

South Harz Potash

Equity raise to support pre-feasibility study

South Harz Potash (“SHP”) has announced that the company is to raise A\$2.4m through a placement at A\$0.03/share with an attached 1 for 4 option with an exercise price of A\$0.08/share and a three year term. Board members committed A\$0.245m to the issue and a further A\$0.99m was raised as part of a Share Purchase Plan (“SPP”) that was open to shareholders. Its notable that the SPP was almost twice the size of the A\$0.5m initially sought. SPP investors will also, subject to shareholder approval, be invited to apply under a separate option offer prospectus for an option for one new share at A\$0.08/share for every four new shares acquired in the SPP. The funds raised will be used to advance the Ohmgebirge Pre-Feasibility Study (“PFS”) and to complete the environmental baseline study work and starting some workstreams for the Definitive Feasibility Study as well as general working capital. The main near term catalysts for the stock should be the submission of the spatial planning application for the project and the completion of the PFS, both of which should occur before the end of the year. The company also announced the appointment of Seamus Cornelius as a NED. Mr Cornelius is an experienced entrepreneur and executive who is currently executive chair of Danakali, which sold the Colluli potash project in Eritrea for US\$166m of cash in 2023. Our price target for South Harz is A\$0.44/share, suggesting ~1,000% upside.

Brownfield development would cut capex and enhance NPV

SHP’s preferred option is for a brownfield development route for Ohmgebirge that would utilise the existing nearby shaft infrastructure at Bernterode, 1,500m from the deposit, and a non-binding consent order has been signed with the shaft’s owner, NDH-E/Deucalion. The previous scoping study returned a NPV8% of US\$1,279m with a 26.6% IRR and US\$620m initial capex (capital intensity of US\$620/t MOP vs. US\$800-1200/t greenfield peers). Construction could start in 2025 with first production in 2028. 1Mtpa of Muriate of Potash (MOP) and 2Mtpa of salt (NaCl) will be produced (1Mtpa sold with remaining backfilled) over a 21-year mine-life. All-in costs were estimated at US\$92.6/t of MOP, net of US\$79/t salt by-product credits (salt accounts for 17% of life of mine sales). The project offers good access to western European markets through the German road, rail, barge, and port network.

MOP prices have pulled back but demographics should drive higher

MOP prices initially surged in the wake of the Russian invasion of Ukraine with FOB Vancouver prices peaking at US\$1,202/t in April 2022 driven by concerns about supply, with Russia accounting for 19% of supply and its close ally Belarus accounting for 17%. These have since faded with prices pulling back and currently trading at US\$341/t. Over the longer term we expect prices to be driven by global demographics and the need to optimise the world’s capacity to sustain a population that the UN forecasts to increase from 8 billion at present to 10.4 billion by 2100.

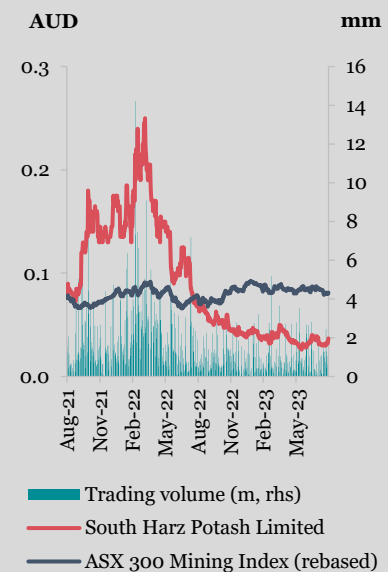
Valuation: A\$0.44/sh target price; significant debt funding likely available

Given the early stage of development, future funding requirements and uncertain nature of our modelling assumptions, we apply a 0.2x target P/NPV to our June 2024E A\$1.6bn valuation to derive a target price per share of A\$0.44, ~1,000% above the current share price. The shares are not currently trading in line with the underlying value of the project, in our view. We believe that the completion of the PFS should be a material catalyst that should result in SHP share price reconnecting with the NAV of Ohmgebirge. In our view, Ohmgebirge is a world class project in a low risk jurisdiction. In addition, the brownfield development route should cut the time to production and initial capex. No further drilling is required to reach Feasibility Study stage, allowing SHP to keep a lean cost structure ahead of project financing if just focusing on Ohmgebirge. We have updated our model to take account of the additional shares issued in association with the fund raising.

