

# Kalium Lakes Limited

Kalium Lakes Ltd is an ASX listed sulphate of potash developer. Its assets include the 100% owned Beyondie Sulphate of Potash Project, currently under construction and targeting production in Q3 CY2021, and a 70% interest in the Carnegie Potash Project, a joint venture with BCI Minerals (BCI.ASX). Both assets are located in the East Pilbara region of Western Australia.

## Company Data

ASX Code	KLL.ASX
Share Price (A\$/sh)	0.23
Number of shares (m)	839.2
Market Capitalisation (A\$m)	193.0m
Float (Total Less Insiders) (m)	523.4
12 month high / low (A\$/sh)	0.125 / 0.245
30 day average volume (k shares)	1,402
GICS Industry Group	Materials

Source: Bloomberg, Thomson Reuters

Earnings Summary (June YE)	2022F	2023F	2024F	2025F
Reported Profit (\$M)	(9.3)	2.0	3.0	7.4
EPS (¢)	(1.05)	0.23	0.33	0.84
P/E <sup>1</sup> (x)	nm	101.8	68.8	27.5
Free CFPS (¢)	(2.5)	0.9	0.9	1.0
P/CF <sup>1</sup> (x)	na	25.8	24.4	22.3
EV/EBITDA <sup>1</sup> (x)	19.9	11.7	10.8	8.8

(1) Based on fixed, current share price. Na = not applicable; nm = not meaningful.

## Share Price Performance



Sum of Parts Valuation (as at 31 March 2022)	NPV A\$M	Undiluted A\$/sh	Diluted A\$/sh
Beyondie SOP Project	457.0	0.54	0.51
Carnegie SOP Project JV (KLL 70%, BCI 30%)	14.7	0.02	0.02
Corporate	(61.7)	(0.07)	(0.07)
Tax Shield	33.2	0.04	0.04
Debt	(175.1)	(0.21)	(0.20)
Cash	7.7	0.01	0.01
<b>Total Value of Common Equity</b>	<b>276.3</b>	<b>0.33</b>	<b>0.31</b>

## Beyondie initial capacity lifted to 100ktpa SOP

Kalium Lakes Limited (KLL.ASX, mkt cap A\$193m) is returning to under-promise / over-deliver mode, lifting initial Beyondie SOP production capacity from 90ktpa to 100ktpa (+11%) with potential for a further increase to 120ktpa. Our valuation for the 100ktpa operation has risen to A\$0.31/sh on higher production and rolling forward our valuation, while our staged case valuation (100-200ktpa) is now A\$0.42/sh. We raise our 12mth price target to A\$0.30/sh (from A\$0.25/sh) and note the potential for further valuation catalysts over the coming months, including an updated Ore Reserve, and additional detail on the potential for further capacity increases and magnesium by-product credits.

### De-bottlenecking, design, grade lift production rate

KLL anticipates the German-engineered Beyondie SOP plant will achieve better plant availability and utilisation rates (vs BFS assumptions), permitting increased throughput. Conservative design elements and positive grade reconciliation (pumped brine vs Ore Reserve) will help to lift SOP production 11% above nameplate.

### Further increases to 120ktpa a possibility

KLL is examining low capex avenues to further lift initial SOP production rates to 120ktpa, likely to come from additional de-bottlenecking opportunities as the plant is commissioned. KLL could also consider adding MOP to the circuit, as currently employed by Compass Minerals' operation in Utah.

### Growth strategy now contemplating eastern lakes

The company has completed an internal study examining a larger scale operation incorporating Mineral Resources at its eastern lakes. That KLL is considering a broader growth strategy at this time (vs the staged expansion to 200ktpa at 10 Mile Lake and Lake Sunshine) is noteworthy; we interpret it as KLL positioning to meet an expanding SOP market.

### Magnesium by-products to be revisited

Once in SOP production, KLL will return to examining opportunities to produce magnesium by-products from waste bitterns.

### Near-term catalysts: construction & commissioning

We also anticipate an updated Ore Reserve, detail on opportunities to underpin the 120ktpa production target, and further newsflow on magnesium by-product opportunities.

### Valuation changes

Stage 1, 100ktpa valuation has risen from A\$220m to A\$276m (+25%) on higher production and rolling forward our valuation date.

