## House Stock

Current price 7p

Mining

| AIM | |
|---|---|
| Reuters/Bloomberg | EML |
| Shares in issue (m) | 915.1 |
| Market cap (£m) | 64.1 |
| Net cash/(debt) (£m) | 8.3 |
| Enterprise value (£m) | 55.8 |
| Website | www.emmersonplc.com |

| Next update | |
|---|---|
| ESIA update | Q1 FY22 |



# Emmerson plc+

## Strategic investor to kick-start Khemisset

**We are updating our coverage of Emmerson and its wholly owned Khemisset potash project in Morocco following the US$47m strategic investment led by Golden Sustainable Minerals ("GSM"), funded by Indra Widjaja. On top of this, we have increased our long-term Muriate of Potash (MOP) price from US$300/t to US$400/t reflecting the sharp increase in prices during 2021. Whilst this long-term level is approximately half of the current spot price (i.e. CFR Brazil), we expect prices to revert to long-term average of c US$400/t on account that agricultural costs are a key driver of fertiliser demand. That said, we see the GSM investment and current potash prices as important catalysts for Emmerson to achieve financial close for Khemisset during H2 FY22. Our updated risk adjusted NPV is £519m or 18.3p per share representing a 161% increase to the current share price.**

Base-case valuation significantly higher than current share price: Our base-case post-tax FY22F valuation for Emmerson is £742m or 26.1p per share, fully diluted, assuming the Company successfully achieves financial close during H2 FY22. We then apply a 30% haircut to account for financing and execution risks arriving at a risk adjusted NPV of £519m or 18.3p per share, representing a 161% increase to the current share price. We have updated our long-term potash price from US$300/t to US$400/t to reflect strong price increases during 2021 and based on a 10-year average. Following the recent strategic investment led by Indra Widjaja, Emmerson can now focus on securing construction financing. As such, we view the strategic announcement as an important catalyst for continued detailed discussions with additional finance providers. We expect most of this to funded through debt and our valuation conservatively assumes a 55% debt funding with the remainder assumed as equity financing at a share price of 8.2p per share.

Sensitivities geared towards upside: We note that should Emmerson's debt/equity funding mix approach an industry standard mix of 70%/30%, our risk adjusted NPV increases by 19% from 18.3p to 21.7p per share. On the other hand, we see limited down-side risk, when considering low potash price environments of US$300/t, our risk adjusted NPV valuation would be 8.5p per share representing a 21.4% increase to the current share price. That said, we continue to see strengthening of market fundamentals as reflected in MOP prices (CFR Brazil) which has increased 225% during 2021. At current MOP prices of c US$830/t our risk adjusted valuation rises to £1.7bn or 61p per share.

Potash prices: Whilst we do expect current prices to revert towards long-term averages. We believe these levels are conservative and well supported given the recent increase in commodity prices across a wide range of crops including corn, soya beans and wheat which should continue to drive demand for fertilisers over the long term. House Stock.

### Results and forecasts

| Year to Dec | Revenue (£m) | EBITDA (£m) | Adj PBT (£m) | Adj EPS (p) | Net cash/(debt) (£m) | PER (x) | EV/EBITDA (x) | FCF yield (%) | DPS (p) | Div yield (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| 2019A | 0.0 | (1.1) | (1.1) | (0.2) | 2.1 | n.a | n.a | n.a | 0.0 | 0.0 |
| 2020A | 0.0 | (1.5) | (1.5) | (0.2) | 1.1 | n.a | n.a | n.a | 0.0 | 0.0 |
| 2021F | 0.0 | (1.6) | (1.6) | (0.2) | 8.2 | n.a | n.a | n.a | 0.0 | 0.0 |
| 2022F | 0.0 | (1.7) | (1.7) | (0.1) | (84.6) | n.a | n.a | n.a | 0.0 | 0.0 |

Source: Company Data; Shore Capital Markets

Research analyst

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## Major strategic investment at a premium to current valuation

### Khemisset now supported by strategic investors

Emmerson has secured up to US$47m to help support the development of the Khemisset potash project

On 10 November 2021, Emmerson announced that it had secured a strategic investment of up to US$47m from a group of investors led by Indra Widjaja to support the development of the Khemisset potash project. The Widjaja family is best known as the owner of the Sinar Mas group of companies and was reported by Forbes magazine in 2019 as the second richest family in Indonesia. Sinar Mas has interests in paper, real estate, financial services, telecoms and agribusiness. Indra Widjaja was recently invested in various other mining assets, including the Australian coking coal assets divested by BHP Billiton, Ravenswood gold mine also in Australia, and American Pacific Borates in the US.

The strategic investment comprises two tranches: 1) a US$6.75m direct equity investment at 6p per share; and 2) a subscription for up to US$40m of convertible loan notes with a conversion price of 8.2p per share. The latter is designed to contribute directly to the construction funding for Khemisset and can be drawn down once Emmerson has the overall funding packing in place. Whilst the former will allow Emmerson to accelerate pre-construction activities and move into the execution phase for debt financing with financial closure expected during the middle of 2022 as well as commence basic design and engineering for full construction in 2022. A General Meeting was held on 6 December 2021 in which terms of the convertible loan notes were approved.

