

Meeting the Challenge: Allana Potash Focuses on Ethiopia to Meet Demands of Changing Market

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VANCOUVER, B.C., July 22, 2014 (GLOBE NEWSWIRE) -- The potash market has seen its share of trials in recent months. Cartel dissolutions, soaring production costs and declining spot prices have created a challenging market. But Toronto-based [Allana Potash Corp.](#) (TSX:AAA) is one company that has turned those challenges to its advantage.

Since 2009, Allana's primary focus has been on the acquisition and development of international potash assets. A cornerstone of its activities is the flagship Danakhil Potash Project in the Danakhil region of Ethiopia, which is on track to become the first functioning potash mine in Africa.

"Unlike major projects that have faced cancellations or significant delays due to declining potash prices, Allana has a number of unique advantages, including an extremely low capital expense/operating expense model and a growing number of investment partners," says Richard Kelertas, senior vice-president, corporate development, for the company. "What we have with Danakhil is a world-class, high-grade potash resource that we can access with cost-effective, proven mining methods."

This business model has attracted the attention of partners such as IFC, a member of the World Bank Group, and Liberty Metals and Mining Holding LLC. In January, Allana announced its most significant partnership yet with Israel Chemicals Ltd. (ICL), the fifth-largest potash producer in the world. Under the terms of the agreement, ICL is now a minority shareholder at 16.4%.

"For a large potash producer to work with a junior partner is a major validation of the project for us," says Farhad Abasov, Allana's chief executive officer. "While ICL has taken minority positions before, they have never remained as just a minor investor. They add value to the operation and management and usually expand their ownership over time as they become more comfortable with the jurisdiction and the process."

"They saw a great opportunity with this project," says Kelertas. "Not only is the economy growing, Ethiopia is the ideal location to cost-effectively service African, Asian and Middle Eastern markets."

There are three core components included in the ICL deal: financial support, a take-or-pay offtake for 80% of production, and technical cooperation. ICL's investment stands at \$25-million, with the potential to reach \$84 million, assuming full exercise of its warrants. Production is planned to reach one million tonnes of muriate of potash (MOP) annually. MOP is the standard grade of potash that is applied to staple crops such as corn, wheat and soy. The project also has the potential to produce sulphate of potash (SOP), which is applied to cash crops such as vegetables and orchards, as well as golf courses.

The take-or-pay offtake is unique for ICL and the industry as a whole. In a traditional offtake agreement, a company will commit to taking a certain amount of production at a discounted price. If the product cannot be sold, the producer is responsible for the inventory storage.

In the take-or-pay agreement, ICL will pay for its percentage of output, whether it has been sold or not. "That almost guarantees a large bulk of cash flow for Allana because 80% of our output will be paid for regardless," Kelertas explains. "That's a tremendous advantage no one else in this industry has, and provides major comfort for banks providing debt financing because it shows we will be able to service our debts."

"Nobody in this sector has done anything like this. But ICL saw a lot of potential and synergies," Abasov says.

ICL also has invaluable expertise in the infrastructure needed for solar evaporation. This is a commonly used process in which water is utilized to extract and convey potash deposits close to the surface and deposited in solar evaporation ponds. ICL manages one of the world's largest solar evaporation pond systems near the Dead Sea. In the case of the Danakhil project, water-soluble potash deposits will be flushed with brine from a natural aquifer and the liquid pumped to surface evaporation ponds. There the high temperatures will accelerate the process for more efficient production.

"ICL knows everything there is to know about solution mining, transportation, construction and logistics," Kelertas says. "Without that we would have had to hire the expertise to bring the project into production."

In fact, capex costs for the project are estimated to reach only US\$642-million, with total opex at \$125 per tonne (delivered on ship, including sustaining capex and transportation from the site). This pales in comparison to the multi-billion-dollar projects that have been abandoned or postponed due to declining potash prices in the face of rising production costs.

With Allana's low capex numbers, Kelertas says it can continue to deliver a high rate of return once the mine is at its full capacity of one million tonnes per year. "The very low cost structure means that we can be profitable even at a US\$300 to \$350 spot price. Other projects won't get off the ground unless the price is \$500 or higher, so many of them are looking at 2020 or beyond before they might get back on the drawing board."

Unlike other parts of Africa, Kelertas says, Ethiopia is a geopolitically stable and rapidly growing economy and a mining-friendly jurisdiction. "There's a tremendous amount of infrastructure money flowing into Africa as we speak, especially on the agricultural side. Analysts and investors, including heavyweights Warren Buffet and KKR, are projecting that agriculture will be one of the biggest investment areas over the next five to 10 years in the continent."

As a mining-friendly jurisdiction, Ethiopia has been investing billions on its transportation and distribution infrastructure. "Road, rail and port facilities are all being built for us," says Abasov. "Plus we have all the water supply we need for sustained production."

The African market will become a thriving market for potash as the continent's food requirements expand. According to the United Nations, Africa will make up 25% of the world's population by 2050, versus 15% today, and urban dwellers will quadruple during the same period. At the same time, increased demand on available arable land will drive a need for increased crop productivity and yield, which relies on sustainable potash production for fertilizer applications. Ethiopia's Agricultural Transformation Agency reports that 100,000 to 400,000 tonnes of potash will be consumed by Ethiopia, Kenya and other East African nations over the next five years.

"Ultimately Allana's success will hinge on three principles," Abasov says. "First the shallow nature of the deposit and the hot climate offer a significant advantage in terms of cost structure. Second, we are able to attract project financing from large global financial institutions with mandates to spur economic development in emerging nations. In terms of general development, over \$3-billion of foreign direct investment has been made in the agriculture sector in Ethiopia alone. Third, the Ethiopian government is extremely supportive. In fact, we are one of only a few projects that are fully permitted. In addition, the federal government is taking on many of the construction expenditures relating to infrastructure building that will help ensure the long term success of our project."

Once production is in full force, Abasov estimates that 30% to 40% of output will be slated for the African market.

"To succeed, we have to make sure we are one of the lowest cost producers on the planet," Kelertas says. "And we will likely be once we're up and running at full capacity."

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