

9 May 2018

Agrimin Limited (AMN)

BUY

Share Price: A\$0.91

On track to be world's lowest cost producer

Target Price: A\$1.29

The pre-feasibility study (PFS) significantly de-risks Lake Mackay as Agrimin progresses towards a target of becoming the world's lowest cost SOP producer. The company has simplified the operation by utilising a wet harvester and including a road to provide an integrated mine to port logistics chain. SOP production increases 15% to 426ktpa, as recoveries lift from 69% to 80%, which would make it one of only 7 operations globally with production over 400ktpa. AISC cash costs fall 8% to A\$340/t, giving margins of A\$393/t based on our A\$733/t (US\$550/t) SOP price assumptions. These improvements are at the expense of higher capital costs which lift 58% to A\$545m (A\$345m prior). We maintain our BUY rating with an improved target price of A\$1.29/sh.

Capex traded for scale, opex and simplicity

- Agrimin has taken a strategic decision to increase capex from A\$345m to A\$545m to achieve higher production rates, lower operating costs and operational simplicity.
- A ~A\$80m road is now proposed between Lake Mackay and Balgo which will allow a seamless trucking operation to the Port of Wyndham from site (980km vs 2,057km prior). This will simplify and reduce the cost of transport from A\$190/t to A\$122/t (A\$18mpa).
- Wet harvesting increases pond and plant costs, but is largely responsible for increasing recoveries from 69% to 80% and therefore the increase of SOP production from 370ktpa to 426ktpa.
- Lake Mackay solidifies its position as a 1st quartile cash cost project with AISC cash costs of A\$340/t.

Funding – Multiple options to be considered

- The additional capex, complicates, but far from prohibits the funding of Lake Mackay.
- The road, maybe recognised as a key piece of regional Australian infrastructure and could potentially be funded through the NAIF (Northern Australia Infrastructure Fund).
- Lake Mackay is ever more attractive to agribusiness players given its scale, simplicity and cash cost position and a project level sell down is likely key to funding this project.

Price Target (1xP/NPV) of A\$1.29/sh

- We lift our price target to A\$1.29/sh (A\$1.26/sh prior) as we incorporate the updated PFS into our assumptions. Lower operating costs offset.

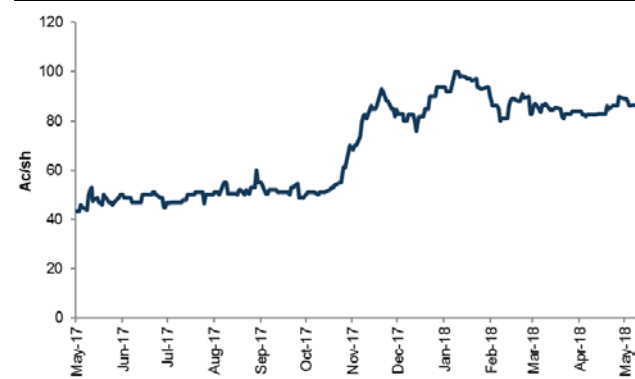
Company Data

Shares – ordinary (M)	156
Market capitalisation (\$M)	141
12 month low/high (\$)	0.43 / 1.02
Average monthly turnover (\$M)	0.4
GICS Industry	Materials

Financial Summary (fully diluted/normalised)

Year end June	2020F	2021F	2022F	2023F	2024F
Revenue (\$m)	0	39	195	312	312
Costs (\$m)	1	33	129	131	131
EBITDA (\$m)	-1	6	66	182	182
NPAT (\$m)	-1	-19	0	70	79
EPS (cps)	-0.9	-12.1	-0.1	15.2	17.0
EPS growth (%)	0	0	0	0	0
PER (x)	na	na	na	6	5
Cashflow (\$m)	-1	-12	33	120	125
CFPS (cps)	-1	-8	21	26	27
PCFPS (x)	-99	-12	4	3	3
Enterprise Value (\$m)	230	449	430	323	211
EV / EBITDA (x)	-273	72	6	2	1
Payout ratio (%)	0	0	0	0	0
Dividend (cps)	0	0	0	0	0
Yield (%)	0	0	0	0	0
Franking (%)	0	0	0	0	0

AMN – performance over one year



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This report must be read with the disclosure and disclaimer on the final page of this document.

