Danakali Ltd gains Speculative Buy from Perth broker

Danakali Ltd (ASX:DNK) has received a Speculative Buy from Perth broker Hartleys, with a 12-month price target of $0.66 a share.

The following is an extract from the report.

Advancing towards development

Danakali is developing its large potash (SOP) project in Eritrea. The reserve is very large (1.1Bt @10.76% K2O) with an expected mine life >200 years, producing 425kt-850kt pa at low cash costs (~US$290/t CIF).

The project is unique in its scale, open-pit mining, favourable combination of potassium bearing salts suitable for production of SOP, SOP-M and MOP and ability for low cost expansions to lift production.

Digestible capital requirement for DNK

Phase 1 capex is estimated at US$298m. Mining is open pit mining using conventional truck and shovel and surface miners (no blasting required), with a low strip ratio (1.9x).

The Company expects first production is possible in late CY18, but we are more conservative in our modelling.

The Company expects the mining licence approvals before year end (CY16).

The project is via a 50/50 JV with the Eritrean Government (ENAMCO).

The agreement states that DNK is responsible to fund 30% of the equity (implicitly this is a loan to the JV for the Governments share).

The Company anticipates that the project can be funded with 70% debt, and hence DNK requires funds for the 30% equity (~US$90m based on DFS estimates).

Hartleys estimates Stage 1 EBITDA ~A$75m pa to DNK

We assume Stage 1 EBITDA of ~A$75m pa (DNK share), which should more than double after Stage 2 (year 5).

Our pre-tax NPV12 for DNK is ~A$500m (project NPV roughly double). Consequently, despite the large capital requirement, the project is highly economic.

Our DNK base valuation is 78cps. Using spot prices (US$620/t), our pre-tax NPV12 for DNK is ~A$565m (project NPV roughly double), with Stage 1 EBITDA ~$85m pa ($170m pa to JV). Our spot price valuation is $0.95.

Retain Speculative Buy

We retain our Speculative Buy recommendation.

The Colluli project is highly economic, but it is likely to be very volatile given the country and financing risk.
We see a trade sale to a larger company as a distinct possibility.

Mining licence approval and/or offtake agreements could be large catalysts, in our view.

We have a twelve month price target of 66cps.

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