

## The four winners from latest potash deal: Allana Potash, ICL, Ethiopia and Africa

February 13, 2014 -- Remember where you read it first. Just a month ago — on 10 January to be exact — InvestorIntel headed a post, “Africa: Waiting in the wings as a potash market (and producer)”.

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Now that is about to become a reality. Allana Potash (TSX:AAA) is joining forces with ICL (TASE:ICL) — formerly known as Israeli Chemicals Ltd — to fulfil a vision they have called “Potash for Africa First”. (The deal has other ramifications which we shall come to below.) In essence, ICL will provide the financing and marketing muscle to make possible the development of Allana’s Danakhil potash deposit.

For Allana, this provides the one missing component of its corporate plan: the money needed for that development. And, also, it short-circuits the marketing challenge as the deal includes an offtake arrangement, ICL agreeing to take all the annual production up to 1 million tonnes.

As we noted here last month, Africa consumes only about 750,000 tonnes a year of potash. With the proper infrastructure (and efficient governments) as much as 6 million tonnes a year could be sold into sub-Saharan Africa. And within 10 to 15 years, that could be raised to close to 10 million tonnes, which would not only be a great boost to food production in a continent that sure needs that to happen, but also to potential potash projects in Africa itself.

Action is needed urgently if Africa is to feed itself with soil degradation a continent-wide problem, especially in Nigeria, Guinea, Democratic Republic of Congo, Angola, Rwanda, Uganda and Burundi. Apart from that, Africa does not have a fertilizer industry of a size needed to meet its own needs, so that scarce foreign exchange has to be spent on importing for the farmers.

In addition, there is a growing demand for fertilizer is from large foreign companies which are increasingly investing in African agricultural projects. As the World Bank points out, Africa has more than half of the world’s fertile yet unused land.

The details of the Allana-ICL deal, which will see the Israelis investing up to \$84 million, are posted on the News section of Investor Intel.

But the key to this deal is the comment that the alliance will be “transformative for Ethiopia and for East Africa”.

Allana will be producing muriate of potash for staple crops production and, once in production in Ethiopia, Danakhil is expected to be one of the world’s lowest cash-cost potash projects. There was one particularly interesting comment by Stefan Borgas, president and CEO of ICL: that Africa was “the market with the highest growth potential in the fertilizer world”.

So, to explain the headline that there are four winners in this:

1. **Allana:** Let us count the ways this works for the company. There has been a continuing reluctance by banks, especially the commercial ones (as opposed to the development banks) to finance potash projects because of the sheer scale of cost and even more so if they are located in a jurisdiction with the merest whiff of political risk. Not only is ICL putting up money (\$25 million to begin with) but its presence will be a hugely reassuring factor for any bank that runs the ruler over this project. Secondly, Allana is freed from much of the enormously time-consuming business of finding customers and marketing; sure, there may be up to 20% of production that has to be placed with customers other than ICL but that is a much less imposing a proposition than trying to sell it all. Thirdly, Allana-ICL are working the way the two ends of the resources business should be working: the exploration company doing what it does best (exploring) and the major what it has extraordinary expertise in doing (the distribution and marketing — and bringing in technical knowledge that Allana will not now have to replicate).

In essence, Allana has put itself well and truly on the development fast track.

2. **ICL:** In an industry where you have two behemoths, BPC and Canpotex, this deal provides the Israelis with organic growth without running head-to-head with the two big players. ICL will, from the sound of the emphasis on Africa, be creating a new market. It, and Allana, will have first-mover advantage in Africa.
3. **Ethiopia:** It gets a domestic source of potash for its own farms; the availability of fertilizer will encourage more foreign companies to invest in agribusiness projects in the country; and there will be the ripples in terms of infrastructure and employment from the development of this project. (And it will spill over into Djibouti, too.)
4. **Africa:** Countries in East Africa will be able to buy fertilizer without the huge transport costs involved in shipping from Canada or Russia. Once the Allana-ICL deal is bedded down, other players will start looking to come into Africa and develop other projects.

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See more at: <http://investorintel.com/potash-phosphate-intel/four-winners-latest-potash-deal-allana-potash-icl-ethiopia-africa/#sthash.lqGwlB3v.dpuf>