Eurobonds and potash will boost Ethiopia and Africa’s food security

Ethiopia issued a dollar based bond to fund its development goals focused on increasing agricultural production, power generation and transportation infrastructure including the 6,000 megawatt Millennium Dam hydroelectricity project on a Nile river tributary. Deutsche Bank and JP Morgan will be handling the sale of the ten year bond (yielding 6.75%). Ethiopia has been Africa’s fastest growing economy for the past few years; it follows in the lead of other African countries that have issue similar bonds (Eurobonds) recently, including Kenya, Ivory Coast, Senegal and Ghana. Ethiopia’s bond issue reflects both the scope of its development ambitions – needing to raise at least USD$ 50 billion before the end of the decade to complete its development targets – and foreign investors’ growing interest in the country and Africa in particular. The Millennium Dam is seen as crucial to boosting agriculture in Ethiopia as well as some of its neighbors such as South Sudan, Kenya and Uganda. Indeed, Ethiopia has taken full responsibility for funding the Millennium Dam in order to establish greater control over the flow of the Nile waters and its power will allow Ethiopia to become a regional hydro-electricity hub.

It was exactly 30 years ago when the world learned of a terrible famine in Ethiopia, which also included present day Eritrea at the time prompting worldwide relief campaigns punctuated by songs like ‘Do they know it’s Christmas’ and ‘We are the World’. Much has changed today: Ethiopia is home to the third largest agricultural industry on the African continent and it is on track to achieve food security. Despite the huge challenge of expanding agriculture in a country that was not long ago on the brink of famine to ‘Africa’s bread basket’ is a huge challenge but thanks to farming method innovations and research, the country will, in the very near future, achieve food security. But Ethiopia’s ambitions reflect the wider agricultural growth phenomenon that has been occurring throughout Africa, which have been fueling the enthusiasm of local populations and private investors alike. With increasing urbanization and an exponential growth of the middle class, the African food market just waiting to grow and is expected to triple by 2030 according to a study by the World Bank in 2013. There is also a growing food deficit between demand and regional supply, which has contributed to interest in agriculture. Ethiopia and Africa will gains benefits in development and wealth creation along with agricultural best practices, better yield per hectare, and more intense trade links to developed countries. Recently a US private equity fund (KKR & Co) has made its first investment in Ethiopia.

The international investment and financing such as today’s aforementioned bond issue will help to address the technical challenges to agriculture throughout Africa as multiple land expansion projects are being planned all over the continent. Thus, the enthusiasm of the private equity companies for Sub-Saharan Africa is accelerating, agriculture appears as a natural investment sector. An international law firm, Freshfields, has pointed out that agriculture investments in Africa have increased by 137% in the first half 2014 compared to the same period in 2013, facilitated by improving political risk and easier transactions. It should be reminded that Africa is huge, covering the second largest area after Asia, holing the second largest population. Moreover, the UN has noted that Africa has 17% of the world’s arable land and agriculture accounts for more than 20% of the Continent’s GDP. Farming now occupies 60% of the workforce in Africa.

African agriculture has tremendous growth potential because the continent still has many reserves of uncultivated land, counting 226 million arable land but being able to reach almost 500 million. Much of Africa is well irrigated and the climate is favorable to the production of maize, soya and sugar cane. The Chinese are well aware of this potential and have signed leases in the long term, using already 2-3% of the resources and Ethiopia is one of their leading targets. Africans will need more arable land and implement agriculture to increase food production yields. Production costs are low and the workforce is young and plentiful. If over the past 15 years, it has been Brazilian agriculture’s turn to shine, now is the time of Africa and it is estimated that the continent will become a net exporter of corn and soybeans in the next ten years. Other cereals include barley, sorghum, cotton, sugar cane, groundnut, millet and cassava. However, investment in infrastructure is not enough. African agricultures needs the right soil and productivity to flourish.

Potash and other mineral fertilizers are one of the keys to the Continent’s agricultural growth strategy. To this effect, Allana Potash (TSX: AAA | OTCQX: ALLRF) could become one of the largest potash producers in Africa thanks to a promising project in Ethiopia, addressing domestic, African and Asian potash demand. The Horn of Africa, from where Allana’s potash will be shipped, is strategically located to serve India, China and more importantly, all of the markets where potash demand is rising fastest such as Indonesia, Malaysia and Laos – all countries featuring potash intensive palm oil production. But it is Africa, where potash consumption, now among the lowest in the world, is slated to increase the most. Ethiopia alone will guarantee significant sales for Allana. Indeed, Ethiopia, which is home to some 90 million inhabitants, has ambitious economic growth plans and agriculture is its highest priority given that some 85 percent of the people work in that sector.