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Kalium Lakes Limited		2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>General Assumptions</b>										
Inflation	%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
AUDUSD	AUDUSD	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Standard SOP Price (CFR Fremantle)	US\$/t, Real	450	450	450	475	475	488	500	500	508
SOP Price with premia (CFR Fremantle)	US\$/t, Real	510	510	510	538	538	552	566	566	575
Beyondie Project Ownership	%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Beyondie Resources	Mt SOP	31.33	31.22	31.11	31.00	30.88	30.77	30.66	30.55	30.44
Beyondie Reserves	Mt SOP	5.05	4.94	4.83	4.71	4.60	4.49	4.38	4.27	4.16
Brine Piped to Ponds	GL/year	6.9	8.5	8.5	8.5	8.5	8.5	8.5	8.6	8.6
K Grade	mg/L	5,843	5,843	5,843	5,843	5,843	5,843	5,843	5,812	5,812
SOP Grade	Kg/m <sup>3</sup>	13.03	13.03	13.03	13.03	13.03	13.03	13.03	12.96	12.96
Contained SOP	kt	90.2	111.1	111.1	111.1	111.1	111.1	111.1	111.0	111.0
Evaporation Pond Recovery	%	94.0%	94.0%	94.0%	94.0%	94.0%	94.0%	94.0%	94.0%	94.0%
Purification Plant Recovery	%	89.2%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%	96.0%
SOP Produced	kt	75.7	100.2	100.2	100.2	100.2	100.2	100.2	100.2	100.2
<b>Income Statement</b>										
Revenue	A\$'000	41,627	56,103	57,226	61,769	63,004	66,039	69,154	70,507	73,047
Operating expenses	A\$'000	(19,445)	(22,625)	(23,077)	(23,539)	(24,010)	(24,490)	(24,980)	(25,479)	(25,998)
Corporate costs	A\$'000	(3,699)	(3,773)	(3,848)	(3,925)	(4,004)	(4,084)	(4,165)	(4,249)	(4,334)
EBITDA	A\$'000	18,483	29,706	30,301	34,305	34,990	37,466	40,009	40,780	42,716
D&A expense	A\$'000	(22,522)	(20,998)	(21,144)	(21,294)	(21,447)	(21,602)	(21,761)	(21,923)	(22,088)
EBIT	A\$'000	(4,039)	8,709	9,156	13,011	13,544	15,864	18,248	18,857	20,628
Interest expenses	A\$'000	(5,280)	(6,700)	(6,185)	(5,579)	(4,889)	(4,223)	(3,493)	(2,687)	(1,849)
Other finance costs	A\$'000	-	-	-	-	-	-	-	-	-
Profit before tax	A\$'000	(9,319)	2,009	2,971	7,432	8,655	11,640	14,755	16,170	18,778
Income tax expense	A\$'000	-	-	-	-	(2,138)	(3,492)	(4,427)	(4,851)	(5,633)
Extraordinary items	A\$'000	-	-	-	-	-	-	-	-	-
<b>NPAT</b>	<b>A\$'000</b>	<b>(9,319)</b>	<b>2,009</b>	<b>2,971</b>	<b>7,432</b>	<b>6,516</b>	<b>8,148</b>	<b>10,329</b>	<b>11,319</b>	<b>13,145</b>
<b>Cashflow Statement</b>										
<b>Cash flows from operating activities</b>										
Receipts from customers	A\$'000	37,123	55,965	57,133	61,393	62,901	65,642	69,042	70,396	72,744
Receipts from Corporate	A\$'000	-	-	-	-	-	-	-	-	-
Interest received	A\$'000	-	-	-	-	-	-	-	-	-
Payments to suppliers	A\$'000	(17,620)	(22,578)	(23,040)	(23,501)	(23,971)	(24,450)	(24,939)	(25,437)	(25,955)
Corporate costs	A\$'000	(3,693)	(3,767)	(3,842)	(3,919)	(3,997)	(4,077)	(4,159)	(4,242)	(4,327)
Tax paid	A\$'000	-	-	-	-	(2,138)	(3,492)	(4,427)	(4,851)	(5,633)
<b>Cash flows from investing activities</b>										
Proceeds from disposal of property, plant, and equipment	A\$'000	-	-	-	-	-	-	-	-	-
Proceeds from sale of other financial assets	A\$'000	-	-	-	-	-	-	-	-	-
Payments for property, plant and equipment	A\$'000	(25,606)	(2,173)	(2,217)	(2,261)	(2,306)	(2,352)	(2,399)	(2,447)	(2,496)
Payments for acquired exploration and evaluation expenditure	A\$'000	-	-	-	-	-	-	-	-	-
