

World “hungry” for Potash; Miners Just as Hungry for Financing

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Worldwide demand for potash, currently standing at 55 to 60 million tonnes a year is set to spike, as long-term demand on stressed arable land required to yield more crops than ever grows. Consensus places the amount required over the next couple of decades at an up to 16 million additional tonnes annually, in keeping with the trend that demand increases with population and then some.

With the global population constantly growing and “the world getting hungrier every day”, as one speaker at the afternoon session of the Resource Exploration and Development Summit held in Toronto put it, potash is more necessary than ever.

Worldwide demand for potash, currently standing at 55 to 60 million tonnes a year, is set to spike, as long-term demand on stressed arable land required to yield more crops than ever grows. Consensus places the amount of the potassium-bearing minerals, principally used as agricultural fertilizer to replace nutrients that crops remove from the soil, required over the next couple of decades at up to 16 million additional tonnes annually, in keeping with the trend that demand increases with population and then some.

So when much of the afternoon sessions of the Resource Exploration and Development Summit held in Toronto Tuesday was given over to the subject, demand went without saying. More important though, was the sticky question of finance.

Potash is a notoriously expensive business to enter, although as one speaker, president and CEO of IC Potash, Sidney Himmel, put it, “once you’re in it’s a money machine.”

“Potash is [priced] at twice or three times the marginal cost of production,” however the price per tonne of around \$400 for a commodity that requires capital expenditure of \$1200 to \$1500 per tonne of annual production capacity “is low enough to make investing in a potash project difficult.”

Hence the attractive nature of IC Potash Corp. (TSE:ICP), which focuses on sulphate of potash (SOP), used in the fertilization of fruit and vegetables, as opposed to muriate of potash, (MOP) used in the cultivation of carbs. As Himmel pointed out at the Summit, SOP is not found in the ground; rather it is made industrially, using, among other things, 85 per cent of a tonne of MOP per tonne of SOP manufactured. The market for SOP is expected to grow at the rate of five to six million tonnes per year.

For most producers, the expense of making a single tonne of SOP is around \$560. IC Potash, on the other hand, anticipates having the world’s lower cost of production per tonne: “We’re at the very bottom,” Himmel said of plans for a production cost of \$162 per tonne for the company’s 100 per cent owned Ochoa property in southeast New Mexico. Additionally, the capital costs required to get the project into production are estimated at \$706 million, that is, a third to a quarter of most potash projects.

Himmel points out that SOP is priced at a premium of \$100 over the price of MOP, adding that advantage to the long life asset (proven and probable reserves of more than 400 million tons of ore) and low operating costs.

This sticking point, as ever, is the financing. “Does anyone know when the last potash project was financed outside of internal cashflow of operating companies?” Himmel asked the room at one point. “Never. It’s never happened.”

Indeed, historically, potash projects are financed by companies already operating in the field; accordingly, “banks aren’t that familiar with potash projects.”

It takes, Himmel says, a “very special kind of company” to finance a potash project. “Junior companies typically do not finance projects with nine zeroes behind them [...] Those are massive projects.”

“If you’re going to build your own project you have to have a really discernibly low operating cost compared to everybody else’s.”

For the past year, Himmel has been traveling extensively, meeting with investors and investment banking firms in an effort to assemble capital for the project. The total capital expenditure, as announced in January, will be raised through a combination of debt, equity and strategic project funding.

Encanto Potash Corp. (CVE:EPO), a company founded to leverage pre-existing relationships with first nations peoples in Saskatchewan in the development of the vast potash resources on their land, is engaged in exploration in southeastern Saskatchewan lands belonging to the Muskowekwan, Ochapowace and Chacachas First Nations. The province already hosts a large number of potash mines and thus has a great deal of potash mining infrastructure.

Another Saskatchewan deposit was represented at the summit by Robin Phinney, president, CEO and director of Karnalyte Resources (TSE:KRN), who founded the company to explore the development of the carnallite/sylvite resource on the Karnalyte property near the town of Wynyard.

The deposit, he says, is “extremely thick and high grade” and in a striking image, is equivalent in size to “a 16 storey building.”

The company announced as recently as last week that it had secured a US\$300 million loan facility, a figure that represents financing sufficient to cover almost half the cost needed to move the mine into the first phase of production.

Unlike most potash mines, which routinely come with a price tag of \$3 billion or more, Karnalyte’s plans call for \$626 million to reach first production.

The deposit offers a competitive advantage at the chemical level, according to Phinney, in that Carnallite dissolves faster than other salts, and is amenable to solution mining, thus allowing for a lower capex, and consequently a shorter construction timeline than conventional mining.

The company plans for a solution mining facility to initially produce 625,000 tonnes of potash annually, with plans to increase that to 2.125 million tonnes.

With operating costs of \$129 per tonne on a product that sells for \$220-\$480 a tonne, Phinney says “we should get \$100 million plus cash flow out of it in the first phase.” The CEO continued that there were easily 70 years of reserve life on the first 20 per cent of the property.

The advanced greenfield project (“we’re ready to start construction right now,” says Phinney) is targeted for production in early 2015.

IC Potash held steady on the TSX today, maintaining the level of its previous close, at 51 cents.

Stock in Encanto was trading down on the TSX Venture Exchange today, losing a penny from a previous close of 29 cents.

Karnalyte was trading up on the TSX, adding 15 cents to its previous close of \$6.50, for an increment of more than 2 per cent.

Source: <http://www.proactiveinvestors.com/companies/news/45272/world-hungry-for-potash-miners-just-as-hungry-for-financing-45272.html>