Danakali potash project primed for pre-production readiness

Potash developer Danakali Limited (ASX:DNK) has tallied an impressive A$8.14 million in cash raised in its latest half-year, allowing its Colluli project in Eritrea to deliver many milestones.

The pace is about to hot up as completion of the Definitive Feasibility Study (2H 2015) and a JORC rock salt resource estimate due in 2H 2015 ranks Colluli as one of the most advanced pre-production potash projects globally.

These near term milestones are alongside funding discussions, advancing the project in the areas of marketing, processing and operational readiness and reducing project costs.

The fundraising followed two placements and a well supported rights issue during a challenging time in mining capital markets.

The interest has coincided with a favourable economic prefeasibility study, a globally significant maiden ore reserve, significant cost reductions from modular development will minimise upfront capex and maximise shareholder returns.

Most recently, Danakali has renewed its Colluli exploration licences, reflecting positive local feedback from partner Eritrean National Mining Company and Eritrea's growing mining industry.

Jurisdiction and markets

Colluli is located at the epicentre of booming population growth in Africa and Asia, while also lying close to traditional Middle Eastern and European markets.

Eritrea already hosts a number of significant mining operations, including the Bisha mine (undergoing expansion), the Zara mine (in commissioning) and Sunridge Gold's (TSX:SGC) Asmara mine (in approvals phase).

Growing fertiliser markets connected to the potash industry are strategically proximal, with population booms in Africa, India and Southeast Asia expected to drive expanded food demand.

United Nations data has called for Africa's population to increase 104% by 2050. During the same period, both India and Southeast Asia are expected to grow by 27%.

Top of the potash value chain

Resources at Colluli total 1.3 billion tonnes with 205 million tonnes of the critical potash strain known as “sulphate of potash” or SOP.

SOP represents the premium spectrum of potash products and an important ingredient in promoting the growth of crops in areas of low rainfall.

Most SOP resources worldwide require more processing than the Colluli inventory, suggesting an advantage in more efficient delivery to market for the project.
SOP prices remain strong despite the dramatic softening in bulk commodity prices over the last 6 to 12 months. SOP demand is underpinned by global population growth and reducing levels of arable land.

Aquifer testing update

Recent groundwater testing at Colluli has identified potential to eliminate the need for a 75 kilometre seawater delivery pipeline, reducing capital costs.

The work also identified potassium bearing brines that are suitable as supplementary process plant water.

Pump tests completed on site to support the groundwater modelling, have confirmed with a high level of confidence, that sufficient water is available from pit dewatering activities to supply the processing plant for the first five years.

Less water consumption improves Colluli's production flowsheet and provides a critical economic boost given the arid nature of Eritrea.

Analysis

Colluli is forecast to generate sustainable industry-leading returns in any commodity market cycle due to a bottom quartile cost curve position.

Economically feasible resources for primary production of SOP are geologically scarce and there are few new greenfield developments planned. Colluli is one of only three projects in the world with a completed PFS for the production of SOP.

Notably, SOP trades at a premium to MOP - improving project and shareholder returns.

Colluli will generate significant cash flows once operational and there are limited advanced supply growth options globally.

Mineralisation commences at just 16 metres below surface which provides Colluli with some big advantages: reduced capital intensity, superior resource utilisation and a substantially reduced risk profile.

Colluli is unlikely to be constrained by the potassium sulphate market, with growth options in other potash varieties feasible at the project, including potassium chloride and potassium magnesium sulphate.

The potential marketability of Colluli product diversity also benefits from the project's massive rock salt, magnesium chloride and gypsum volumes.

Despite all this, the ore reserve (1.017Mt) as proportion of JORC resources, PFS released and optimised development and a clear processing path and product suite, Danakali's share price trails the rise in the price of A$SOP.

With a management team that has delivered on project milestones there are a brace of price catalysts ahead for investors to look to with Danakali over the next 12 months.

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