

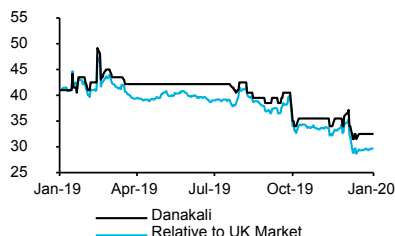
9 January 2020 15:13 GMT

BUY

Current Share Price	33p
Target Price	70p
Market Capitalisation	£104m
Shares In Issue	319m
RIC/BLBG	DNK.L/DNK LN
Avg. Daily Volume (3M)	6,582
Broker	Yes

Current share price(s) timed at 4:30pm on 08/01/20

Share Price



Performance (%)	1M	3M	12M
Absolute	-10	-7	-21
Relative	-14	-14	-29

Source: Datastream (relative to UK-DS Market index)

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Danakali

Industry Update

Potash space hots up

In our view, Anglo American's potential offer for Sirius Minerals, which owns the Woodsmith project in North Yorkshire, highlights the potential for consolidation in the potash space and the demand for world-class projects, of which Colluli is one. In contrast to Woodsmith, Colluli is near surface, with lower capital intensity and produces a product for which there is an established global market and pricing mechanism. We retain a Buy recommendation for Danakali and a target price of 70p based on 0.6x NAV, with the main upcoming catalysts being finalizing the project funding package and commencing development. DNK achieved a number of key milestones in 2019, securing both project debt and a strategic investor to underpin the development of Colluli.

- Potential bid for Sirius by Anglo** - Anglo American has indicated that it is in advanced discussions in relation to a cash proposal for Sirius Minerals at 5.5p/share that would value the company at £386m. Sirius has faced material headwinds with the funding package for its Woodsmith project in North Yorkshire, with the shares down 75% in the past 12 months and 86% from their peak in August 2016. As a Tier I diversified miner with a market cap of £30bn, AAL would be better positioned to fund and develop an asset of this scale. In our view, this would be a strategic move by AAL that recognizes the importance of potash in a world where maintaining crop yields in the face of a rising global population is a clear priority.
- Colluli offers lower technical and execution risk with manageable capex...** - Total capital expenditure for the development of both phases of Colluli to produce 944kt/year of SOP is US\$524m, based on the FEED study; US\$550 per t of SOP capacity. The capital cost to develop a 10Mt/year operation at Woodsmith is US\$8.77bn; US\$877/t of polyhalite production capacity. The Colluli deposit is located near to surface in a very sparsely populated area with transport to port by truck. Woodsmith occurs at a depth of >1,500m and, as the deposit is located in a national park, transport to port would be by a capital intensive underground conveyor system. Colluli is a long-life asset with a Reserve of 1.1Bn t at 10.5% K₂O that hosts 203Mt of contained SOP. The ore from Colluli is amenable to processing at ambient temperatures and pressures, with cash costs in the lowest quartile for the SOP industry at US\$242/t.
- ...and is selling into a developed market** - Colluli will produce Sulphate of Potash (SOP), which is a well-developed global market. The SOP market is approximately 7.1Mt/year, with SOP used for higher value crops. The SOP market remained relatively robust in 2019, with pricing at around US\$500/t, despite the impact of weather and record Chinese exports. Our long-term modelled SOP price is US\$600/t. By contrast, Sirius's polyhalite product has no large-scale current market or established pricing mechanism.

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Figure 1: Danakali Summary Financials