There is room for growth because most agricultural production revolves around a vast number of small rural areas with operations smaller than one hectare. Now, there are 12.5 million hectares of arable land in Ethiopia but the potential is 50 million hectares. The country has already sought international cooperation to help improve land productivity and make fallow land available for farmers. There is no more effective way to achieve this process than through a greater use of potash, which is essential to increasing yields and providing the kind of nutrients that African soils are known to lack. In the 1960’s-70’s, the use of mineral fertilizers grew considerably in Latin America while dropping in Africa. Not surprisingly, those decades (and until now) saw various famines in Africa, while food production increased in Latin America. Now, the International Fertilizer Industry Association suggests that African potash use could reach five million tons over the next few years. It is now not even close to a million tons. Allana is edging ever closer to production phase having been granted all relevant mining permits from the Ministry of Mines of Ethiopia; its strategy is to help develop and expand the mineral fertilizer market in Ethiopia and Africa in general – even if the initial focus will be East Africa. The African continent presents tremendous market potential for mineral fertilizers and potash in particular, given that it has the potential to attract 880 billion dollars of investment in agriculture by 2030, which will drive demand for products such as fertilizers, seeds, pesticides and machinery as Africa develops its own production of biofuel, grain refinement and food.

Allana has the right strategy

to benefit from Africa’s agricultural revolution

Allana Potash (‘Allana’, TSX: AAA | OTCQX: ALLRF) and its partner ICL will be working directly with the Ethiopian Agricultural Transformation Agency (ATA – an Ethiopian Government agency) to support the use of mineral fertilizers to improve agricultural yields and communities. Allana, ICL and ATA have signed a Memorandum of Understanding (MoU), contributing USD$ 590,000 to perform 600 field trials and demonstrations in 30 Ethiopian ‘woredas’ (or districts) received to determine the ideal nutrient for Ethiopian agricultural land. The program will also help Ethiopia develop a more effective agricultural growth strategy for Ethiopia thanks to a better understanding of what determines soil fertility levels. Cooperation should also serve to reinforce the agricultural research capacity in Ethiopia in soil fertility and nutrient management and the use of state-approved fertilizers.

The program will also be used to sponsor the training of graduate students in how Ethiopia’s soil can benefit from potash fertilizers in the cultivation of crops. The sustainability of agricultural systems depends to a large part on the improvement of soil fertility to secure sustainable food production. Potassium based fertilizers such as potash have an important role in improving the quality and scope of crop yields, which then contributes to the improvement of public welfare in farming communities

This is not the first time Allana has supported the ATA’s efforts; since February 2013, it has contributed some USD$ 200,000 in the form of funds or future potash supplies – once production commences at the Danakil project. From a business perspective, Allana’s strategy is to help develop and expand the mineral fertilizer market in Ethiopia and Africa in general – even if the initial focus will be East Africa. The African continent presents tremendous market potential for mineral fertilizers and potash in particular. Agriculture is Ethiopia's largest and most important economic sector and has significant growth opportunities with its 16 million hectares of agricultural land.

Africa is surely one the most important markets for mineral fertilizers. Africa has the potential to increase the value of its annual agricultural output of $ 280 billion in 2010 to $ 500 billion by 2020 according to the African Development Bank (ADB). Moreover, Africa has the potential to attract 880 billion dollars of investment in agriculture by 2030, which will drive demand for products such as fertilizers, seeds, pesticides and machinery as Africa develops its own production of biofuel, grain refinement and food. Allana and ICL's strategy to cooperate with the ATA in Ethiopia fits squarely within ADB recommendations to start building new institutional arrangements between the private and public sectors that promote private sector development without leaving small holder farmers isolated. Moreover, such strategies create great opportunities investments still exist for sustainable agriculture and infrastructure development across the agricultural value chain. Africa still has considerable untapped value in its agricultural industry and it needs regulatory improvements to facilitate more investment, encouraging market-oriented rural employment, technology transfers (of which potash use is a part) and provide the sound basis for sustainability and long-term transformation. The prospects for agricultural growth in Africa are excellent, especially if small farmers are helped to specialize and add value.

The rise in food prices in 2008 and their continued volatility have created a unique opportunity for Africa to increase its investments in agriculture to ensure food security and stability price. Meanwhile, and not surprisingly, China plans to dramatically expand its already leading trading position in Africa in the coming years. Last Monday, Chinese Prime Minister Li Keqiang announced, in the Ethiopian capital Addis Ababa as it happens to double its trade volume with Africa, one of the fastest growing regions in the world.

