IC Potash's SOP (sulphate of potash) to be world's cheapest to produce

March 12, 2014 by Alessandro Bruno

IC Potash ('ICP', TSX: ICP | OTCQX: ICPTF) has filed its NI 43-101 Feasibility Study (FS) for the Ochoa Sulfate of Potash (SOP) Project in New Mexico and presented the recommendations during a press conference on March 12. The presentation left a very optimistic outlook from two perspectives: IC Potash's project outlook and the overall potash market situation, especially insofar as Sulfate of Potash (SOP or K_2O) is concerned. ICP intends to produce high quality SOP while greatly reducing production costs.

The 'name of the game' for IC Potash from now until the start of delivery (expected to start in early in 2017) will be to secure the necessary funding to build the mine while setting up the related engineering procurement and tenders. ICP will also have to secure the final environmental permits. Sydney Himmel, ICP's President and CEO, spoke confidently and suggested that there are no obstacles in the way. He suggested that the company has been in contact with multinational banks from Europe to Asia to secure the necessary funds.

ICP has already secured (in 2012) an offtake agreement with Yara International, one of the world's largest distributors of mineral fertilizers, which greatly facilitates the financing process. Yara has access to many international markets and distributors. Under the agreement, Yara will buy 30% of all ICP products produced at its Ochoa project in New Mexico for a 15 years long period. Yara noting that it has the financial resources and expertise in international fertilizer markets to contribute towards bringing the Ochoa project into production. Essentially, the Feasibility Study predicts an economically viable mining operation and processing plant, capable of producing 714,400 tons of SOP per year over a period of at least 50 years.

During the press conference Sidney Himmel commented that ICP will be "one of the world's leading companies for SOP. We intend to immediately initiate the next phase of engineering work and project financing". Some of the promising highlights from the Feasibility Study include: a three year period for construction and commissioning beginning in Q2 2014 and continuing through Q2 2017, leading to 50 years of operation. SOP production will commence in 2017 (at first 48% of annual capacity and then full capacity expected in 2018). Room-and-pillar mining and dual split super section mining methods will be used to extract ore at a rate of 3.7 million tons/year.

The average SOP recovery is estimated to be 82%. Capital costs are expected to be in the range of USD$ 1.018 billion. The FS Importantly notes that the Ochoa project has indentified potential of 1.017 billion tons of SOP at an average grade of 83.9% (polyhalite content). The price for SOP, which was incorporated in the financial model was USD$ 636 per ton. This is below the current average price for granular SOP of USD$680/ton for California delivery in the fourth quarter of 2013. For the fourth quarter of 2013, ICP has estimated that SOP prices may increase to well above USD 700/ton the price of soluble SOP was reported to ICP estimates at 740 USD per ton at Florida Delivery.

ICP's main target markets are California, Northern Europe and parts of North Africa, where soil salinity makes SOP especially effective. SOP does not contain chlorides and it typically fetches higher prices than the more common Muriate of potash (MOP); SOP is more easily adaptable to various soils, even those presenting high salinity levels (as in North Africa), and is suitable for a variety of crops such as fruits, tobacco, potatoes and vegetables. In contrast, the more common MOP variety of potash does not tolerate high soil salinity, which reduces its range of applications. SOP is ideal for the European and South Western Asian markets, which are low in magnesium, and where Yara enjoys considerable distribution access.

Apart from ICP's strong position, the potash market itself is in better shape now than it was last year. At the end of 2013, J. P. Morgan issued a report suggesting that the oversupply in the potash market is less pronounced than it appears when considering potash deliveries in relation to operational capacity, which the analysts calculated at 72 %. J. P. Morgan also pointed out that the sales volume was probably was less than predicted 2013 as a result of high price volatility after the largest potash producer in the world Uralkali abandoned the BPC joint venture with Belarus. In 2014, JP Morgan has estimated utilization of 89%.

The higher that percentage, the better it is for the potash market; indeed, the potash industry is in a phase of demand recovery while 2014 is being characterized by a favorable price momentum. As for the Belarus-Russia potash dispute, Belarus wants to resume the formula of high price over volume – that formula that existed before the BPC breakup and also favored by CANPOTEX. J. P. Morgan believes that this change in strategy by Uralkali would trigger an increase in value at PotashCorp, Mosaic and Agrium among other majors. It so happens that SOP costs anywhere from 30% – 60% more than Muriate of Potash (MOP the kind of sulfate produced by PotashCorp or Uralkali). ICP is also the only new SOP potash being developed in the world now and is marked by the lowest capital and operational costs (OPEX) as well. The projected OPEX rate per ton of production at Ochoa will be about is USD$ 150/ton, which is about 65% -70% less than the industry average of USD$ 500-550/ton. ICP's SOP will be the world's cheapest to produce.

About Alessandro Bruno

Alessandro Bruno holds a BA, MA. He has worked for the United Nations in Libya and specialized in Middle Eastern, African, and South American affairs. Alessandro has worked as an industry analyst, lived and worked abroad extensively and is fluent in English, Italian, Spanish and French with a working knowledge of Portuguese, Arabic and German.