Danakali	Ticker	DNK.L / DNK.AX	Market Capitalisation	A\$164m	Financial Year End	Dec
BUY	Share Price	£0.33	Enterprise Value (EV)	A\$158m	Reporting Currency	A\$
£0.70	Implied Return	112%	Net Debt (Cash)	-A\$6m	Shares in Issue	265m
Valuation						
	Disc Rate	US\$m	US\$/sh	PNV	A\$/sh	
Colluli	8%	598	0.98	0.70x	£0.53	
Cash		6	0.01	1.0x	£0.01	
Debt		-	-	1.0x	£0.00	
Equity raised		170	0.28	1.0x	£0.22	
Cash from options		1	0.00	1.0x	£0.00	
SG&A and central	8%	(61)	(0.10)	1.0x	-£0.08	
Valuation (fd)		714	1.18		£0.68	
Current NAV Multiple (Implied)					0.36x	
Valuation						
NAV valuation	Target multiple		0.70x		£0.70	
					A\$1.35	
Other data						
Basic shares (m)		265.3		12M high:	£0.49	
Fully diluted shares (m)		267.3		12M low:	£0.33	
Fully diluted, fully funded shares (m)		607.3				
Sensitivity Analysis						
Base case SOP price forecast					0.68	
Base case +10%					0.79	
Base case -10%					0.56	
News Catalyst (CY)						
	2018	2019	2020	2021	2022+	
FEED design finalised						
Offtake finalised						
Finance finalised						
Project construction						
Phase I production				H2		
Phase II					2026	
Resource / Reserve						
	Tonnes	(% SOP)	Mt SOP	EV/t SOP		
Reserves	1100.0 Mt	10.5%	116 Mt	0.93		
Resources (M&I)	1254.0 Mt	10.9%	137 Mt	0.79		
Resources (M&I&I)	1289.0 Mt	10.9%	140 Mt	0.77		
Production (100% basis)						
	2018A	2019E	2020E	2021E	2022E	
SOP Price (US\$/t SOP)	600.00	600.00	600.00	600.00	600.00	
Production (kts SOP)	-	-	-	-	236	
Total cash cost (ex royalties, \$/t SOP)*	-	-	-	-	346.10	
AISC (US\$/t SOP)	-	-	-	-	408.11	
*TCC=site mining costs + logistics costs						
<div> <div>SOP Production (kt 100% basis)</div> <div>C1 Cash Cost / AISC (\$/lb)</div> </div> <div> <div>Colluli</div> <div>TCC (ex. Royalties)</div> <div>AISC</div> </div>						
Assumptions						
Average Price Received (US\$/t SOP)	2018A	2019E	2020E	2021E	2022E	
	600	600	600	600	600	
Exchange Rate (US\$:A\$)	0.78	0.75	0.75	0.75	0.75	
Exchange Rate (US\$:GBP)	1.35	1.38	1.40	1.40	1.40	
Ratio analysis						
	2018A	2019E	2020E	2021E	2022E	
Average shares out (m)	202	271	516	607	607	
Adj. EPS (US\$/sh)	(0.03)	(0.01)	(0.01)	(0.03)	0.03	
EPS growth (%)	-	-	-	-	-	
PE (x)	-	-	-	-	21.0x	
CFPS before w/c (US\$/sh)	(0.01)	(0.01)	(0.01)	(0.00)	0.09	
P/CF (x)	-	-	-	-	7.3x	
FCFPS (US\$/sh)	(0.13)	(0.02)	(0.13)	(0.26)	(0.09)	
P/FCFPS	-	-	-	-	-	
FCF yield (%)	-	-	-	-	(51%)	
FCF margin (%)	(13%)	(2%)	(13%)	(26%)	(9%)	
EV (US\$m)	116.0	132.7	188.6	463.3	557.8	
EV/EBITDA (x)	-	-	-	-	8.2x	
EBITDA margin (%)	-	-	-	-	36%	
ROA (%)	(17.9%)	(3.2%)	(1.1%)	(5.0%)	4.3%	
ROE (%)	(18%)	(3%)	(1%)	(11%)	9%	
ROCE (%)	(21%)	(3%)	(1%)	(3%)	9%	
Net Debt / EBITDA (x)	-	-	-	-	2.7x	
Gearing (Debt/Equity) (x)	0.0x	0.0x	0.3x	1.1x	1.1x	
Interest Cover (x)	-	-	-	(1.0x)	2.0x	
Income statement (US\$m)						
	2018A	2019E	2020E	2021E	2022E	
Revenue	-	-	-	-	189.0	
Cost of sales	-	-	-	-	(109.0)	
D&A	(0.0)	-	-	(8.8)	(21.9)	
Gross profit	(0.0)	-	-	(8.8)	58.1	
Exploration	-	-	-	-	-	
Admin expense	(2.7)	(2.4)	(5.2)	(5.2)	(5.2)	
Net interest	0.2	0.1	1.4	(11.6)	(22.4)	
Other	(3.5)	1.7	0.0	(0.0)	(6.6)	
Tax	-	-	-	-	-	
Net income	(6.1)	(0.6)	(3.8)	(25.7)	23.9	
EBITDA	(8.1)	(2.4)	(5.2)	(5.2)	68.2	
Cash flow (US\$m)						
	2018A	2019E	2020E	2021E	2022E	
Net (loss) income	(6.1)	(0.6)	(3.8)	(25.7)	23.9	
Non-cash adjustments	0.1	-	-	8.8	21.9	
Working capital movements	0.0	-	-	(0.2)	(33.6)	
Net interest & other	2.5	(1.7)	-	13.7	23.4	
Cash flow from operations	(3.4)	(2.3)	(3.8)	(3.3)	35.6	
PP&E	(6.5)	(3.5)	(102.2)	(201.3)	(106.7)	
Exploration	-	-	-	-	-	
Other	-	-	-	-	-	
Cash flow from investing	(6.5)	(3.5)	(102.2)	(201.3)	(106.7)	
Interest received / (paid)	-	-	-	13.7	23.4	
Share issue	3.9	31.8	202.0	-	-	
Debt drawn down	-	-	88.9	177.8	-	
Debt repaid	-	-	-	-	-	
Cash flow from financing	3.9	31.8	290.9	164.1	(23.4)	
Forex	0.0	-	-	-	-	
Net change in cash	(6.0)	26.0	184.9	(40.5)	(94.5)	
Cash at end of period	9.6	35.6	220.4	179.9	85.4	
Balance sheet (US\$m)						
	2018A	2019E	2020E	2021E	2022E	
Cash	9.6	35.6	220.4	179.9	85.4	
AR	0.1	0.1	0.1	-	31.1	
Inventories	-	-	-	-	31.1	
PPE	9.3	9.3	9.3	9.3	9.3	
Other	19.9	25.1	127.4	319.9	404.6	
Total assets	38.8	70.1	357.2	509.1	561.5	
AP	38.8	70.1	357.2	509.1	561.5	
Debt	-	-	88.9	266.7	266.7	
Deferred tax	-	-	-	-	-	
Other	(38.4)	(69.7)	(356.8)	(508.9)	(532.8)	
Total liabilities	0.4	0.4	89.3	266.8	295.3	
Shareholders equity	38.4	69.7	267.9	242.2	266.2	
Retained earnings	(54.3)	(54.9)	(58.7)	(84.3)	(60.4)	
Liabilities + equity	38.8	70.1	357.2	509.1	561.5	