GICS Sector	Materials
Ticker	ASX: SHP
Market cap 29-Aug-23 (US\$m)	16
Share price 29-Aug-23 (A\$ cents)	4
Target price June-24 (A\$ cents)	44

~1,000%

Upside from current share price to our A\$0.44/sh risked NPV



The cost of producing this material has been covered by South Harz Potash Ltd as part of a contractual engagement with H&P Advisory Ltd

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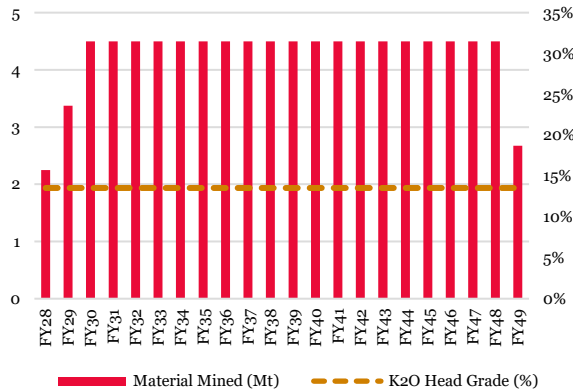
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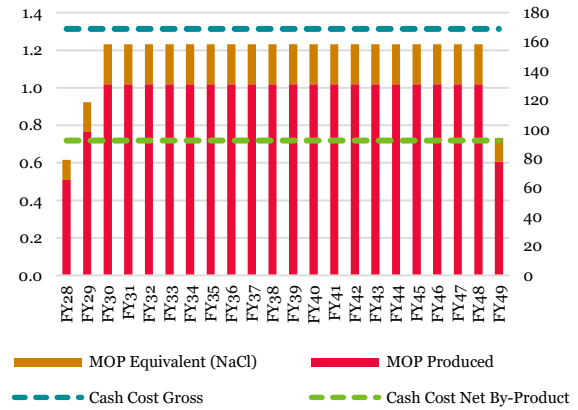
Key Charts

Mine schedule (ROM Mtpa, lhs) and K₂O grade (%), rhs) over a 21-year mine life commencing in 2028



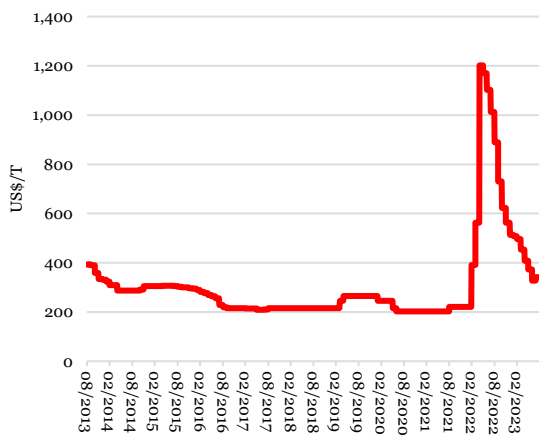
Source: SHP, H&P estimates

Forecast to produce 1Mtpa MOP and 2Mtpa of NaCl (of which half is currently earmarked for backfill)



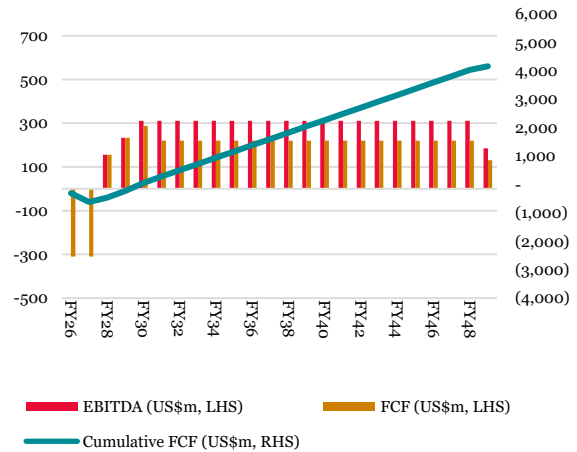
Source: SHP, H&P estimates

MOP Pricing has pulled back from the highs touched in the immediate aftermath of the Ukraine invasion



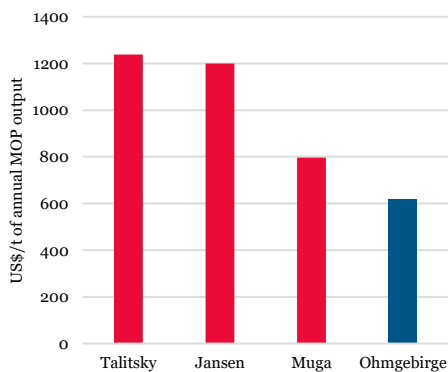
Source: BBG

Attractive cash-costs lead to significant FCF generation and rapid 3.6-year payback



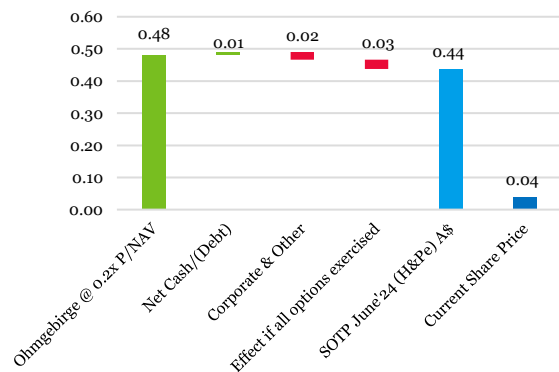
Source: H&P estimates

Leading capital intensity vs. peers due to infrastructure advantages and relatively shallow deposit depth



Source: Company reports

SOTP Valuation (A\$)



Source: H&P estimates

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