### Defined terms of the strategic investment

Strategic investment comprises US$6.75m in direct equity and up to US$40m in convertible loan notes

Emmerson has raised gross proceeds of US$6.75m by way of subscription for 81.8 million shares at 6p per share. Global Sustainable Minerals (GSM), a Singapore based investment vehicle backed by Indra Widjaja and run by Mark Zhou, has subscribed for 48.5 million shares and Singapore merchant bank, Gold Quay Capital (GQC) has subscribed for 21.8 million shares; other unrelated investors subscribed for the remaining balance of the direct equity investment.

In addition to the direct equity investment, the investors have agreed to a further strategic investment in Emmerson with conditional convertible loan notes of up to US$40m. All conditions as set out in the RNS of 10 November 2021 will have to be satisfied by 30 September 2022. These include but are not limited to; 1) approval of all licences and permits required for construction of the Khemisset project; 2) definitive agreements in place for construction funding of Khemisset; and 3) completion of a Definitive Feasibility Study.

Convertible loan notes have a two-year term at a conversion price of 8.2p per share and 9% interest as well as 82.4 million warrants at a exercise price of 8.2p per share

Once drawn, the loan notes will have a two-year term at a conversion price of 8.2p per share and will accrue interest at a rate of 9% payable annually in arrears on the principal amount. Interest will be converted into new shares at 8.2p per share within 30 days after each 12-month interest period. The aggregate amount outstanding under the loan notes including all interest will be satisfied by the issue of new shares at 8.2p per share. In addition, the investors will also be granted 12 month warrants to subscribe for in aggregate of up to 82.4 million new shares. Each warrant has an exercise price of 8.2p per share. On conversion of the loan notes GSM and GQC, on aggregate, will own up to a maximum of 29.9% of Emmerson plc. There is a mandatory conversion either at the maturity date (two years after draw down) or if Emmerson's share price is above 16p for more than 10 consecutive trading days, so although structured as a convertible the strategic investment is effectively equity with interest only payable up to the date of conversion. Given the low capital and high margin characteristics of the project and financial close to occur in H2 FY22, we expect a re-rating of the stock is possible and thus Emmerson to benefit, in terms of interest, from an early conversion of the loan notes.

Strategic investment to fast-track pre-construction activities and financial close for project development

In our view the above strategic investment is a strong endorsement of Khemisset's low capital intensity and high margin potential. The immediate upfront equity investment of US$6.75m will allow Emmerson to accelerate pre-construction activities including basic design and engineering for the project ahead of full construction anticipated in 2022. More importantly, the addition of a cornerstone investor provides an important catalyst on project financing discussions with various finance providers including senior debt providers, sovereign wealth funds, as well as royalty and streaming providers, in our view. As such, management expects financial close to occur during H2 FY22.

## Next steps

Environmental and Social Impact Assessment (ESIA) approval pending. A range of other activities and objectives are also targeted to be completed by mid-2022

Emmerson has provided all information requested by the Moroccan authorities and we understand that the ESIA has progressed to the final assessment stage. The following objectives are expected to be completed during 2022:

- Securing remaining project financing, financial close expected H2 FY22
- Engineering contracts for the mineral processing facility have been awarded and further basic engineering contracts are expected to be signed by the end of January 2022
- Agreements over land packages for the project site expected to be completed during 2022

We assume construction financing will be completed during H2 FY22

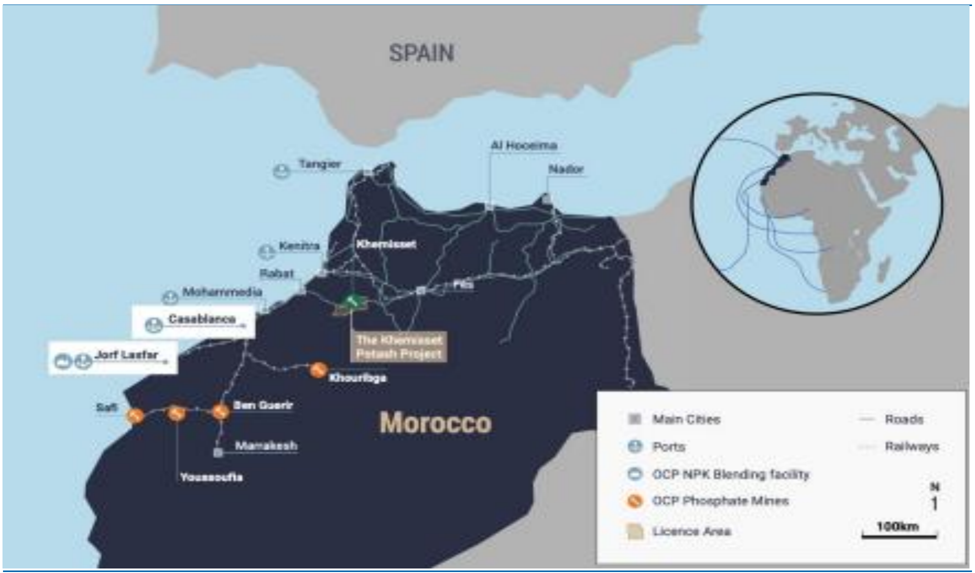
Construction could thus commence in late 2022, with first MOP production achieved in 2024.

## Khemisset potash project: ideally located

Khemisset has excellent existing infrastructure

Emmerson is developing a low capex, high margin Khemisset MOP potash project in Morocco. The country is already established as a fertiliser hub with OCP, the world's largest phosphate producer, operating several phosphate mines. As such, Khemisset benefits from existing infrastructure with electricity, water and transport links readily accessible.

