



Industrial



Source: Refinitiv

Market data

EPIC/TKR	EML
Price (p)	5.8
12m High (p)	8.5
12m Low (p)	3.7
Shares (m)	825.4
Mkt Cap (£m)	47.9
EV (£m)	54.2
Free Float*	81.7%
Country of listing	UK
Market	AIM

*As defined by AIM Rule 26

Description

Emmerson PLC (EML) is a junior potash miner with assets in Northern Morocco. The Khemisset mining project is highly competitive, with potentially strong commercial opportunities.

Company information

CEO	Graham Clarke
ED	Hayden Locke
NED	James Kelly
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Key shareholders

Jarvis Clients	15.0%
Hargreaves Lansdowne	11.9%
Robert Wrixon	5.4%
Other directors	0.3%

Diary

2021	Final results
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Analyst

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EMMERSON PLC

A competitively well-placed potash play

EML is well-placed to benefit from the opportunities that the demand for potash to feed the world's rapidly increasing population is creating. The Khemisset mining project in Morocco has the potential to be among the lowest in terms of capital cost, and, also, as a result of its location, one of the highest-margin potash projects in the world. With the project, EML has the potential to become a major producer of both MOP (Muriate of Potash) and SOP (Sulphate of Potash).

- **Strategy:** EML's focus is on developing the Khemisset Potash Project, located in Northern Morocco. The project offers a large JORC (Joint Ore Reserves Committee)-compliant resource with low capital cost and high-margin product development.
- **Finance:** In late February 2021, EML successfully completed a £5.5m fundraising to finance the final critical path components of development work at Khemisset.
- **Valuation:** It is widely considered by the stock market that junior resources companies can be expected to trade at around 20%-25% of NAV, if corporate positioning is strong and the project economics are top-quality. EML currently trades at around 5% of NAV, suggesting share price upside potential.
- **Risks:** EML faces the normal risks for a junior miner, albeit without the funding risk faced by explorers/developers. These include volatility in potash prices, political risks, environmental risks, and operational risks in successfully executing the mining plan and operating downstream processing facilities.
- **Investment summary:** In our opinion, EML offers an attractive investment, with a defined development path and a long-term investment programme for creating a mid-tier, multi-nutrient fertiliser company with sound finances and an appealing valuation.

Financial summary and valuation

Year-end Dec (£000)	2019	2020E	2021E	2022E
Sales	0.0	-	-	-
Underlying EBITDA	-1.1	-	-	-
Underlying EBIT	-1.1	-	-	-
Reported EBIT	-1.1	-	-	-
Underlying PTP	-1.1	-	-	-
Statutory PTP	-1.1	-	-	-
Underlying EPS (p)	-0.17	-	-	-
Net (debt)/cash	2.1	-	-	-
Shares issued (m)	686.0	-	-	-
P/E (x)	-	-	-	-
EV/sales (x)	-	-	-	-

Source: Company data, Hardman & Co Research

Investment case

The go-to junior mining potash play

We believe EML offers an attractive investment, with a defined development path and a long-term investment programme for creating a mid-tier, multi-nutrient fertiliser company. The group's primary focus is on developing the Khemisset Potash Project, located in Northern Morocco – the Number 1 African investment mining jurisdiction country in 2018. The project offers a large JORC-compliant resource with significant upside from exploration targets with low capital cost and high-margin development, confirmed by a recent Feasibility Study. The project is supported by strong long-term fundamentals for potash and by the company's experienced board and management.

The need to feed the world's rapidly increasing population is driving demand for potash, and EML is well-placed to benefit from the opportunities this presents.

Khemisset has potential to be world-class, low capital-cost, high-margin potash mine

Strategy – focus on developing Khemisset potash project

EML's strategic focus is on developing the Khemisset Potash Project, located in Northern Morocco, ca.90km from the capital city, Rabat, and the planned bulk port of Kenitra Atlantique, 175km from the port of Mohammedia.

The project has a large JORC resource estimate (2019) of 537Mt @ 9.24% K₂O and significant exploration potential with an accelerated development pathway. The Feasibility Study, completed by Golder Associates in June 2020, has shown that Khemisset has the potential to be a world-class, low-capital-cost, high-margin potash mine, which we believe to be a very rare asset in the industry today. The study also demonstrated robust economics for Khemisset, with a post-tax NPV10 of US\$1.4bn and an IRR of 38.5%, to produce ca.810,000 tonnes of K60 MOP p.a. during steady-state operations over the initial 19-year mine life. Equally importantly, Khemisset has demonstrated an incredibly low pre-production capital cost of US\$387m, less than half of its global peer-average capital intensity.

Khemisset is ideally located to benefit from the expected high growth in demand for NPK fertilisers on the African continent. Its location, close to a number of potential export ports, and on the doorstep of European, Brazilian and US markets, means that the project will receive a premium netback price relative to many of its peers.



