Danakali Ltd: Baillieu Holst delivers Postcard from Eritrea

Danakali Ltd (ASX:DNK) recently hosted Baillieu Holst onsite at the Colluli potash project located in Eritrea, East Africa.

The deposit is globally unique and demonstrates industry leading capital intensity for the production of the premium potash type, sulphate of potash (SOP), and has the ability to produce a broad range of premium potash products.

The following is an extract from the latest broker research note.

Postcard from Eritrea

Eritrea is not as portrayed on Google or YouTube:

The purpose of visiting Eritrea was to form an opinion on the viability to develop a mine in the sub-Saharan nation rather than relying on posts on the internet.

We went as mining analysts, not politicians, diplomats, or mining company executives.

We found the Eritrean people to be friendly, proud and very patriotic, not as they are portrayed in some media as downtrodden people who would do anything to leave the country.

We did come away feeling that there are a lot of hidden agendas and misinformation on the political front involving the UN, Eritrea and Ethiopia.

None of which should substantially interfere with mine development in Eritrea.

Developing mining industry:

The government is pragmatic in its approach to the development of the Eritrean mining industry.

Its Mineral Proclamation is based on the Western Australian mining code, and it has not changed the mining or fiscal legislation since it was enacted.

A prosperous and growing mining industry will provide Eritrea with much needed income as well as employment in the operations and service sector.

More foreign trade should in turn lead to the development of a better banking system and also lead to an improvement in various global rankings which suffer due to having virtually no trade or income.

Key takeaways on Eritrea:

The government is supportive of DNK’s project and is invested in it being successful - it has not changed the fiscal regime or mining legislation since it was proclaimed, so currently infrastructure is run down, but it is set to improve as income from mining contributes to the economy.

The Eritrean people are friendly, patriotic and exhibit no signs of corruption, and the government is actively promoting growth in the mining industry in general, alongside developing a free trade zone at Massawa Port to encourage
non-mining development and trade.

The Colluli development:

The next step in Danakali's development of its Colluli project is the funding package (to be done this half).

Debt is likely to come from a mixture of European, African, Middle Eastern and Asian banks whose governments appear to be favourably disposed to seeing Eritrea's economy grow and lift the country's overall standard of living.

As discussed in our last note, we are also factoring in an equity raising of around US$90m to fund CMSC's equity portion of the development.

Our target price of A$0.50/share remains unchanged as does our BUY recommendation.

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