Figure 1: Location

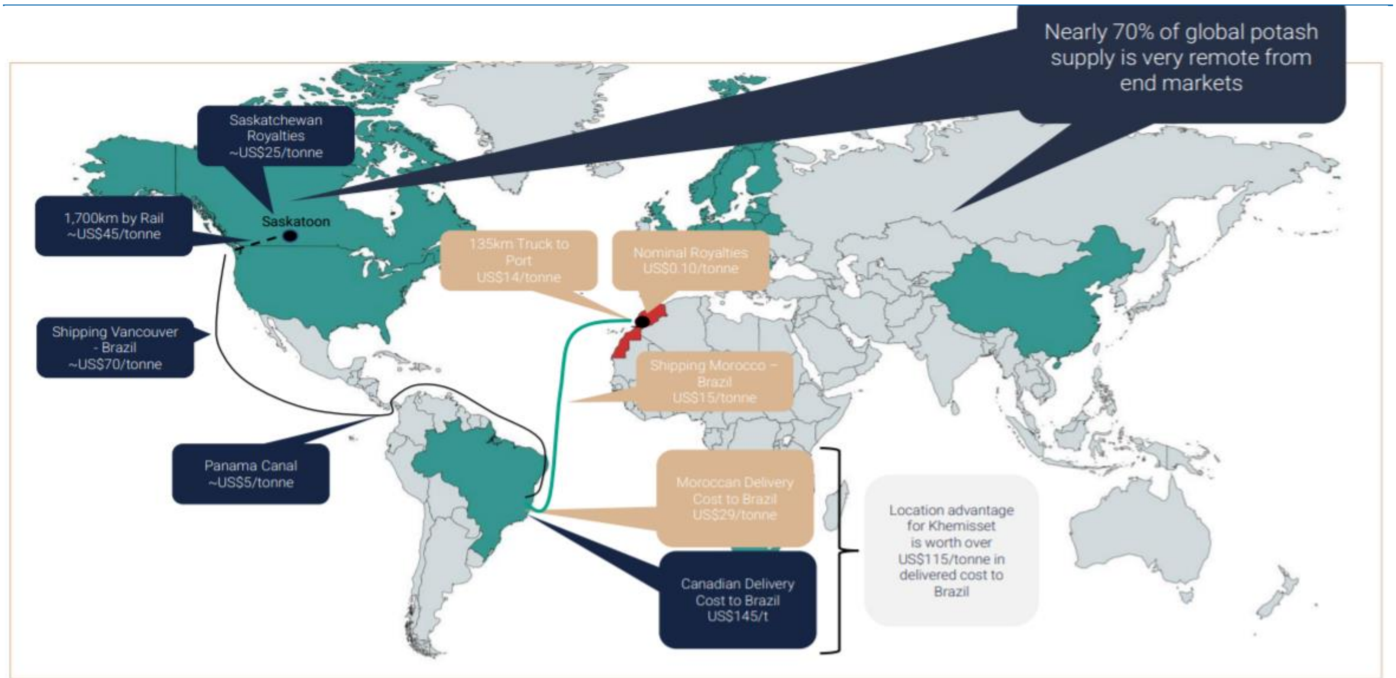



Source: Company Data

Khemisset locations offers c. US$115/t cost advantage over other producers with delivery to Brazil

Khemisset offers a competitive advantage compared with major potash producers. As illustrated in Figure 2, Emmerson's estimated cost of delivery to Brazil is US$29/t which compares favourably with Canadian producers' delivery of c. US$145/t.

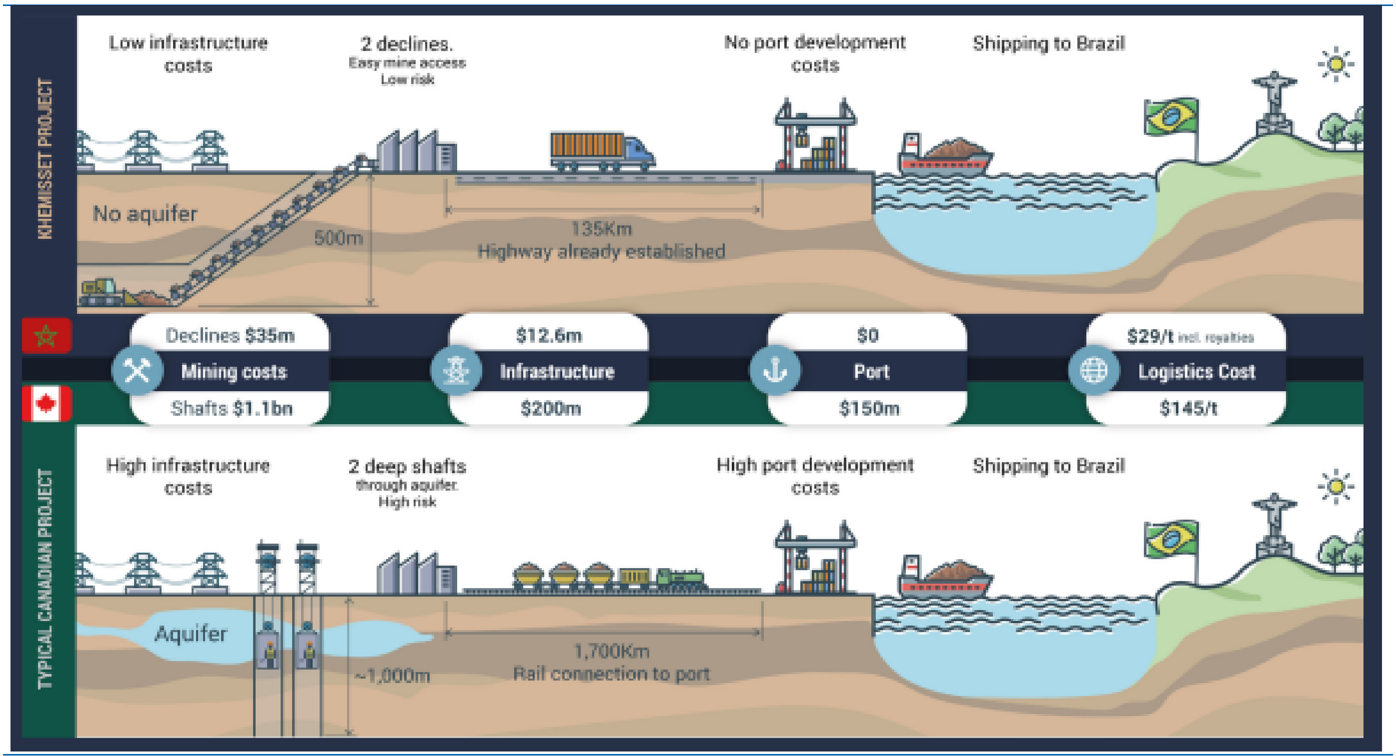
**Figure 2: Key Khemisset's location offers ease of access to all major potash markets**




