Danakali Ltd funded to secure project financing, offtake for Colluli potash

Danakali Ltd (ASX:DNK), an emerging agri-commodity company, has received commitments from professional and sophisticated investors to raise up to A$5.5 million through the issue of up to 25 million shares at A$0.22 each.

The placement includes one free attaching unlisted option exercisable at A$0.35 with an expiry date 2 years from issue, for every two placement shares.

Danakali has received support from its largest shareholder, Well Efficient Limited, which is a Hong Kong based investment vehicle with experience in Eritrea.

Funds raised will be used to progress Colluli development, and lock in project funding and offtake.

Colluli is 100% owned by the Colluli Mining Share Company, which is a 50:50 joint venture between Danakali and the Eritrean National Mining Company.

Paul Donaldson, managing director for Danakali, commented: "We are very pleased with this successful placement.

"We thank our existing shareholders for their continued support and welcome the addition of new shareholders to our register."

Placement details

The allotment of the first tranche of the placement for up to 23.3 million shares and 11.7 million options is not subject to shareholder approval and will fall within the company's 15% placement capacity.

The placement is strongly supported by Danakali's directors.

The second tranche of up to 1.6 million shares and 0.8 million options, are to be issued subject to shareholder approval at the company's Annual General Meeting scheduled to take place in May 2016.

Danakali's investment case

Globally, Colluli is a stand-out potash resource given large size, scalability, strategic location and diversification potential.

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

The DFS demonstrates the lowest capital intensity of all advanced SOP projects.

The opportunity comes from the predicted bottom quartile cost curve position means Colluli will generate sustainable industry-leading returns throughout the commodity cycle.

The modular development approach optimises fundability, risk and economic return, and Colluli leads other prospective potash developments with respect to these aspects.
The Danakil region has unrivalled potential to produce a diversity of fertiliser products and provide valuable strategic options across multiple product markets.

Danakali said the initial development focus is on producing premium potash products.

Funding discussions are underway with off-takers, strategic partners and financiers.

DFS results:
- DFS confirms low capex, high margin, long life project;
- Project post tax NPV of US$860m and IRR of 29%;
- Capital payback period of 3.5 years for Phase I;
- Commissioning targeted for Q4 2018;
- Mining approvals process has commenced, with formal submission of DFS documents to Eritrean Ministry of Energy and Mines; and
- Post DFS stakeholder engagements completed in local communities.

Analysis

Danakali is now well funded and can focus on progressing Colluli throughout 2016, including the securing of project funding and offtake.

The international profile of Colluli is rapidly growing.

This world class project at the centre of booming Asian and African population centres is destined to support a globally significant agri-commodity business for decades to come.

What sets the project apart, is the resource has the unique capability of producing a diverse range of potash products including SOP, potassium magnesium sulphate (SOP-M or sulphate of potash magnesia) and potassium chloride (MOP or muriate of potash).

Other advantages includes logistics, being only 75 kilometres from the Red Sea coast, 50 kilometres from coastal road and 180 kilometres from established export infrastructure.

Colluli also has shallow mineralisation which results in massive resource to reserve conversion and potential monetisation of waste materials, which include rock salt and magnesium chloride.

Perhaps not as widely known, DNK's bottom quartile cost position provides insulation in the event of a SOP price decline. While the projected rock salt production (which would otherwise be overburden) should further reduce cash costs.

On a global scale, DNK ranks higher than peers in terms of potash reserves.

With the Colluli DFS providing the development case and key price catalysts ahead (off-takers, strategic partners and financiers) in 2016, we see a major re-rating ahead for the stock to bring more into line with ASX listed peers.

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