

American Pacific Borates Ltd

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American Pacific Borate and Lithium looks like a 10-bagger: former top-rated analyst

American Pacific Borate and Lithium Ltd (ASX:ABR) is developing the Fort Cady borate and lithium project in California, USA which has a 120.4 million tonne deposit at 6.5% boron oxide.

Orior Capital analyst Simon Francis feels ABR is incredibly cheap in absolute terms as the current market capitalisation (US\$21 million) is about 2% of the lower capex scenario net present value (NPV) of US\$1,083 million.

Following is an extract from a special report on ABR prepared by Francis, who has worked extensively in a number of financial institutions including Nomura, Credit Suisse and Macquarie Securities where he was highly ranked in a number of key industry polls.

ABR acquired the project in May 2017. A Scoping Study was completed in December 2017, and a Definitive Feasibility Study (DFS) in December 2018, just 19 months after the acquisition.

In January 2019, ABR released a low-capex 'enhanced' version of the DFS, that split Phase 1 into two parts, and is now considered 'base case'.

Phase 1A comprises the Phase 1 sulphate of potassium (SOP) line plus a commercial scale boric acid plant. Phase 1B is the full 82,000 tpa Phase 1 boric acid plant.

Looks like a 10-bagger: Based on the January 2019 DFS, the project has a post-tax, unlevered NPV10 of US\$1,083m, with an IRR of 41% and an initial capex requirement for Phase 1A of just US\$37m.

This is an incredibly low capex figure to get a project of this scale up and running.

Despite these strong metrics, **ABR's current market capitalisation is about 2% of NPV.**

Assuming total initial capital (including working capital) for Phase 1A of US\$50m, debt financing, 50m warrants at A\$0.50 per share offered as an incentive to debt providers, a further US\$80m in debt to fund Phase 1B, and a fair EV valuation 12 months from now of 30-50% of NPV, ABR could attract an EV valuation of US\$325m to US\$542m.

This equates to a valuation of A\$1.10-A\$2.21 per share, 7-14x the current share price.

Lower capex, much lower dilution: Junior companies with big projects often end up heavily diluting shareholders when the real money needs to be spent.

Price: 1.8

Market Cap: \$575.4 m

1 Year Share Price Graph



January 2020 July 2020 January 2021

Share Information

Code: ABR

Listing: ASX

52 week High Low
1.83 0.145

Sector: Battery Metals

Website: americanpacificborate.com

Company Synopsis:

American Pacific Borates' (ASX:ABR) Fort Cady Project in California hosts a multi-generational borate resource where boric acid, gypsum and potassium sulphate will be produced for the large North American specialty fertiliser market and new high-end technologies like electric vehicles and space shuttles.

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The brilliance of splitting Phase 1 into two parts is that this should now be avoided.

At US\$50m all in, Phase 1A is financeable with debt plus warrants. With 1A in production, financing Phase 1B will be easier and cheaper.

By splitting Phase 1 into two, management have been greedy on behalf of shareholders. That's a good thing.

Opportunity knocks: ABR shares are still trading at levels seen in 4Q18, the tail end of a horrible year in junior mining. So far, the market has failed to recognise the opportunity in ABR that this presents.

Compelling project with substantial cash flows: Based on the DFS, Fort Cady will ultimately produce ~408,000 tpa of boric acid and ~109,000 tpa of SOP. ABR will become only the second major producer of calcium-based borates globally, and only the second producer of SOP in the US. The project is expected to generate EBITDA of US\$345m in the first full year of production.

Cooperation agreements with the Chinese majors: In May 2018, ABR secured cooperation agreements with Sinochem Hebei Corp, a subsidiary of China's state-owned Sinochem Group, and with China National Fiber Corp, a subsidiary of China National Machinery Industry Corp (usually known as 'Sinomach').

These are substantial groups; in 2018, Sinochem Group was ranked 98th in Fortune Global 500. Sinomach was ranked 334th. (For comparison, Rio Tinto was ranked 278th).

It is no surprise the Chinese were quick off the mark; China is the largest market for borates and a significant net importer. **That two of China's largest and most established state-owned enterprises have entered into these agreements is a testament to the strategic value of the Fort Cady project.**

Few new projects expected to come on stream: The borates market is essentially a duopoly with Eti Maden and Rio Tinto (RIO.L) together controlling ~80% of the world demand. Globally, there are few occurrences of commercially viable borate deposits; visibility on new projects other than Fort Cady is poor.

Some projects plan to mine borates as a by-product to lithium, but these are earlier stage, and rely on processing new minerals, something that will take time to learn.

The Fort Cady processing route is based on prior feasibility study level work, well-established chemistry and standard processing equipment. **ABR offers the purest exposure to the boron market, the most advanced project, and the lowest capex.**

Strong US demand for SOP: US SOP demand is expected to grow at ~4.8% pa over the next few years, having grown at almost 5% pa since 2009.

A number of factors are driving this growth including the use of newer, higher-yielding crops that extract more sulphur from the ground, the recent popularity

of planting in cold soils, and global emission controls which have meant less sulphur deposition from precipitation.

In summary, Fort Cady is a hugely valuable project. It hosts a strategically important mineral, is in an excellent jurisdiction, and boasts very low capex costs. It is the most advanced borates project in the market. This, combined with the fact that ABR will be only the second producer of SOP in the US, means the company has a multitude of strategic options. The current share price, being ~2% of NPV, offers investors a great opportunity.

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