

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Potash West NL (PWN)

Update – May 2013

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Investment Profile

Share Price (\$) as at 1 May 2013	0.17
Valuation (\$)	0.73
Issued Capital:	
Ordinary Shares (M)	92.0
Options (M)	11.5
Fully Diluted (M)	103.5
Market Capitalisation (\$M)	15.6
52-week low/high (\$)	0.16/0.30

Board and Management

Directors

Adrian Griffin (Non-Exec Chairman)
Patrick McManus (Managing Director)
George Sakalidis (Non-Exec Director)
Gary Johnson (Non-Exec Director)

Major Shareholders

	%
Barclay Wells Ltd	17.9
Elsinore Energy Pty Ltd	14.9
UOB Kay Hian Private Ltd	5.8
HSBC Custody Nominees Ltd	5.2
Top 20 shareholders own 60.5% of company	

Share price performance



MUCH NEEDED CAPITAL RAISED, MORE NEEDED.....

- ◆ PWN raised \$1.79M in a recent Renounceable Entitlement Issue. The offer to shareholders was for one share for every six shares held at \$0.22 per share plus one free attaching option exercisable at \$0.30 per option on or before 15 March 2015. 67% of the offer has been accepted to date (8,138,532 shares issued), with the lead manager, Stellar Securities, seeking to place the remaining shortfall in coming months. We note however that given current share price softness the capital raising capability of the company may be reduced from the \$0.22 per share issued with the initial raising. The capital raising provided a much needed injection of cash with more capital needed to continue the development of the company's glauconite deposit.
- ◆ The company has commenced a three week drill program at the Dandaragan Trough Project. The aim of the program is to confirm historical drilling results within E70/4137 and E70/4139, collect samples for metallurgical testwork and extend the Dinner Hill Resource to the south and the east.
- ◆ The company is focused on three prospects for the drill program: (1) Dinner Hill Prospect; (2) Dambadjie Prospect; and (3) Attunga Prospect (see graphic on page 2). The work completed at the Dambadjie and Attunga Prospects to date has confirmed the existence of phosphate rich horizons with the most favourable finding being the thickness of the Molecap Greensand of 58m, which is significantly greater than the average 8m thickness of the Molecap Greensand at the Dinner Hill Deposit. The significant improvement in the thickness suggests significant potential exploration upside at the Project.
- ◆ The company seeks to extend the existing JORC Resource Estimate at the Dinner Hill Prospect of 244Mt at 3.0% K₂SO₄ and 1.6% P₂O₅. Drilling is planned to the south and east with great potential to increase the resource.
- ◆ The company is progressing with the Pre-Feasibility Study (PFS), which is expected to be completed in 4Q'2014 with the company hoping to be in full production by mid-2018, producing potash and phosphate products to the local market. Australia currently imports most of its potash and phosphate fertiliser requirements providing the company with a competitive advantage over producers that have to transport the product to Australia.
- ◆ **Valuation:** We maintain our risk adjusted base case valuation for PWN of **\$0.73** per share.

EARNINGS FORECAST

Y/e June	2011	2012	2013F	2014F	2015F
Revenue (\$M)	0.0	0.0	0.0	0.0	0.0
EBITDA (\$M)	-0.9	-4.0	-4.5	-10.0	0.0
Reported NPAT (\$M)	-0.9	-3.9	-4.5	-10.0	0.0
Normalised NPAT (\$M)	-0.9	-3.9	-4.5	-10.0	0.0
Reported EPS (A\$)	-0.01	-0.05	-0.05	-0.05	0.00
Normalised EPS (A\$)	-0.01	-0.05	-0.05	-0.05	0.00
PER	n/a	n/a	n/a	n/a	n/a
DPS	0.0	0.0	0.0	0.0	0.0

PROFIT & LOSS (\$M)					
Y/E June	2011	2012	2013	2014	2015
Sales Revenue	0	0.0	0.0	0.0	0.0
Other Revenue	0.0	0.0	0.1	0.2	0.2
Total Costs	0.9	4.1	4.5	10.0	0.0
EBITDA	-0.9	-4.0	-4.5	-10.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
EBIT	-0.9	-4.1	-4.5	-10.0	0.0
Interest	0.1	0.2	0.0	0.0	0.0
Pre-Tax Profit	-0.9	-3.9	-4.5	-10.0	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
Net Profit After Tax	-0.9	-3.9	-4.5	-10.0	0.0
Abnormals	0	0.0	0.0	0.0	0.0
Reported Net Profit After Tax	-0.9	-3.9	-4.5	-10.0	0.0

