

Sirius Minerals PLC

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BIG PICTURE - Sirius Minerals update underlines confidence in York project

Sirius Minerals (LON:SXX) said it is systematically going through a checklist of approval issues for the York Potash Project in North Yorkshire.

And Thursday's interim results statement revealed the group has also taken a big step towards addressing investors' concerns that have dogged the share price.

As chairman Russell Scrimshaw pointed out, the group has come a long way in a short space of time; the major milestone being the compilation of a maiden reserve of 250mln tonnes of polyhalite fertiliser. That would deliver 50 years of production at 5mln tonnes a year.

However, progress has been hampered by the planning process, overseen by the North York Moors National Park Authority.

And some of the questions the authority and its consultants AMEC raised mean investors have become circumspect in their assessment of the group's prospects.

Nevertheless, Thursday's update tends to underline a point made by City broker Liberum on Wednesday; namely there is a "logical path" to the resolution of issues logged by the park authority.

The mine approval essentially centres on the 'major development test' that has to balance the benefits of the development against any potential impact on the national park.

"I remain confident, as our whole team does, that the project is one of the clearest examples possible of the 'exceptional circumstances' that are needed to justify such a development in a national park," said Scrimshaw.

"Whether it's our world-class design to minimise perceived environmental concerns; global and local demand for this vital ingredient by the fertiliser industry; or the expected substantial economic benefits to the local, regional and national economies, the company believes the case for approval is truly compelling."

Sirius's internal work streams strengthen the "support arguments and mitigations" of the US\$3bn development, the chairman said.

Meanwhile, the Liberum research reckons the project meets the three strands of the authority's major development test.

It said Sirius has "clear path to satisfying habitats legislation".

And it notes there are precedents for projects being approved in national parks and points to the fact the development has support of local councils.

"Of the issues identified by park authority's consultants AMEC, all have either been addressed or have a logical path to resolution," said Liberum.

1 Year Share Price Graph



December 2019 January 2020 March 2020

Share Information

Code: SXX
Listing: LSE
Sector: Potash & fertilisers
Website: 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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"Clarity around the process should increase with a planning performance agreement which could be implemented in the first quarter."

Possibly one of the most damning criticisms of the York project was the perceived lack of demand for its output – a fertiliser called polyhalite.

However, the latest update from Sirius reveals a significant appetite for the product.

Sirius now has memoranda of understanding for 3.78m tonnes of output – or 75% of its planned production in phase-one.

According to broker Liberum, Sirius's strategy will entail bringing in off-take partners of 'bankable standard' for the first 2m tonnes of annual production, which will then allow the group to issue corporate bonds.

The Liberum study also assessed the economics of the project. It points out that the polyhalite from the York operation will be a cheaper source of potassium than other fertilisers on the market.

Meanwhile, Sirius itself addresses the issue of market prices for fertilisers, which according to the more bearish elements of the investment community were set to free-fall following the break-up of the Uralkali-Belaruskali potash cartel.

While there has been pressure, it has been nothing of the level that might blight the economics of the York project.

"Although many customers in the traditional potash market are in a 'wait and see' mode, the dramatic price drops predicted by some have only partially materialised but the long-term fundamentals remain strong," said Scrimshaw.

"Our view on the world potash market remains that the fundamentals are strong and that our unique multi-nutrient mineral, polyhalite, has a significant role to play in the world fertiliser markets.

"This is demonstrated by the increasing customer support for polyhalite and the recent signing of two more memoranda of understanding in China for an additional one million tonnes per annum signed recently in Beijing."

Finally, the financials reveal that Sirius was loss-making to the tune of £6.3m in the six months to September – which should be expected from a company at this formative stage of its development.

More importantly, it has cash of £13.1m. The group has £15m of a £25m funding facility with a New York investor that it can still draw down in £5m tranches, which leaves it well placed to meet its immediate requirements.

"The company has come a long way in a relatively short period and continues to make good progress," concluded chairman Scrimshaw.

"We have identified and defined the world's largest and highest grade deposit of polyhalite, for which we have established a strong and growing global market, and we are working towards fulfilling a detailed checklist of approval issues that, once addressed, can provide so many jobs and benefits to the region and the UK and also unlock the next exciting phase of the company's progression."

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