Source: Company Data

All things considered, Khemisset's geologic characteristics and location offer competitive advantages over most competitors, in our view.

Figure 3: Khemisset's geological and location characteristics should offer competitive advantages over Canadian producers.




Source: Company Data

**Figure 4: Key Khemisset assumptions and economic outcomes using potash prices of US$412/t and US$800/t**

| | | | | | |
|---|---|---|---|---|---|
| **Operational Parameters** | | | | | |
| Initial Operating Life | Years | 19 | Average LOM Metallurgical Recovery | % | 85.2% |
| Annual ROM Extraction Rate | Mtpa | 6 | Average Annual MOP Production | ktpa | c.735 |
| Average LOM Head Grade | % $K_2O$ | 8.6% | Average Annual Salt Production | Mtpa | 1 |
| **Operating Costs (First Year of Full Production, MOP Only)** | | | **Capital Costs** | | |
| Mining | US$/t MOP | 60.2 | Mining | US$m | 89.6 |
| Processing | US$/t MOP | 42.7 | Processing Plant | US$m | 146.6 |
| Other Site Operating Costs | US$/t MOP | 5.6 | Surface Infrastructure | US$m | 17.9 |
| Administration | US$/t MOP | 2.8 | Tailings Storage | US$m | 30.5 |
| **Total Minegate Cash Cost** | **US$/t MOP** | **111.2** | **Total Direct** | **US$m** | **284.6** |
| Trucking to Casablanca & Port Charges | US$/t MOP | 14.1 | EPCM | US$m | 32.8 |
| Sustaining Capital | US$/t MOP | 32.7 | Indirects | US$m | 47.9 |
| **AISC FOB Casablanca** | **US$/t MOP** | **158.0** | Contingency (16%) | US$m | 45.5 |
| Freight to Brazil | US$/t MOP | 10.0 | **Total Pre-Production Capital Cost** | **US$m** | **410.9** |
| **AISC Delivered Brazil** | **US$/t MOP** | **168.0** | Capital Intensity | US$/t MOP | 507.4 |
| **Key Assumptions** | | | **Economic Outcomes (Annual Average at Steady-State)** | | |
| Average MOP Price CFR Brazil (Flat, Real) | US$/t | 412 | EBITDA | US$m | 294 |
| Average Salt Price CFR East Coast USA (Flat, Real) | US$/t | 60 | EBITDA Margin | % | 61 |
| | | | Post-Tax Cash Flow | US$m | 235 |
| Annual Escalation of Costs and Revenues | % | 3% | Post Tax Cash Margin | % | 47 |
| Corporate Tax Rate on Exported Product | % | 20 | Discount Rate | % | 8 |
| Corporate Tax Holiday | Years | 5 | Post-Tax NPV (Nominal) | US$bn | 1.4 |
| Pre-Production | Years | 2 | Post-Tax IRR (Nominal) | % | 40.6 |
| Ramp-Up in Year 1 | % | 50% | Post-Tax Payback | Years | 2.4 |
| **Assuming Brazil spot price** | | | **Economic Outcomes (Annual Average at Steady-State)** | | |
| Average MOP Price CFR Brazil (Flat, Real) | US$/t | 800 | EBITDA | US$m | 672 |
| Average Salt Price CFR East Coast USA (Flat, Real) | US$/t | 60 | EBITDA Margin | % | 78 |
| | | | Post-Tax Cash Flow | US$m | 456 |
| Annual Escalation of Costs and Revenues | % | 3% | Post Tax Cash Margin | % | 67 |
| Corporate Tax Rate on Exported Product | % | 20 | Discount Rate | % | 8 |
| Corporate Tax Holiday | Years | 5 | Post-Tax NPV (Nominal) | US$bn | 3.9 |
| Pre-Production | Years | 2 | Post-Tax IRR (Nominal) | % | 85 |
| Ramp-Up in Year 1 | % | 50% | Post-Tax Payback | Years | 1.2 |