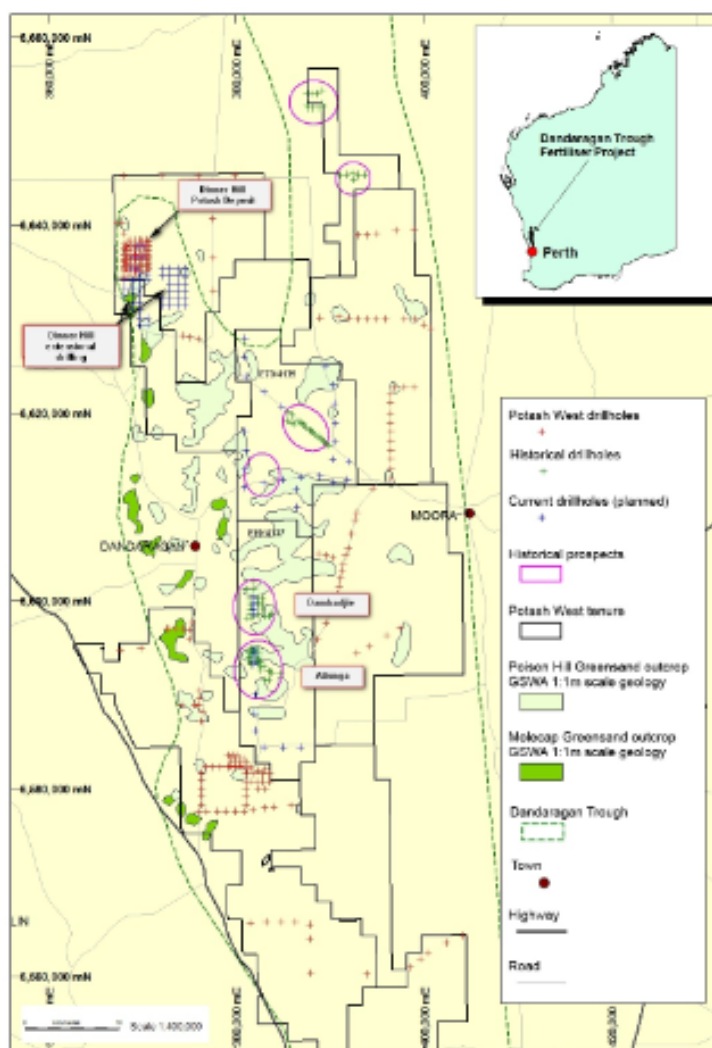
BALANCE SHEET (\$M)					
Y/E June	2011	2012	2013	2014	2015
Cash	5.4	3.3	0.6	2.5	2.4
Trade and Other Receivables	0.1	0.1	0.1	0.1	0.1
Inventories	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Current Assets	5.5	3.4	0.6	2.5	2.4
Property, Plant and Equipment	0.0	0.1	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Exploration and Evaluation	2.5	2.5	1.0	10.0	0.0
Non-Current Assets	2.5	2.6	1.0	10.0	0.0
Total Assets	8.0	6.0	1.6	12.5	2.4
Trade and Other Payables	0.4	0.4	0.4	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Current Liabilities	0.4	0.4	0.4	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	0.4	0.4	0.4	0.0	0.0
Net Assets	7.6	5.6	1.3	12.5	2.4
Contributed Equity	8.4	10.0	12.0	32.0	32.0
Reserves	0.0	0.3	-1.5	-0.2	-10.3
Retained Earnings	-0.8	-4.7	-9.2	-19.3	-19.3
Shareholders' Equity	7.6	5.6	1.3	12.5	2.4
Minorities	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total Equity	7.6	5.6	1.3	12.5	2.4
Shares on Issue	7.5	83.8	93.8	193.8	193.8
Options Outstanding	0.0	17.3	17.3	15.5	0.2
Fully Diluted	7.5	101.1	111.1	209.3	194.0

CASHFLOW (\$M)					
Y/E June	2011	2012	2013	2014	2015
Receipts from customers	0.0	0.0	0.0	0.0	0.0
Payments to suppliers	-0.3	-3.7	-3.6	-8.0	0.0
Net interest	0.1	0.2	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Operating Activities	-0.2	-3.5	-3.6	-8.0	0.0
Capital Expenditure	0.0	-0.1	-0.1	-0.1	-0.1
Exploration, Development, Evaluation	0.0	0.0	-1.0	-10.0	0.0
Asset Sales/Acquisitions	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investment Activities	0.0	-0.1	-1.1	-10.1	-0.1
Share Issues/(Buybacks)	5.7	1.4	2.0	20.0	0.0
Debt Drawdown/(Repaid)	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Activities	5.7	1.4	2.0	20.0	0.0
Net Cash	5.4	-2.2	-2.7	1.9	-0.1
Cash at beginning	0.0	5.4	3.3	0.6	2.5
Cash at end	5.4	3.3	0.6	2.5	2.4

Key Model Assumptions

Dandaragan Trough Project	
SOP	US\$700/t
KMS	US\$250/t
SSP	US\$300/t
Iron Oxide	US\$100/t
Aluminum Sulphate	US\$150/t
Recovery rate	89%
Mine Feed Rate	2.4Mtpa
WA State royalty as % of revenue	5%
Capex	A\$650M
Exchange Rate (A\$/US\$)	0.95
First Production (year)	2018
Mine life	25 Years

Drill Program Focus



INVESTMENT CASE

- ◆ With the mineralisation open to the north, south and east in the Dandaragan Trough Project there is great potential for increasing the resource.
- ◆ PWN's glauconite deposits are close to the surface and the material is soft so the mining costs are reasonable. It is also close to well established infrastructure.
- ◆ Australia currently imports most of its potash and phosphate fertiliser requirements. The production of SOP, KMS and SSP locally give PWN a competitive advantage over those companies that have to ship the product to Australia.
- ◆ We have valued the Dandaragan Trough Project based on a feed rate of 2.4Mtpa. A feed rate of 4Mtpa has been costed and would provide additional revenues through increased production to the company.
- ◆ We value Potash West NL (ASX:PWN) with a risk adjusted valuation of \$0.73 per share. Our valuation includes a 40% discount due to the current JORC category of resources and the fact that the development of the Dandaragan Trough Project remains in the early stages. We have also adjusted the valuation to account for the financing and offtake risk currently associated with the Project.

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