Danakali delivers economic boost and reduced capital requirements for Colluli

Definitive Feasibility Study (DFS) results for Danakali’s (ASX:DNK) Colluli potash project in Eritrea have improved the proposed mine’s already attractive investment profile with a 30% reduction in initial development capital requirements to US$298 million.

Phase 2 development capital was also decreased by 38% to US$175 million, with the majority expected to be funded by operating cashflows.

This more economic footing allowed for a market-leading capital intensity of US$702 per tonne of sulphate of potash (SOP) and supported other outstanding study results including establishment of a US$860 million net present value, a 29% internal rate of return and a payback period of only 3.5 years.

SOP is a high-quality potash fertiliser which represents Colluli’s primary output stream and carries a price premium due to its practicality in low-rainfall regions.

The DFS has projected annualised SOP production at Colluli to total 425,000 tonnes during phase 1 and 850,000 tonnes thereafter.

Other key study outcomes included average mine gate costs of US$141 per tonne of SOP and average total cash costs US$227 per tonne of SOP during phases 1 and 2 of the operation.

These figures establish Colluli as being in the bottom quartile of the mine gate costs curve.

Annual average free cashflows were calculated to grow from an initial US$81 million to US$166 million in phases 1 and 2 as undiscounted after-tax cashflows would warmed up to US$9.6 billion.

This low-capex, high-margin project was projected to be capable of supporting a mine life of more than 200 years with 1.1 billion tonnes of ore reserves

The DFS sets up an even firmer marketing platform for Danakali as the company continues preliminary funding discussions continue with offtakers, strategic partners and financiers.

A mining licence application process is planned to be underway in Q1 2016 and commissioning is targeted for Q4 2018.

Operational advantages

Colluli will apply open pit mining methods to take full advantage of its shallow mineralogy, which begins at just 16 metres.

This depth to mineralisation makes Colluli the shallowest known evaporite deposit globally.

Conventional truck and shovel techniques, along with continuous miners, will be employed to develop a single pit.
No blasting activities are planned for the construction or operation of the project.

SOP production applies proven technologies, which have been validated through the pilot and bench testing program and also verified by an independent technical review committee.

The production methodology applied to process the Colluli potassium bearing salts is expected to produce high-grade product (52% K₂O) making Colluli one of the highest grade SOP producers globally.

Colluli is located proximate to the key potash markets of the future.

Demand for fertiliser is driven by population growth which directly translates to food demand, and almost 95% of the population growth over the next three decades will occur in Africa, India and Southeast Asia.

Diverse inventory

Danakali has also recently enhanced the economic potential of Colluli with the definition of a significant rock salt resource, expected to generate another income stream for the developing mine.

The overburden is estimated to hold 347 million tonnes of rock salt within Area A – the area of focus for the DFS mining schedules.

Commercialisation of this material, which sits directly above the primary potash deposit, has the potential to provide further economic benefits to the project.

The rock salt resource, unprocessed, is suitable for de-icing and other applications in nearby jurisdictions and has the potential to be a significant salt business in its own right.

The salt composition of the Danakil region otherwise provides the ability to produce a suite of potash products that not only includes potassium sulphate, but also potassium magnesium sulphate and MOP.

Such potash product diversification cannot be achieved by any other resource in the world.

In addition to the high-purity rock salt and various potash products, substantial upside for Colluli’s production profile exists in the exploitation of other contained materials such gypsum and magnesium chloride.

Analysis

The DFS benefits immensely from Danakali’s efforts to reduce water use in this desert project location, allowing Colluli to emerge as one of the most attractive potash investments in the world, if not the most attractive.

The study confirms a robust, low-capital intensity, low-operating cost project with attractive economic returns and a high level of expandability.

The massive 1.1-billion-tonne reserve along with a suite of potential by-products and proximity to coastal export routes establish Colluli as positively unique in the potash space.

Over the decades to come, Colluli has the potential to grow in scope to an ultimate production capacity of 4-5 million tonnes per annum.

Rock salt, magnesium chloride and magnesium sulphate resources at the site also present significant upside.

The DFS also sets up Danakali for a string of possible price catalysts in the coming months, with updates expected in the advancement of the approvals process, optimisation activities, commercial negotiations and the securing of funding for further near-term development.

A mining license application process to start early next year and commissioning in 2018 also represent potential share price drivers as investors absorb the opportunities inherent in growing potash markets.
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