Source: Company Data

## Valuation: risk adjusted NPV valuation of 18.3p per share

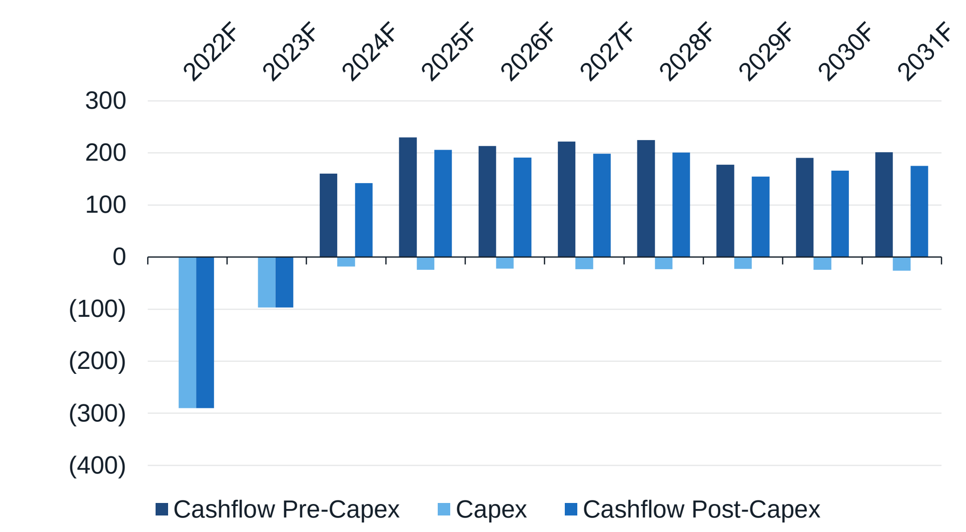
FY22F fair value of £742m or 26.1p per share

Our fair value post-tax FY22F valuation for Emmerson is £742m or 26.1p per share, fully diluted. Our valuation is based on an 8% discount rate and assumes financial close will be achieved during H2 FY22 with 45% of estimated US$411m capex required raised as equity at a share price of 8.2p per share. We then apply a 30% 'haircut' to account for funding and execution risks to arrive at a risk adjusted valuation of 18.3p per share.

Risk adjusted NPV of £519m or 18.3p per share

Based on the key assumptions set out in the 2020 Feasibility Study (see Figure 4) and using our long-term potash price (based on the historical 10-year average), we derive a risk-adjusted valuation of 18.3p per share, representing a 161% increase to the current share price. Our model continues to project strong cash flow generation based on our long-term MOP price of US$400/t.

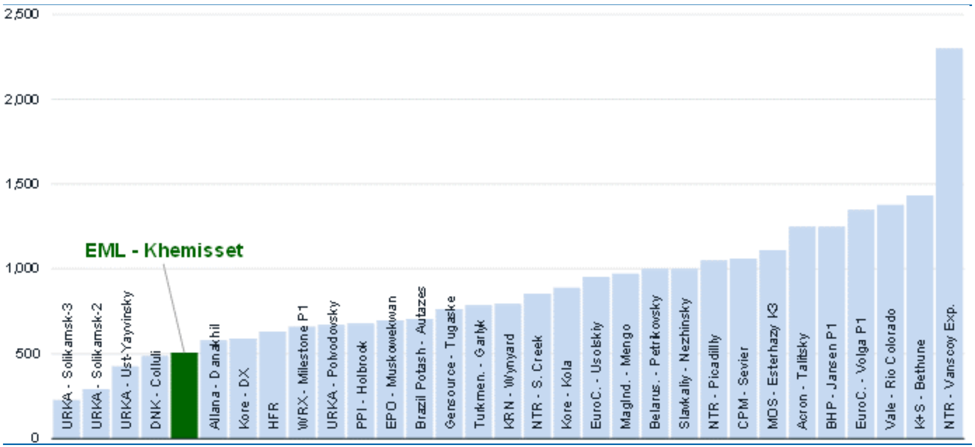
Figure 5: Khemisset's cashflow projections (US$m) based on US$400/t MOP price




Source: Company Data, Shore Capital Markets

Khemisset's low capital intensity (US$507/t), defined as total capex over average annual production compares favourably with our selected group of global MOP projects.

