Danakali near-financing a positive sign for 'shovel ready' Eritrean potash project

Danakali Ltd (ASX:DNK) (LON:DNK) (OTCMKTS:SBMSF) has powered up its ambitions to construct and develop the Colluli Potash Project in Eritrea with a US$200 million syndicated loan facility.

The fully-underwritten loan facility led by African development financial institutions (DFIs) African Export-Import Bank and Africa Finance Corporation has a series of milestones Danakali must satisfy to qualify.

WATCH: Danakali 'shovel-ready' at Colluli after execution of US$200m debt finance mandate

Colluli has a massive ore reserve estimate of 1.1 billion tonnes grading 10.5% potassium oxide for 203 million tonnes of contained sulphate of potash equivalent.

Front end engineering design (FEED) has confirmed a post-tax net present value of US$902 million and post-tax internal rate of return (IRR) of 29.9% for the project.

Danakali secured its funding mandate for the project from the two African financiers in December 2018, with the company declaring the agreement a 'significant milestone.'

Executive chairman Seamus Cornelius reported: "The execution of the mandate represents a significant milestone for the Colluli project funding."

"We are very pleased to be partnering with strong, experienced African financial institutions."

Cornelius told Proactive Investors' Stocktube video channel it was a major positive step to recruit the major African institutions for a wider project team to advance Colluli.

He said: "This is major African institutions joining us, joining our existing partners at ENAMCO (Eritrean National Mining Corporation), joining EuroChem, our offtake partners.

"A project like this, it needs a team. It needs a team inside Danakali, but it needs a team of partners to give it the best possible outcome, and that's what we've got now."
Colluli is 100% owned by the Colluli Mining Share Company (CMSC), a 50:50 joint venture between Danakali and ENAMCO.

CSMC has a binding offtake agreement with EuroChem for up to 100% (minimum 87%) of module I sulphate of potash (SOP) production from Colluli.

A number of debt milestones remain for the company that is focused on development of its asset in a country now at peace with its neighbour, Ethiopia.

Cornelius told Proactive Investors the company was at an exciting phase.

"Where we are in terms of the project, is we are shovel-ready.

"As soon as we secure the full funding we will start construction — the construction will take two years and then we'll be in production [in] 2021."

A changed environment

The UN lifted sanctions on Eritrea in November, changing the country’s investment environment.

Cornelius said: “Lifting of the sanctions is unquestionably a very positive thing.

"The sanctions were never specifically impacting us but as you can imagine, the general atmosphere was negatively affected by the fact of the sanctions."

Colluli quality

The executive chairman outlined the features of the Eritrean asset Colluli in his Stocktube interview.

Cornelius said: "Colluli is a potassium asset, it's in the Danakil Depression which is a giant, natural geological feature.

"Colluli is a very shallow potassium deposit very close to the coast."

The deposit is amenable to simple, low-cost open-cut mining with a progressive working face to provide simultaneous access to each mineralised layer.

It has been declared the shallowest evaporite deposit in the world, with mineralisation starting at just 16 metres, allowing open-cut mining.

Cornelius also spoke about the proposed mine and ore gradings, saying "Once (the mine) opens up at the very beginning, we'll be producing 472,000 tonnes of potassium sulphate, which is a particular kind of potash.

"It is the high-value, high-grade kind that is inshort supply, so we're very happy with that."
Milestone focus

Danakali’s remaining debt milestones include finalising contracts with a number of parties, including the company’s preferred engineering, procurement, construction and management (EPCM) provider DRA Global.

Danakali also needs to finalise contracts with EPC solutions provider Inglett & Stubbs International, and its preferred mining contractor.

Other commitments are to follow, including final credit approval from financiers, executive of facility agreement documents and closing of the financial deal after the conditions precedent are met.

Investor backing

Danakali has a market capitalisation of $187.7 million, having 264,422,398 ordinary shares on issue on December 21, 2018.

The company had $11.8 million cash on hand at the end of the September 2018 financial quarter after spending $1.3 million on operating expenses in the period and $1.3 million on investing activities.

Estimated outflows for the December 2018 quarter were $2.8 million, Danakali reported on October 30, 2018.
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