Analysis

Agrimin Limited (AMN)

8-May-18

Year End June

		2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F		2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	
PROFIT & LOSS										Resource									
Revenue	A\$M	0	0	0	39	195	312	312	312	Lake Mackay									
Operating Costs	A\$M	0	0	0	32	129	130	130	130	Volume (Mm3)	M m3			44,088					
Exploration	A\$M	0	0	0	0	0	0	0	0	SOP Grade (K2SO4)	kg/m3			8.25					
Other	A\$M	2	1	1	1	1	1	1	1	Specific Yield (%)	%			6%					
EBITDA	A\$M	(2)	(1)	(1)	6	66	182	182	182	Contained SOP (kt)	Mt			23,278					
D&A	A\$M	0	0	0	7	33	50	46	43	Lake Mackay									
EBIT	A\$M	(2)	(1)	(1)	(1)	33	132	136	139	Production									
Net Interest	A\$M	(0)	(1)	(1)	1	26	33	32	23	Brine Pumped	M m3	0.0	0.0	0.0	8.3	41.6	66.5	66.5	66.5
Pre-Tax Profit	A\$M	(2)	(1)	(2)	(27)	(0)	101	112	126	SOP Grade	kg/m3	0.0	0.0	0.0	8.0	8.0	8.0	8.0	8.0
Tax	A\$M	(1)	(0)	(1)	(8)	(0)	30	34	38	Recovery	%	0%	0%	0%	80%	80%	80%	80%	80%
Net Profit	A\$M	(2)	(0)	(1)	(19)	(0)	70	79	88	SOP Produced	kt	0.0	0.0	0.0	53	267	426	426	426
Abnormal	A\$M	0	0	0	0	0	0	0	0	SOP Sold	kt	0.0	0.0	0.0	53	267	426	426	426
Reported Profit	A\$M	(2)	(0)	(1)	(19)	(0)	70	79	88	C1 Costs	A\$/t	0	0	0	592	474	297	297	297
Dividends Paid	A\$M	0	0	0	0	0	0	0	0	AISC	A\$/t	0	0	0	672	540	341	341	341
Adjustments	A\$M	0	0	0	0	0	0	0	0	REVENUE									
CASHFLOW										Lake Mackay	A\$M	0	0	0	39	195	312	312	312
Net Op Cash Flow	A\$M	(2)	(1)	(1)	6	66	182	182	182	Total	A\$M	0	0	0	39	195	312	312	312
Net Interest	A\$M	0	1	(1)	(26)	(33)	(32)	(23)	(13)	OPERATING COSTS									
Tax Paid	A\$M	1	0	1	8	0	(30)	(34)	(38)	Site Processing	A\$M	0	0	0	18	71	71	71	71
Op Cash Flow	A\$M	(2)	(0)	(1)	(12)	33	120	125	131	G&A	A\$M	0	0	0	1	3	3	3	3
Net Capex	A\$M	0	(68)	(273)	(208)	(13)	(13)	(13)	(13)	Transport	A\$M	0	0	0	13	52	52	52	52
Exploration	A\$M	(3)	0	0	0	0	0	0	0	C1 Cash Cost	A\$M	0	0	0	32	126	126	126	126
Inv Cash Flow	A\$M	(3)	(68)	(273)	(208)	(13)	(13)	(13)	(13)	Royalties	A\$M	0	0	0	2	3	3	3	3
<i>Free cash flow</i>	<i>A\$M</i>	<i>(5)</i>	<i>(69)</i>	<i>(274)</i>	<i>(220)</i>	<i>20</i>	<i>107</i>	<i>112</i>	<i>118</i>	Corporate	A\$M	0	0	0	1	2	2	2	2
Net Borrowings	A\$M	0	0	271	68	0	(50)	(100)	(84)	Total	A\$M	0	0	0	36	144	145	145	145
Dividends	A\$M	0	0	0	0	0	0	0	0	CAPEX									
Equity Issues	A\$M	0	246	0	0	0	0	0	0	Project	A\$M	0.0	68.2	272.7	204.5	0.0	0.0	0.0	0.0
Other	A\$M	0	0	0	0	0	0	0	0	SIBC	A\$M	0.0	0.0	0.0	3.3	13.3	13.3	13.3	13.3