Figure 6: Capital intensity (US$/t) of selected MOP projects



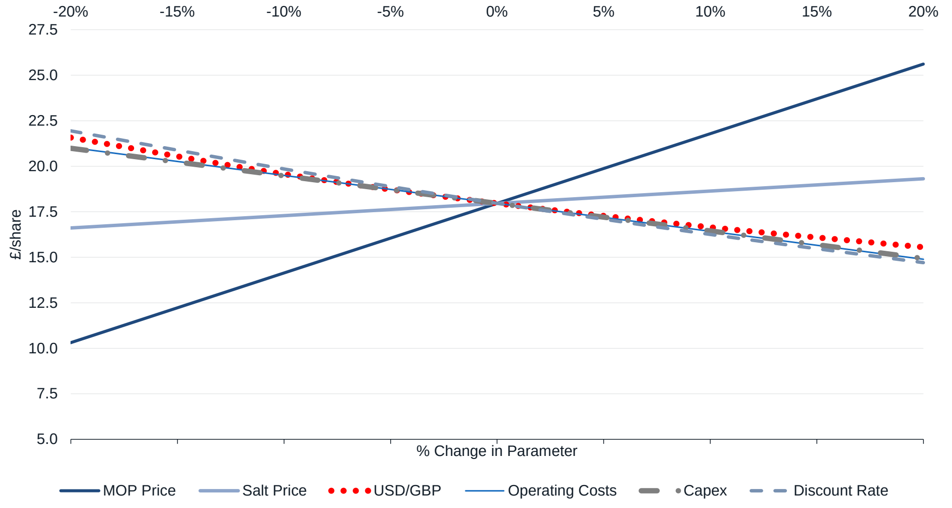

Source: Company Data; Shore Capital Markets

## Valuation sensitivities for Khemisset

a 10% increase in the MOP price results in a 21.3% increase in our valuation

Unsurprisingly, our risk adjusted valuation is most sensitive to MOP prices. For example, a 10% increase in the MOP price results in a 21.3% increase in our valuation. Other parameters such as operating costs, currency rates, capex, discount rates and de-icing salt prices also affect our valuation as illustrated in the figure below.

Figure 7: Sensitivity analysis (MOP and de-icing salt)




Source: Company Data

## Financials

Emmerson has strengthened its balance sheet by raising gross proceeds of US$6.75m (£4.9m)

As at 30 June 2021, Emmerson had £4.6m in cash after £1.7m in operating and investing cash outflows. Since then, the Company has strengthened its balance sheet by raising gross proceeds of US$6.75m (£4.9m) through a subscription for 81.8 million shares at 6p per share.

As noted previously, we have assumed a 55% debt and 45% equity funding package (assuming a share price of 8.2p per share) to finance the US$425m (our estimate based on an additional US$14m contingency from the FS estimate of US$411m) capex funding requirement. We view the recent strategic investment by GSM and GQC as an important catalyst to leverage enhanced discussions with project finance banks, sovereign wealth funds and royalty/streaming providers as Emmerson seeks financial close for the development of Khemisset. In our view, on the back of the strategic investment, Emmerson is now well placed to take advantage of a strong fertiliser market with a steady demand growth of 2-3% per annum over the long term.

**Figure 8: Financials (December year-end)**

| INCOME STATEMENT | | FY2019A | FY2020A | FY2021F | FY2022F | FY2023F | FY2024F | FY2025F |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **£m** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **210.8** | **266.2** |
| Operating Costs | £m | (1.1) | (1.5) | (1.6) | (1.7) | (1.8) | (89.1) | (91.2) |
| **EBITDA** | **£m** | **(1.1)** | **(1.5)** | **(1.6)** | **(1.7)** | **(1.8)** | **121.7** | **175.0** |
| Depreciation | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (15.6) | (15.7) |
| **EBIT** | **£m** | **(1.1)** | **(1.5)** | **(1.6)** | **(1.7)** | **(1.8)** | **106.1** | **159.3** |
| Finance Income | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.1 | (13.9) |
| **Pre-Tax Profit** | **£m** | **(1.1)** | **(1.5)** | **(1.6)** | **(1.7)** | **(1.5)** | **106.2** | **145.4** |
| Taxes | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Minorities | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Attributable Net Income** | **£m** | **(1.1)** | **(1.5)** | **(1.6)** | **(1.7)** | **(1.5)** | **106.2** | **145.4** |
| **EPS** | **p/share** | **(0.17)** | **(0.22)** | **(0.20)** | **(0.09)** | **(0.1)** | **3.9** | **5.3** |

| BALANCE SHEET | | FY2019A | FY2020A | FY2021F | FY2022F | FY2023F | FY2024F | FY2025F |
|---|---|---|---|---|---|---|---|---|
| Cash & Equivalents | £m | 2.1 | 1.1 | 8.2 | 105.6 | 28.6 | 82.5 | 151.6 |
| Other Current Assets | £m | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 53.0 | 119.2 |
| **Current Assets** | **£m** | **2.3** | **1.5** | **8.5** | **105.9** | **28.9** | **135.5** | **270.8** |
| PP&E | £m | 6.2 | 8.2 | 10.1 | 235.3 | 311.7 | 312.2 | 317.0 |
| Other | £m | 0.0 | 0.0 | 0.0 | 13.3 | 27.5 | 42.9 | 42.9 |
| **Total Assets** | **£m** | **8.6** | **9.6** | **18.7** | **354.5** | **368.1** | **490.5** | **630.7** |
| Short-term Debt | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Current Liabilities | £m | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 25.7 |
| **Current Liabilities** | **£m** | **0.4** | **0.5** | **0.5** | **0.5** | **0.5** | **0.5** | **25.7** |
| Long Term Debt | £m | 0.0 | 0.0 | 0.0 | 190.2 | 204.5 | 219.8 | 188.4 |
| Other Long Term Liabilities | £m | 0.0 | 0.0 | 0.0 | (0.0) | (0.0) | (0.0) | 0.0 |
| **Total Liabilities** | **£m** | **0.4** | **0.5** | **0.5** | **190.7** | **205.0** | **220.3** | **214.1** |
| Shareholder Equity | £m | 10.8 | 13.2 | 24.4 | 175.3 | 176.1 | 177.0 | 178.0 |
| Retained Income | £m | (4.2) | (5.7) | (7.9) | (13.1) | (14.6) | 91.6 | 236.9 |
| Other | £m | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| **Total Liabilities & Equity** | **£m** | **8.6** | **9.6** | **18.7** | **354.5** | **368.1** | **490.5** | **630.7** |