<b>Cash flows from financing activities</b>										
Proceeds from borrowings / Debt Refinancing	A\$'000	2,826	92	56	338	63	357	72	71	260
Movements in DSRAs	A\$'000	(3,260)	(412)	(122)	(699)	414	(237)	(343)	(105)	(167)
Proceeds from equity raised (net of costs)	A\$'000	-	-	-	-	-	-	-	-	-
Proceeds from conversion of options	A\$'000	-	-	-	-	-	-	-	-	-
Interest and other finance costs paid (borrowing costs)	A\$'000	(5,280)	(6,700)	(6,185)	(5,579)	(4,889)	(4,223)	(3,493)	(2,687)	(1,849)
Arranging Fees	A\$'000	-	-	-	-	-	-	-	-	-
Repayment of borrowings	A\$'000	(5,450)	(12,954)	(13,880)	(17,136)	(16,988)	(17,855)	(19,621)	(20,670)	(22,259)
Dividends paid	A\$'000	-	-	-	-	-	(3,716)	(6,553)	(7,196)	(8,116)
Net increase / decrease in cash and cash equivalents	A\$'000	(20,960)	7,474	7,903	8,636	9,089	5,596	3,180	2,830	2,202
Effect of exchange rate movements on cash	A\$'000	-	-	-	-	-	-	-	-	-
<b>Cash and cash equivalents at the end of the period</b>	<b>A\$'000</b>	<b>8,176</b>	<b>15,650</b>	<b>23,553</b>	<b>32,189</b>	<b>41,278</b>	<b>46,874</b>	<b>50,054</b>	<b>52,884</b>	<b>55,086</b>
<b>Balance Sheet</b>										
Cash and cash equivalents	A\$'000	8,176	15,650	23,553	32,189	41,278	46,874	50,054	52,884	55,086
Trade and other receivables	A\$'000	7,084	7,223	7,316	7,691	7,794	8,190	8,303	8,414	8,717
<b>Total Current Assets</b>	<b>A\$'000</b>	<b>15,261</b>	<b>22,873</b>	<b>30,868</b>	<b>39,880</b>	<b>49,071</b>	<b>55,064</b>	<b>58,356</b>	<b>61,298</b>	<b>63,803</b>
Property, Plant and Equipment	A\$'000	295,957	277,132	258,204	239,171	220,031	200,781	181,419	161,943	142,352
Debt Service Reserve Account	A\$'000	3,260	3,672	3,794	4,493	4,079	4,316	4,659	4,765	4,932
Right of Use Asset	A\$'000	146	146	146	146	146	146	146	146	146
<b>Total Non-Current Assets</b>	<b>A\$'000</b>	<b>299,362</b>	<b>280,949</b>	<b>262,144</b>	<b>243,810</b>	<b>224,256</b>	<b>205,243</b>	<b>186,224</b>	<b>166,854</b>	<b>147,429</b>
Payables	A\$'000	2,132	2,184	2,228	2,272	2,318	2,364	2,412	2,460	2,510
Lease Liabilities	A\$'000	219	219	219	219	219	219	219	219	219
Provisions	A\$'000	105	105	105	105	105	105	105	105	105
<b>Total Current Liabilities</b>	<b>A\$'000</b>	<b>2,456</b>	<b>2,509</b>	<b>2,552</b>	<b>2,597</b>	<b>2,642</b>	<b>2,689</b>	<b>2,736</b>	<b>2,784</b>	<b>2,834</b>
Borrowings	A\$'000	172,300	159,438	145,613	128,815	111,890	94,392	74,842	54,242	32,244
Provisions	A\$'000	8,546	8,546	8,546	8,546	8,546	8,546	8,546	8,546	8,546
<b>Total Non-Current Liabilities</b>	<b>A\$'000</b>	<b>180,846</b>	<b>167,984</b>	<b>154,159</b>	<b>137,361</b>	<b>120,436</b>	<b>102,938</b>	<b>83,388</b>	<b>62,789</b>	<b>40,790</b>
<b>Net Assets</b>	<b>A\$'000</b>	<b>131,321</b>	<b>133,330</b>	<b>136,301</b>	<b>143,732</b>	<b>150,249</b>	<b>154,680</b>	<b>158,456</b>	<b>162,580</b>	<b>167,608</b>
Contributed Equity	A\$'000	184,671	184,671	184,671	184,671	184,671	184,671	184,671	184,671	184,671
Reserves	A\$'000	8,271	8,271	8,271	8,271	8,271	8,271	8,271	8,271	8,271
Retained Losses	A\$'000	(61,621)	(59,612)	(56,641)	(49,210)	(42,693)	(38,262)	(34,486)	(30,362)	(25,334)
<b>Total Equity</b>	<b>A\$'000</b>	<b>131,321</b>	<b>133,330</b>	<b>136,301</b>	<b>143,732</b>	<b>150,249</b>	<b>154,680</b>	<b>158,456</b>	<b>162,580</b>	<b>167,608</b>