Fin Cash Flow	A\$M	0	246	271	68	0	(50)	(100)	(84)	Total	A\$M	0.0	68.2	272.7	207.8	13.3	13.3	13.3	13.3
Net Cash Flow	A\$M	(5)	177	(3)	(152)	20	57	12	34	ASSUMPTIONS									
BALANCE SHEET										Exchange Rate	A\$/US\$	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Cash	A\$M	8	186	183	31	51	108	119	153	Interest Paid	%	5%	5%	5%	5%	5%	5%	5%	5%
Other Current	A\$M	0	0	0	0	0	0	0	0	Interest Rec	%	2%	2%	2%	2%	2%	2%	2%	2%
Cur Assets	A\$M	9	186	183	32	51	108	120	153	Diesel Price	A\$/L	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Fixed Assets	A\$M	0	68	341	549	562	575	589	602	Gas Price	\$/GJ	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Exploration	A\$M	10	10	10	10	10	10	10	10	SOP Price	US\$/t	550	550	550	550	550	550	550	550
Other	A\$M	0	0	0	0	0	0	0	0	SOP Price	A\$/t	733	733	733	733	733	733	733	733
Non Cur Assets	A\$M	10	79	351	559	572	586	599	612	CASH FLOW FORECASTS INCL DEBT & EQUITY									
Total Assets	A\$M	19	265	535	591	624	694	718	766										
Borrowings	A\$M	0	0	0	0	0	0	0	0	Operating Cash Flow	A\$m	-20	-10	150	-100	100	100	100	100
Payables	A\$M	2	2	2	2	2	2	2	2	New Equity	A\$m	-10	-10	150	-100	100	100	100	100
Other	A\$M	0	0	0	0	0	0	0	0	Change in Borrowings	A\$m	0	0	0	0	0	0	0	0
Cur Liab	A\$M	2	2	2	2	2	2	2	2	Capex & Exp	A\$m	0	0	0	0	0	0	0	0
Borrowings	A\$M	0	0	271	339	339	289	189	105	Change in Cash	A\$m	-20	-10	150	-100	100	100	100	100
Provisions	A\$M	1	1	1	1	1	1	1	1	NPV (+1Yr)	A\$M	420	\$	0.91					
Other	A\$M	0	0	0	0	0	0	0	0	Lake Mackay	A\$M	-6	(0.01)						
Non Cur Liab	A\$M	1	1	272	340	340	290	190	106	Corporate costs	A\$M	186	\$	0.40					
Total Liabilities	A\$M	2	2	274	341	341	291	191	107	Net Cash (Debt)	A\$M	600	\$	1.29					
Total Equity	A\$M	17	262	261	249	282	402	527	658	Total									
RATIO ANALYSIS																			
EPS	¢	(1.0)	(0.3)	(0.9)	(12.1)	(0.1)	15.2	17.0	19.0										
PER	x	na	na	na	na	na	6.0	5.3	4.8										
EPS Growth	%	74	(69)	191	1,222	(99)	(23,207)	12	12										
CFPS	¢	(1.1)	(0.3)	(0.9)	(7.6)	21.2	25.9	26.9	28.3										
PCFR	x	na	na	na	na	4.3	3.5	3.4	3.2										
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 ND/E	%	-49%	-71%	34%	124%	102%	45%	13%	-7%										
Interest Cover	x	9.2	2.3	na	na	1.0	4.2	5.9	10.9										
EBITDA Margin	%	na	na	na	16.0	33.8	58.2	58.2	58.2										
EBIT Margin	%	na	na	na	(1.9)	16.8	42.3	43.4	44.4										
Return On Assets	%	(12.4)	(0.5)	(0.2)	(0.1)	5.3	19.1	18.9	18.1										
Eff Tax rate	%	30%	30%	30%	30%	30%	30%	30%	30%										