Source: Emmerson

Recent developments – concept study now completed

Following on from the Feasibility Study, EML has recently completed a concept study to examine the potential to develop Khemisset, using a four-phased approach to reduce upfront capital costs and execution risk, and plan additional expansion stages to ensure that its economic value is fully developed. This concept plan resulted in major value-enhancing opportunities: significantly reduced upfront capex of US\$254.6m; the potential for subsequent phases to be funded from internal cashflows; an estimated NPV8 of US\$2.37bn; and forecast EBITDA in the first full year of Phase 4 production of US\$491.4m. The study also demonstrated the flexibility and additional potential of Khemisset, and has led EML to continue project developments, utilising outputs of this phased approach study.

EML still intends to build full-scale project as identified in Feasibility Study

The company’s intention remains to build the full-scale project as identified in the Feasibility Study. However, the report, undertaken for scoping study levels, identifies the opportunity to commence with a smaller-scale startup operation producing MOP, to be followed by a series of expansion phases to increase the level of MOP produced, and add in the production of de-icing salt in increasing quantities, as well as the premium potash product, SOP. The upfront capex for this strategy, including contingency, is estimated at US\$287m. Subsequent phases through to full production would likely be financed from internal cashflows. In full production, the Khemisset Project could produce 800ktpa of MOP, 240ktpa of SOP and 4mtpa of de-icing salt. This production rate is a significant increase to the existing Feasibility Study, which the company believes is justified, given the scale and quality of the Khemisset orebody.

Commercial opportunity – the potash market

As noted, the need to feed the world’s rapidly increasing population is driving demand for potash and other fertilisers, and EML is well-placed to take full advantage of the opportunities this presents. Potash plays a central role in helping feed the world’s growing population, and demand is driven by the ongoing requirement to feed a population from declining arable land. Around 95% of world potash production is used as fertiliser. There is no substitute for potash, and MOP remains the cheapest and most important source of potassium for agricultural purposes.

Increasing potash demand tightening up pricing for producers – helpful situation for EML

There is currently a tailwind in the potash market, with increasing demand tightening up the pricing that producers can obtain. This is a helpful situation, as EML looks to negotiate the strategic financing options to construct the mine. In recent weeks, several of the producers have reported improving prices, as strengthening fundamentals show their effect; the reasons are a combination of diminished inventories, rising commodity prices, compelling farm economics and a cyclical recovery under way.

The leading fertiliser industry analysts at consultants Argus forecast price increases from the lows of mid-2020 for the short/medium term. The more encouraging potash market outlook will assist in the ongoing strategic and debt-financing discussions for Khemisset.



Finances

Successful February 2021 fundraise

In late February 2021, EML successfully completed a £5.5m fundraising, which was led by several new institutional investors, as well as a number of existing shareholders. The purpose of the fundraising was to finance the final critical path components of development work at Khemisset and to ensure that the timeline was not delayed as the company moves towards securing project finance through debt and equity for the mine construction in 2H'21. Around £2.5m will be used for design for mine decline and infrastructure, as well as for deep hole drilling. Around £1.6m is earmarked for general working capital requirements.

Trading at ca.5% of NAV, suggesting significant upside potential from current share price levels

Valuation – significant share price upside potential

It is widely considered by the stock market that junior resources companies can be expected to trade at around 20%-25% of NAV, if the project's economics are top-quality, the project's capex is much lower than the NAV, the management team is credible and strong shareholders join the register. Comparable exploration and development potash stocks include Sirius Minerals (SXX), Highfield Resources (HFR) Salt Lake Potash (SO4), Kalium Lakes (KLL) and Kazakhstan Potash (KPC). EML currently trades at around 5% of NAV, suggesting that there is significant upside potential from current share price levels.

Project's location relative to target markets will deliver premium netback price versus many peers

Morocco – an attractive African mining jurisdiction

The Kingdom of Morocco ranked 53rd out of 190 countries in the World Bank's 2020 Ease of Doing Business Index – or second in terms of African countries. Morocco is a major producer of phosphate and oil, and benefits from a stable government that is supportive of mining investments. For example, new mines enjoy a five-year tax holiday from production commencement, and mining royalties are negligible. The Moroccan government has, so far, appeared to be very supportive of EML and the Khemisset project.

Morocco is one of the fastest-growing potash-consuming countries in the world, indicating that there will be strong local demand for the potash product. Furthermore, and, more importantly, Morocco is ideally located to service four key export markets for MOP in the Atlantic corridor, including South Africa. The project's location relative to its target markets will deliver a premium netback price versus many of its peers.

Background – potash industry basics

Potash is a term used for potassium fertiliser. It is used predominantly to help the agricultural industry improve yields and produce crops of better overall quality. It is a naturally occurring substance, and there are several sources of potash. The two predominate ones are potassium chloride, also known as MOP, and potassium sulphate, also known as SOP. Potash production is currently heavily concentrated in just four countries: more than 75% of the world's potash production comes from Canada, Russia, Belarus and China – and more than half of the world's reserves lie within the top two producing nations.

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