## Valuation up 25% on higher capacity, looming production

Our updated Sum of Parts valuations for Stage 1 (100ktpa only) and Stage 2 (100-200ktpa SOP) are presented in Table 1. The increased production capacity and updated valuation date have lifted our valuations to A\$0.31/sh for the 100ktpa case, and A\$0.42/sh for the staged 100-200ktpa case. KLL at Stage 1 represents a 43% premium to the current A\$0.23/sh share price, while Stage 2 reflects an 82% premium (fully diluted basis). Our A\$0.30/sh price target is inline with our fully diluted Stage 1 valuation. We anticipate these valuation gaps will narrow as the company continues to deliver the Beyondie SOP project on time and budget, and on a successful commissioning and transition to production. Further valuation / share price catalysts may come from confirmation of the 120ktpa production capacity rate via low capital intensity opportunities, an updated Ore Reserve, and further detail on the potential for incorporation of a magnesium by-product revenue stream.

**Table 1. Sum of Parts Valuation at 31 March 2022**

Sum of Parts Valuation	NPV A\$M	100ktpa		100ktpa-200ktpa		
		Undiluted A\$/sh	Diluted A\$/sh	NPV A\$M	Undiluted A\$/sh	Diluted A\$/sh
Beyondie SOP Project	457.0	0.58	0.55	550.9	0.66	0.62
Carnegie SOP JV (KLL 70%)	14.7	0.02	0.02	14.7	0.02	0.02
Corporate	(61.2)	(0.07)	(0.07)	(68.6)	(0.08)	(0.08)
Tax Shield	33.2	0.04	0.04	41.8	0.05	0.05
Debt	(175.1)	(0.21)	(0.20)	(175.1)	(0.21)	(0.20)
Cash	7.7	0.01	0.01	7.7	0.01	0.01
<b>Total Value of Common Equity</b>	<b>276.3</b>	<b>0.37</b>	<b>0.35</b>	<b>371.4</b>	<b>0.44</b>	<b>0.42</b>
Issued Shares (million)		839.2	889.2		839.2	889.2
Premium to share price (%)		43%	35%		92%	82%

Source: Kerr Allan estimates

To achieve 100ktpa SOP production, we have increased brine flows into the ponds by 6%, while keeping the extracted brine volume in our mine plan constant. We have also assumed a 5% increase across our grade profile. The increased production rates have reduced our base case 100ktpa mine plan by 3.25 years to 49 years, and the Staged 100-200ktpa by 1.5 years to 28 years; immaterial changes compared to the valuation impacts of increased production. Our Sum of Parts valuations have been rolled forward two quarters to March quarter 2022, when our modelled production has almost ramped up to the 100ktpa run rate.

### Our take on the increasing guidance

KLL's guidance increase is underpinned by 1) refining conservative plant availability and utilisation assumptions made by KLL management in the BFS; 2) identification of conservative design elements in the German-engineered SOP plant, and 3) positive brine grade reconciliation vs Ore Reserve grades.

The September 2018 BFS assumed 7,500 operating hours per annum (85% asset utilisation) or 44 weeks of the year. We suspect the SOP plant as built has fewer maintenance requirements / more efficient maintenance schedules, so the plant can operate for longer periods. The design conservatism may reflect the Germans' aim to avoid any penalties under the performance guarantees, and perhaps also meet incentives to exceed nameplate capacity.

Finally, higher than expected brine grades coupled with the identified avenues to increase plant throughput provide KLL with the ability to deliver its 11% increase in production capacity. KLL appears confident these grades can be sustained longer term, and we would expect a positive impact on the Ore Reserve in due course.

