South Boulder enters potassium sulphate market

AMANDA SAUNDERS

Little-known listed Perth potash play South Boulder Mines plans to take on the highly concentrated potassium sulphate market under the leadership of a former BHP Billiton executive, as it runs metallurgical tests to unlock more of its flagship open-pit resource in Eritrea, on Africa’s east coast.

The minnow has changed its strategy since managing director Paul Donaldson took the helm last year, and is looking to tap all three types of potassium-bearing salts at its billion-tonne Colluli project, testing to confirm they can be processed into potash.

Mr Donaldson, who was at BHP for 12 years, said the new approach would cut operating costs, extend the project’s mine life and increase the company’s chances of attracting financiers. It could see South Boulder unlock about 180 million tonnes of the lucrative potassium sulphate fertiliser.

Under previous management, South Boulder had planned to mine just 16 per cent of the project – or one type of salt, sylvinite – which produces the cheaper fertiliser potassium chloride and is dominant in Russia and Canada.

Mr Donaldson said BHP’s bullishness on its “fifth pillar” potash strategy could be in part to deter new producers, particularly given the industry was already highly consolidated.

“Is it a good commodity for a strategic play? Absolutely,” he said.

“Maybe their strategy is to disincentivise new producers. For some of these projects, particularly the deep resources [in Russia and Canada], the barriers to entry are high and you need deep pockets to fund them and manage cash flow. If you are going to back someone it would be BHP over someone trying to get a start.”

BHP CUTS JANSEN SPEND

Potash is the possible fifth pillar of the BHP currently under construction by boss Andrew Mackenzie. But BHP said last month said it would trim its capital expenditure for its $US16 billion ($17.1 billion) flagship Jansen potash project in Canada, as part of a more “measured approach” to development. BHP’s planned $US800 million spend on the project will be cut by a quarter, or $US200 million, this fiscal year.

Mr Donaldson said a tier one asset like Jansen was in keeping with the BHP model.

“BHP is getting into a commodity that is large, long-life, with access to global markets and good growth fundamentals,” he said.

“Population growth post 2020 will be an inflection point, supply will start to come under stress again and demand will only grow. BHP is taking a multi-decade perspective.”
But BHP’s potash play is no deterrent to South Boulder, which hopes to play mainly in potassium sulphate, a different type of potash from the potassium chloride resource at Jansen.

Potassium chloride is used to fertilise lower value staple crops and fetches about $US305 a tonne, whereas potassium sulphate is a key fertiliser for high-value crops such as fruit and vegetables, and achieves about $US600 a tonne.

ADVANTAGES FOR SOUTH BOULDER
South Boulder’s Colluli project, owned 50-50 in a joint venture with the state-owned Eritrean National Mining Corporation, is also the world’s biggest known open-pit potassium resource.

Mining at Colluli can start at a depth of 16 metres – compared to the typical of the depths of 500 to 1000 metres in the potash project heartlands of Russia and Canada. Jansen’s resource sits about 900 to 1000 metres underground.

Colluli’s location also removed South Boulder from much of the politics of the potash industry, Mr Donaldson said.

There are four dominant global producers of potassium sulphate – also known as sulphate of potash (SOP) – US giant Compass Minerals, China’s Qing Shang, Chile’s SQM and Canada’s IC Potash.

“A key advantage for us is we will be able to mine it [potassium sulphate] directly from our salts,” Mr Donaldson said.

Colluli is predicted to house about 100 million of potassium sulphate and 70 million tonnes of potassium chloride if both salts are produced. Or, if the joint venture opts to produce only potassium sulphate, Colluli can offer about 180 million tonnes.

A pre-feasibility study on Colluli is set to be completed by the end of the year, and a definitive feasibility study is slated for June next year.

To put South Boulder’s change of strategy in context, the potassium chloride in Colluli’s sylvinite resource – which was the only salt to be mined under the original strategy – is about 27 million tonnes.

Mining all three salts would increase the life of the mine from 27 years to 150 years.

Mr Donaldson said Eritrea was a tough jurisdiction but “it’s underpinned by excellent fundamentals”.

“We’re in the backyard of one of the future consumption centres in Africa,” he said.

“We’ve got a large, long-life resource, with good scale and proximity to the coast of Africa.”

South Boulder shares last traded at 19.5¢.

The Australian Financial Review