by surprise when timelines were underestimated and capex ran dry, and now both must resolve ramp-up issues, the first industry advisor and a second industry advisor said.

Compared with the two, other SOP players are still behind in project development and would need to find someone who is willing to give a third company a go, Collings said. “No one is racing to fund someone else to try do this now,” he said. “It seems everyone is stopping to wait and see if they can solve the problems with existing guys before giving anyone else (capital) to build a third project.”

Other Australian pure-play SOP companies include **Reward Minerals** [ASX:RWD], while **BCI Minerals** [ASX:BCI], owns the Mardi Salt and Potash project in Western Australia.

Boom cycle driven by geopolitics

Despite the headwinds, Australian potash companies have good long-term prospects, especially on the back of the rising global demand for high nutrient food and supply disruptions brought by changing geopolitics, industry experts noted.

Canada, Russia and Belarus supply two-thirds of the world's MOP and China is the largest SOP producer, according to Australian Potash's website. Australia has one of the world's largest and most rare SOP deposits, according to the first industry advisor, while Agrimin's Mackay project holds the world's largest known mineral resources of brine-hosted SOP, according to Agrimin's website.

The world's supply of potassium fertilizer saw large price hikes as direct sanctions were placed on Belarus in 2021 and now financial sanctions placed on Russia have impacted around 40% of the global supply for the commodity. The price of SOP standard bulk prices had risen to EUR 1,070 to EUR 1,100 per tonne as of 7 April in northwest Europe, according to a potash report by *Argus Media*, a global commodities data provider.

The surging SOP price could likely be a catalyst to help Salt Lake Potash reach a sale outcome and Kalium Lakes to raise more funds, the first industry advisor said.

Project valuations also surged based on SOP prices, according to a research note on Trigg Mining from **Corporate Connect**. In a note dated 31 March, the researcher pointed to an Oct 2021 scoping study assuming an SOP price of USD 550pt with a sensitivity analysis showing every 10% increase in price drives an AUD 144m increase in the project NPV of AUD 364m. The 70% increase above the scoping study could imply a project NPV of about AUD 1.4bn, the note said.

Australian potash miners are likely to learn from early mistakes and would easily be paying off their debts with the current potash price, although old investors are also likely to return after being burnt, the first industry advisor added.

An early positive sign is that some players have gone well with offtake agreements with strategics. For example, Agrimin has already secured 70% of its future offtake while production is not expected to begin at its Mackay project until somewhere in 2025, while Trigg Mining has not yet secured any offtake agreements but has received interest and is in discussions, *Mergermarket* reported recently.

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