### Targeting 120ktpa SOP capacity

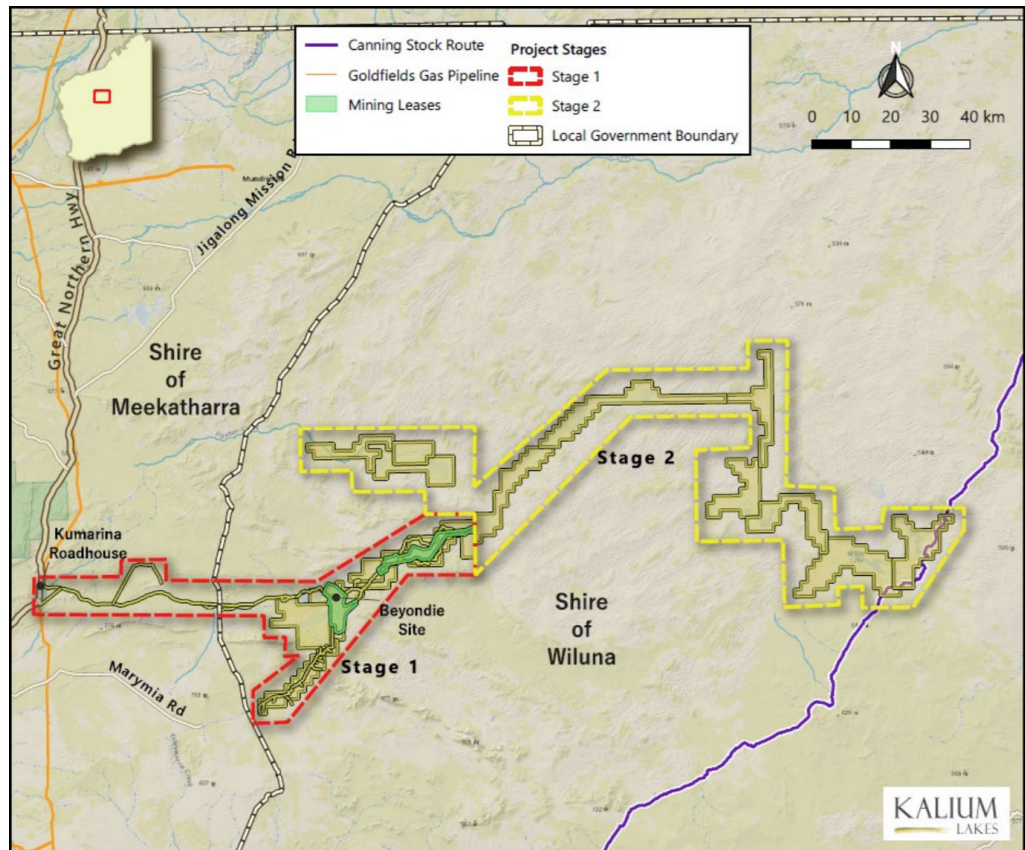
The company's announcement suggests it has already identified potential low capital intensity opportunities to help achieve a further lift in production from 100ktpa to 120ktpa. We expect these opportunities will relate to further plant de-bottlenecking, which will be better understood as the plant is commissioned. KLL could also consider adding MOP to its circuit, which Compass Minerals does at its Great Lake salt operation in Utah. This would assist in managing upstream bottlenecks in the ponds or process plant, and allow KLL to take advantage of short-term local demand spikes for SOP.

### The bigger picture

KLL's production plans to date have focused on establishing an initial operation at the western edge of the project, which is phased from 100ktpa to 200ktpa using brine extracted from Ten Mile Lake and Lake Sunshine only, before a further potential expansion incorporating Mineral Resources from the eastern lakes. The rationale has been to grow with the market, so as not to weaken pricing with excess supply.

The company's announcement on 23 March 2021 revealed KLL has completed an internal concept study on an operation incorporating brine sourced from its eastern lakes, which would be a departure from the strategy outlined above. We view the focus on the broader operation as noteworthy and see it as KLL examining how best to position itself for an expanding SOP market. These considerations may reflect an improving SOP market and /or may also be strategic in helping to limit new entrants to the market. Finally, we expect KLL will be assessing scale vs capital trade-offs, to determine the most efficient use of capital in any expansion to address the market.

**Figure 1. The Eastern Lakes in KLL's Stage 2 do not form part of the current mine plan**



Source: KLL ASX Announcement 23 March 2021

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