| CASHFLOW STATEMENT | | FY2019A | FY2020A | FY2021F | FY2022F | FY2023F | FY2024F | FY2025F |
|---|---|---|---|---|---|---|---|---|
| Pre-Tax Profit | £m | (1.1) | (1.5) | (1.6) | (1.7) | (1.5) | 106.2 | 145.4 |
| DD&A | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 15.6 | 15.7 |
| Other | £m | 0.2 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 |
| Change in Working Capital | £m | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | (52.7) | (41.0) |
| **Cash Flow from Operations** | **£m** | **(0.9)** | **(0.7)** | **(0.8)** | **(0.9)** | **(0.6)** | **70.0** | **121.0** |
| Capital Expenditure | £m | (2.5) | (2.0) | (2.0) | (225.2) | (76.4) | (16.1) | (20.6) |
| Other | £m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Cash Flow from Investments** | **£m** | **(2.5)** | **(2.0)** | **(2.0)** | **(225.2)** | **(76.4)** | **(16.1)** | **(20.6)** |
| Equity Issues | £m | 2.1 | 1.6 | 10.4 | 150.0 | 0.0 | 0.0 | 0.0 |
| Net Borrowings | £m | 0.0 | 0.0 | 0.0 | 176.9 | 0.0 | 0.0 | (31.4) |
| Other | £m | 0.0 | 0.0 | (0.5) | (3.5) | 0.0 | 0.0 | 0.0 |
| **Cash Flow from Financing** | **£m** | **2.1** | **1.6** | **9.9** | **323.4** | **0.0** | **0.0** | **(31.4)** |
| **Net Cashflow** | **£m** | **(1.2)** | **(1.1)** | **7.1** | **97.4** | **(77.0)** | **53.9** | **69.0** |
| FX Adjustments | £m | (0.0) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Cash at End of Year** | **£m** | **2.1** | **1.1** | **8.2** | **105.6** | **28.6** | **82.5** | **151.6** |

Source: Company reports, Shore Capital Markets

Source: Company Data, Shore Capital Markets

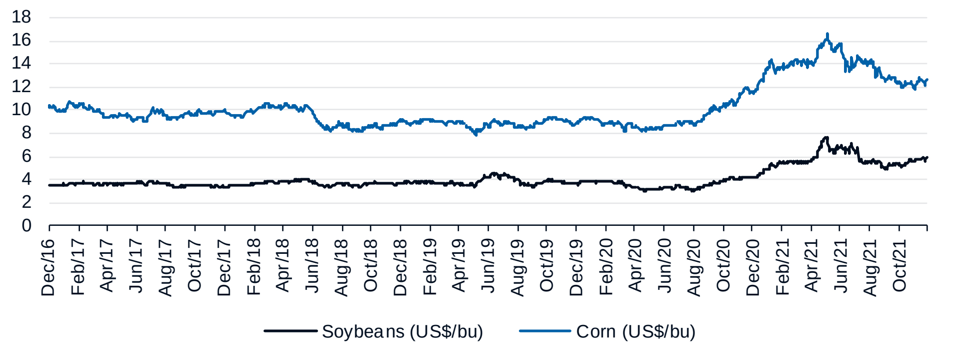
# Potash fundamentals

## Buoyant farm economics supports demand for potash

Farm economics drives potash demand with fertiliser affordability likely to dampen demand over the short-term

On the back of strong crop demand, soybeans and corn prices in particular, have recently hit multi-year highs. As such, farmers have been eager to plant more acres and improve yields which leads to increased demand for fertilisers and thus supporting higher prices. That said, we expect demand for potash to ease over the long term as crop prices appear to have reached their peak (see Figure 9) and fertiliser affordability creeps back into farm economics.

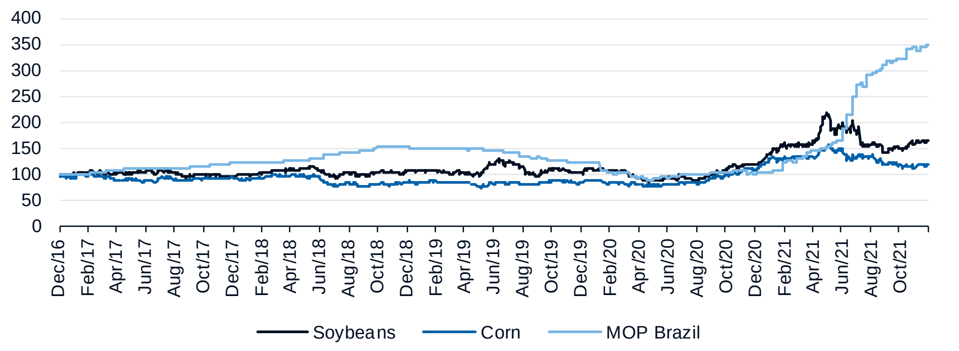
Figure 9: Soybean and corn prices




Source: Bloomberg

Demand for agricultural inputs has been robust during 2021 with corn prices, in particular, increasing faster than fertiliser prices. Since the June 2021, however, this trend appears to be reversing (see Figure 10).

