

# Sirius Minerals PLC

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## Is Sirius Minerals simply the best? Or are there other potash companies out there that offer better value?

The Sirius Minerals PLC (LON:SXX) website makes a bold boast right from the top. The company has, it says, at Woodsmith, the largest and highest grade polyhalite project anywhere in the world - a total of 2.66bn tonnes to be exact, and that across only 7% of the ground Sirius has under licence.

Sounds impressive.

But is it really?

The answer to that remains to be seen. Certainly, some big names in mining finance, including Australia's richest woman Gina Rinehart, are betting that the Sirius project will pay off, although it's also true that Mrs Rinehart bought in after uncertainties about viability wiped significant value off the Sirius price and rendered it cheap to her experienced eye.

### READ: Could one of Sirius Minerals' main rivals be about to throw the towel in?

The risks are plentiful. For one thing, the development of the underground infrastructure is one of the UK's largest ongoing engineering projects. And as the developers of Crossrail, another of the UK's largest engineering projects, know well, when things don't go according to plan the overrun costs can run into millions of pounds or dollars.

So too with Sirius. But even more than that, there is the question about the 2.66bn tonnes of polyhalite. Just how marketable will it turn out to be? Because one reason why no one else has got a polyhalite resource of comparable size is that no-one really knows if there's a market out there for the stuff.

To be sure, the world needs fertiliser, and it will need more of the stuff as the population continues to rise. But polyhalite isn't currently a fertiliser that's widely used. Sirius hopes to change all that and argues correctly that the market for the constituent components of Poly4, the name under which polyhalite will be marketed, runs into the hundreds of billions of dollars and could reach as much as US\$245bn by 2020.

But the market for the constituent components might not be the same as the market for the actual product.

After all, as smaller fertiliser and potash firms like Harvest Minerals LRD (LON:HMI) know all too well a full season's testing in local conditions is often an essential precursor to securing supply deals. And that's where there's already some understanding of the types of fertiliser that are on offer, be they sulphate or muriate of potash or some blend or variant of the two.

Because not all fertilisers are created equal, and neither are all soils. This makes marrying up supply with customers an interesting exercise of some subtlety that won't necessarily happen quickly.

## Influential friends

### 1 Year Share Price Graph



October 2019 January 2020 March 2020

### Share Information

**Code:** SXX  
**Listing:** LSE  
**Sector:** Potash & fertilisers  
**Website:** [www.siriusminerals.com](http://www.siriusminerals.com)

### Company Synopsis:

*Sirius Minerals is a UK based fertilizer development company focused on the development and operation of its polyhalite project in North Yorkshire.*

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Still, a major tick in that box as far as Sirius is concerned is the participation of Fortune 500 company Archer Daniels Midland (NYSE:ADM). ADM plans to take a sizeable slug of the Woodsmith polyhalite output and sell it into the North American market, including Mexico, where it expects to find willing customers. ADM is no slouch in this market, so any investors jittery about the real potential of polyhalite should take heart - not long after the ADM deal, Gina Rinehart saw fit to stump up more cash.

But Rinehart is in a class of her own. Apart from her ability to negotiate generous payments to be sliced off the top off Sirius's future income stream, she can also afford to bear the loss if things start to drift and go wrong.

For investors lower down the scale, the options present themselves a little differently. While it's worth noting that Sirius shares at the current 22p are trading at double where they were four years ago, it's also true that the performance in the past few months has been poor, as doubts about the billions of dollars of required funding have continued to plague sentiment. A third of the value of the company has been wiped out since July, and some internet commentators are beginning to wonder if the earlier 38p highs will ever be seen again.

That's partly because of the uncertainty, but also, as a corollary, because there is always the possibility, despite protestations to the contrary, that Sirius will end up having to raise more money through equity. And if that were to happen, in this market the discount would undoubtedly be quite steep.

Still, the fundamentals underlying the fertiliser business remain robust, and global demand is set to increase still further as general wealth levels increase and more people are able to afford better food.

## The competition?

Where then should investors look if they are baulking at the size and risk associated with Sirius. The major established producers in North America are the obvious first port of call, in particular, Mosaic (NYSE:MOS) and Agrium (TSE:NTR). The London-listed majors Rio Tinto (LON:RIO) and BHPBilliton also have significant production, although their shares tend to trade more in line with base metals and iron ore prices.

Then further down the scale, where the upside is greater but so are the rewards, there are the likes of Salt Lake Potash (LON:SO4), Danakali (ASX:DNK)(LON:DNK) and Kore Potash (LON:KP2).

Danakali's project at Colluli in Eritrea would be one favourite for investors to swap out Sirius for since it at least has a scale that's some way towards being comparable to Woodsmith. With a 1.1bn tonne reserve of the higher quality sulphate of potash, this is a project that will make a mark on the global scale, and it too has off-take agreements in place.

Kore Potash meanwhile, is also developing a project of some scale, the 508mln tonne Kola sylvanite project in the Republic of Congo, and might also make an attractive alternative. That's partly because it's now in the final stages of completing a definitive feasibility study for Kola, and partly because when the nearby Dougou deposits are taken into account the total amount of potash ore available to Kore rises to well over 1bn tonnes.

Salt Lake Potash is somewhat smaller, as it's currently working up the Lake Way project in Western Australia, where it plans a 50,000 tonnes per year sulphate of potash demonstration plant. In time this could be scaled up too, though, so the upside could be that much greater.

With all these companies, investors will want to weigh up the balancing factors of jurisdiction, product type and financial risk. All are moving towards production, all still face significant financing hurdles, and all could end up selling into a strong market. Investors who make the right choices here could be sitting on handsome returns.

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