Source: Petra Capital

Summary

Agrimin has traded capital cost for higher production rates, lower operating costs and operational simplicity (Figure 1).

Figure 1: Agrimin comparison between scoping study and pre-feasibility study

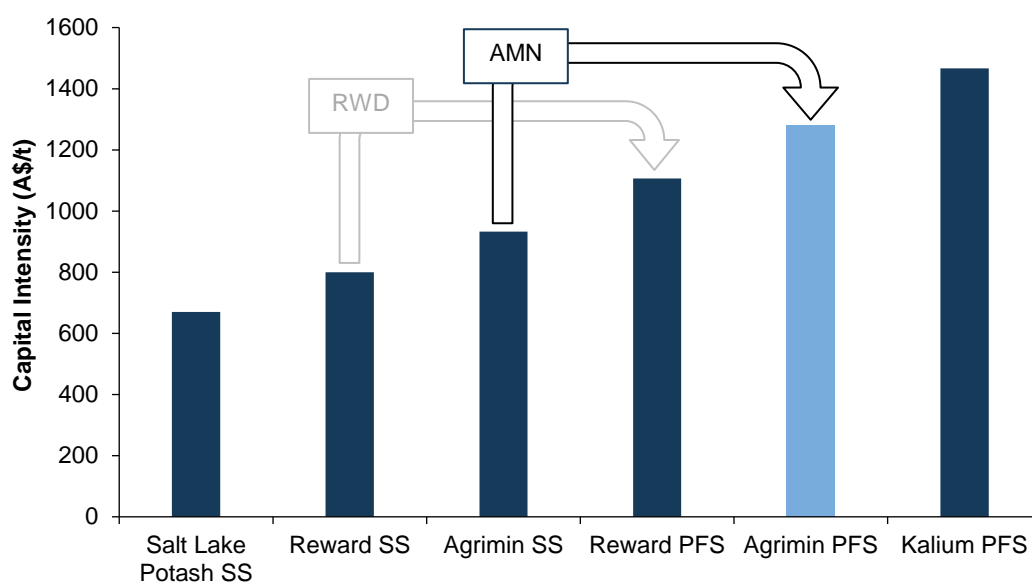
Status	Scoping Study	Pre-Feasibility	Change (%)
Date	23-Aug-2016	7-May-2018	
Key Project Metrics			
Extraction Rate (Gtpa)	66	66	0%
Operating Life (yrs)	20	20	0%
Recoveries (%)	69%	80%	15%
SOP Production (ktpa)	370	426	15%
Mine to Port (km)	2,057	980	-52%
Capital Costs			
Capital (A\$m)	345	545	58%
Capital Intensity (A\$/t)	932	1,279	37%
Operating Costs			
EXW (A\$/t)	151	173	15%
Opex Total (A\$/t)	341	296	-13%
Opex AISC (A\$/t)	369	340	-8%

Source: Petra Capital, Company Reports

Capital Intensity

Agrimin's capital costs have increased from A\$345m to A\$545m, up 58% as the project transitions from scoping study (SS) to pre-feasibility study (PFS). This could be an emerging theme within the Australian SOP sector, Reward Minerals (RWD.ASX) recently released a PFS which also featured an expanding capital cost, up 41%, from A\$320m to A\$451m (Figure 2).

Figure 2: Agrimin's capital intensity increases, but so does Reward



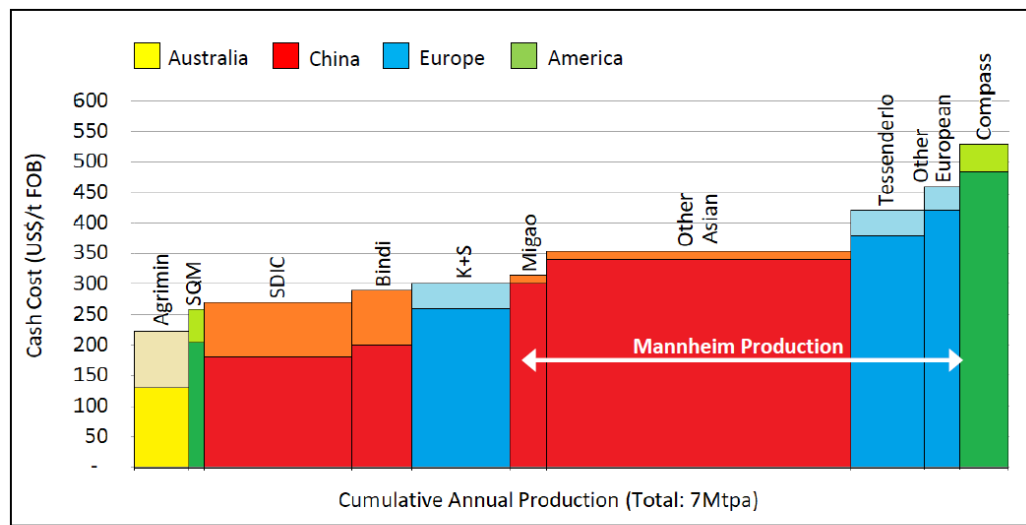
Source: Petra Capital, Company Reports

Operating Costs

Agrimin could be one of the lowest cost SOP producers globally (Figure 3), aided by the improvements to the AISCs in the PFS. AISC costs decrease 8% from A\$369/t to A\$340/t (Figure 4) at Lake Mackay, although mine gate (EXW) costs increase 15% from A\$151/t to A\$173/t (Figure 5).

Transport is the main cost saver, decreasing annual operating costs by A\$18mpa, or from A\$71/t to A\$52/t. The PFS now assumes construction of a new road due north of the project which decreases the trucking distance to port to 980km (from 2,057km) (Figure 6). This road is estimated to cost ~A\$80m, and given it is a critical piece of regional Australian infrastructure, could be funded by the Northern Australia Infrastructure Fund (NAIF).