ICL and Allana form a strategic alliance to take advantage of growing potash demand in Asia and Africa

Israel Chemicals (‘ICL’, TASE: ICL) and Allana Potash (‘Allana’, TSX: AAA | OTCQX: ALLRF) have established an alliance to develop Allana potash mine in the Danakhil region of Ethiopia. Under the deal, ICL has acquired USD$ 23 million in shares and warrants of Allana Potash Corp or 16%. ICL is one of the world’s leading mineral fertilizer producers. Should ICL exercise the warrants included in the ‘units’, the total investment would amount to some USD$ 87 million or about 37% of the company. Moreover, ICL has also signed an offtake arrangement from the Danakhil project; Allana and ICL started negotiations for the deal last December. Allana is at an advanced stage in the project, having already completed the definitive feasibility study (FS) and secured the necessary mining license needed to start construction of the mine itself. As part of the agreement, ICL will offer Allana technical advice on the mine development as well as marketing assistance for the product.

The FS feasibility study suggests that Allana has the potential to produce about a million tons of high-grade potash a year. ICL is the world's sixth largest potash producer and it sold about five million tons of potash in 2013 and has mines in Spain and Great Britain as well. In turn, ICL – which was highly coveted by Potash Corp (NYSE: POT) in 2012 and 2013 as it sought strategic partnerships to gain better access to the emerging markets where potash demand has been most intense such as India, China and Indonesia. Had the ICL bid been successful, Potash Corp would have overtaken the Russian OAO Uralkali as the world's largest producer, giving it even more market influence. Potash Corp had targeted ICL also because of its closer geographic position. Israel's proximity to the Suez Canal would have given Potash Corp a significant advantage in selling and delivering potash to markets in China, India and other Asian powers.

The Israeli government faced internal pressure to block the sale. Moreover, even as ICL's deal with Allana eases access to Asian markets, it opens the door to Africa, which is the continent where potash consumption will grow fastest as many countries start to pursue more effective agricultural policies. Sub-Saharan Africa was second only to South East Asia in the intensity of economic growth over the past decade. The Horn of Africa, from where Allana's potash will be shipped, is strategically located to serve India, China and more importantly, all of the markets where potash demand is rising fastest such as Indonesia, Malaysia and Laos – all countries featuring potash intensive palm oil production. More importantly, Allana is strategically located to serve the Africa, which is where potash consumption, now among the lowest in the world, will increase fastest. Ethiopia alone will guarantee significant sales for Allana. Indeed, Ethiopia, which is home to some 90 million inhabitants, has ambitious economic growth plans and agriculture is its highest priority given that some 85% of the people work in that sector.

Africa has continued to experience growth even as Europe and

North America have struggled to recover from one of the worse recessions since the Great Depression. Resources, mining, oil and gas explorations have fueled Africa’s growth, but agriculture has also emerged as an important factor. In the 1960’s-70’s, the use of mineral fertilizers grew considerably in Latin America while dropping in Africa. Not surprisingly, those decades (and until now) saw various famines in Africa, while food production increased in Latin America. Now, the International Fertilizer Industry Association suggests that African potash use could reach five million tons over the next few years. It is now not even close to a million metric tons. While in Europe, the gross domestic product shrank by 11% in the last five years, it rose by 29 percent in Africa. Allana’s FS suggests it is on track to reach production by early 2015, while all the other aspects of the project are also proceeding on target, including the relevant roads and the port in Djibouti. Allana has measured and indicated sylvinite resources in 2013 of 327.42 million tons of 28.31% KCl and inferred sylvinite resource of 90.76 million tons at 27.80% KCl. Once in production, Allana will offer ICL a more sustainable future. Indeed, ICL’s potash plant on Dead Sea has faced growing criticism from environmentalists. The tourism sector is complaining of receding waters and the growing and spreading concerns could lead to ICL having to shut down the ‘Dead Sea Works’, given that it has been blamed for of the problem.

Allana’s project in the Danakhil offers some of the best economics in the industry with very low operational and capital investment costs (OPEX and CAPEX); in simple terms, Allana will be one of the cheapest potash mines to build and operate with operating costs expected to be USD$ 100 per ton (to port). This is well below the peer group average, providing a healthy return even if potash prices remain at the current USD 300/ton (based on CANPOTEX’s recent China contract). In addition, the FS noted that the CAPEX of around 642 million dollars would also be among the lowest in the industry, largely because the Danakhil deposit is found at relatively shallow depths. While some projects and potash producers have faced greater risks of failure in the wake of the lower prices, caused by the collapsed of the CANPOTEX/Russian-Belarussian duopoly last summer, others like Allana have actually gained even better chances of success. Allana is one of these because its project based in Ethiopia's Danakil region may well be the one best suited to benefit from the new potash market dynamics. ICL's expertise and market access have merely confirmed Allana's value.