Source: Company & Numis Securities Research

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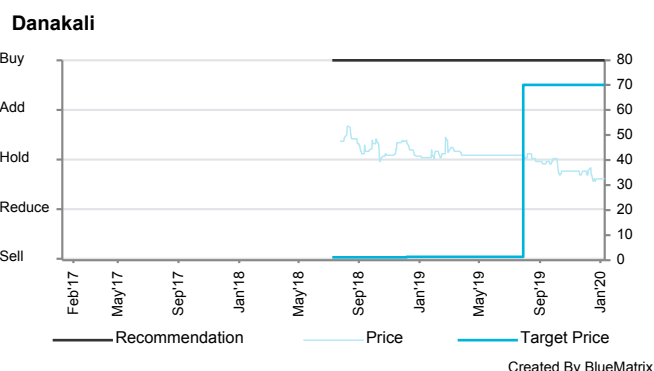
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instances, where the subject corporation(s) have been publicly traded for less than three years, the graph will show the history since the date the subject corporation(s) were admitted to trading. Prices in the graph(s) below are in pence unless otherwise stated.

Three Year - Recommendation, Target Price, Share History



Source: Numis Securities Research

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As from 14 February 2005, the formula is:

Buy	>= +20%
Add	>= +10% to +19.99%
Hold	0% to +/-9.99%
Reduce	<= -10% to -19.99%
Sell	<= -20%

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	All Securities	Corporate Clients	All Securities	Firms provided with material banking services
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Add	19.1%	15.9%	20.3%	18.6%
Hold	24.3%	5.7%	19.2%	5.3%
Reduce	3.3%	0.0%	2.7%	0.5%
Sell	1.4%	0.0%	1.9%	0.0%
Total	100%	100%	100%	100%
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