Figure 3: SOP cost curve (US\$/t)

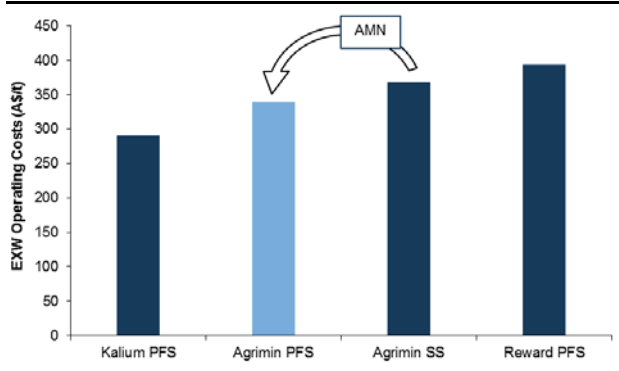


Notes:

1. Dark bars represent site costs and light bars represent in-land transportation cost to the nearest port.
2. Graph compiled from information sourced from company reports and research undertaken by Agrimin.

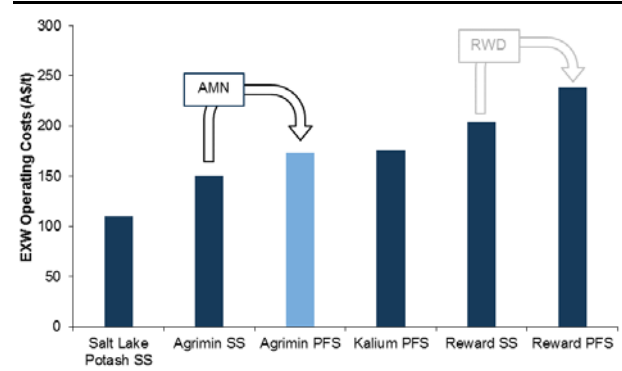
Source: Company Reports

Figure 4: AISCs decrease at Lake Mackay



Source: Petra Capital, Company Reports

Figure 5: EXW costs increase



Source: Petra Capital, Company Reports

Figure 6: Project location and transport to port



Source: Company Reports

Petra Capital

Level 17, 14 Martin Place, Sydney NSW 2000

ABN 95 110 952 782
ACN 110 952 782
AFSL 317 944

Director:	George Marias	+61 (0)2 9239 9601	gmarias@petracapital.com.au
Research (Resources):	Brett McKay	+61 (0)2 9239 9605	brmckay@petracapital.com.au
Research (Resources):	Matthew Schembri	+61 (0)2 9239 9630	mschembri@petracapital.com.au
Research (Resources):	Craig Brown	+61 (0)2 9239 9629	cbrown@petracapital.com.au
Research (Resources):	Peter Chilton	+61 (0)2 9239 9634	pchilton@petracapital.com.au
Research (Industrials):	Killian Murphy	+61 (0)2 9239 9607	kmurphy@petracapital.com.au
Research (Industrials):	James Lennon	+61 (0)2 9239 9618	jlennon@petracapital.com.au
Research (Industrials):	Mark Tomlins	+61 (0)2 9239 9625	mtomlins@petracapital.com.au
Research (Property):	Jonathan Kriska	+61 (0)2 9239 9633	jkriska@petracapital.com.au
Sales:	Frank Barila	+61 (0)2 9239 9603	fbarila@petracapital.com.au
Sales:	Neil Watson	+61 (0)2 9239 9602	nwatson@petracapital.com.au
Sales:	Vincent Pisani	+61 (0)2 9239 9617	vpisani@petracapital.com.au
Sales:	Jamie Campbell	+61 (0)2 9239 9620	jcampbell@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Vince Barila	+61 (0)2 9239 9627	vbarila@petracapital.com.au
Sales:	Michael Casey	+61 (0)2 9239 9608	mcasey@petracapital.com.au
Sales:	Richard Macphillamy	+61 (0)2 9239 9604	rmacphillamy@petracapital.com.au
Corporate (ECM):	Conrad Anderson	+61 (0)2 9239 9610	canderson@petracapital.com.au
Corporate (ECM):	Verity Barritt	+61 (0)2 9239 9622	vbarritt@petracapital.com.au
Administration:	Krystle Garven	+61 (0)2 9239 9635	kgarven@petracapital.com.au
Administration:	Samantha Tingley	+61 (0)2 9239 9636	stingley@petracapital.com.au
Administration:	Silvia Fratta Pasini	+61 (0)2 9239 9621	spasini@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Stephen Newton	+61 (0)2 9239 9612	snewton@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@petracapital.com.au

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