Figure 10. Soybean, corn prices and MOP (Brazil, CFR) normalised




Source: Bloomberg

Global demand on course to exceed 70Mt in 2021 but fertiliser affordability may dampen demand

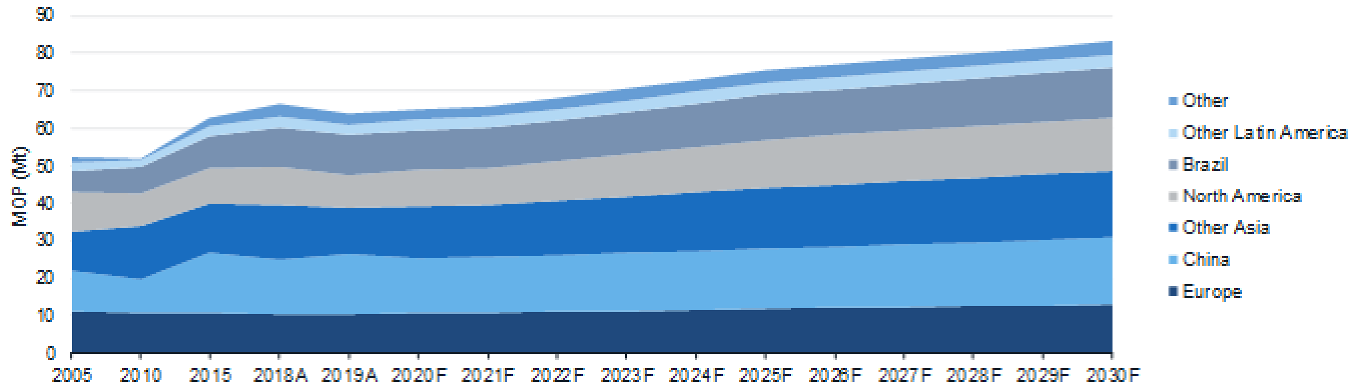
MOP demand continues to exceed supply thus supporting elevated prices. However, we believe short-term demand could be affected by fertiliser affordability and excess capacity in the potash market. As previously noted, grain prices and demand are key drivers for fertiliser prices. With higher input prices, we expect farmers to be more cautious with their margins. We also note that there is a significant lag time between spot prices and realised prices as tonnes under contract take time to be delivered especially given that some ports continue to deal with Covid-19 restrictions and there are reported delays of rail shipments in Western Canada due to flooding. We also note that large fertiliser suppliers like Nutrien and Mosaic are currently being incentivised to expand productivity given the current global shortage and resulting high prices. We understand that Nutrien and Mosaic are currently launching enhanced productivity initiatives throughout Brazil, the world's fourth largest fertiliser consumer, to help alleviate supply fears in the new year.

Nutrien is anticipating doubling its Brazilian capacity. On the back of this, we expect Brazilian fertiliser prices to fall significantly during 2022.

Global MOP consumption in 2020 was c 70Mt with China, Brazil, India ad USA accounting for c 60% of demand. Long-term average growth of 2-3% per annum

Global MOP consumption in 2020 was c 70Mt and slightly higher than the prevailing MOP forecasted demand curve (65Mt) with the four largest markets (China, Brazil, India and the USA) accounting for c 60% of demand. Global demand for 2021 is expected to be between 69Mt and 71Mt. In line with consensus, the demand curve has been consistent and trends along a long-term average of 2-3% growth per annum until 2030.

Figure 11: Global demand curve for MOP




Source: Bloomberg

## Supply remains tight and dominated by the major producers

MOP supply continues to be dominated by the majors, accounting for c 65% of global production

MOP supply is dominated by a small number of major producers; Belaruskali, Mosaic, Nutrien and Uralkali control c. 65% of the global supply. We expect this to continue until BHP brings its Jansen project on-line in 2027. Belarus, Canada, China and Russia account for c. 75% of global exports. That said, inventories in key regions remain low YoY. Bloomberg estimates that Chinese port inventories are at 2.4Mt for 2021 compared with 2.6Mt in 2020 and 3.1Mt in 2019.

Global supply remains tight following the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC") placed sanctions on the Belarusian Potash Corporation ("BPC") on 2 December 2021. BPC markets potash from Belaruskali, which was also sanctioned in August 2021. These sanctions have led to uncertainties over supply, pushing prices higher given that Belarus supplies c. 20% of the world's potash market. We understand that BPC has until 1 April 2022 to wind down its transactions and Belaruskali's wind down period expired on 8 December 2021. According to Bloomberg, Belarusian capacity could reach 34% of global supply by 2027 with a number of new mines in ramp-up or under construction.

## Jansen project; the new kid on the block

Jansen potash project, Stage 1 expected to add 4.4Mt of MOP from 2027 with potential for further expansion

On 17 August 2021, BHP approved Stage 1 development on its massive Jansen potash project in the province of Saskatchewan, Canada. Stage 1 is expected to cost US$5.7bn in capex and will produce 4.4Mt of potash per annum from 2027 with potential for further expansion. To date, BHP has completed 50% of the engineering required for Stage 1. More importantly, the investment decision signals to the market that BHP is bullish on potash over the long term as a minimum of US$327/t (FOB Vancouver) was required to make Jansen economic. Based on the prevailing demand outlook, we expect the market to easily absorb additional supply from Jansen from 2027. In the meantime, we see opportunity for smaller-scale producers to enter the market with considerably less capital-intensive projects without over supplying the market.

We see the long-term demand outlook for potash as having positive readthrough for new developers of MOP projects

Overall, we see the outlook for the potash market as having positive readthrough for new developers of MOP projects. We continue to see strong demand for fertilisers as arable land is steadily decreasing globally coupled with an ever-increasing population, higher crop yields will be required leading to increased demand for potash over the long term. As such, we expect average prices to revert to long term averages of c. US$400/t, which is line with our long-term price forecast.

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