

Mossberg's Investor Digest

Best Idea Profile:

DESCRIPTION:

Headquartered in Denver, Prospect Global Resources Inc. is engaged in the exploration, development and mining of potash in the Holbrook Basin of eastern Arizona. The Company has approximately 90,000 acres of exclusively state and private leases, which are estimated to have the largest potash reserves in the United States. The Company is currently building a mine and production facility, which are expected to produce 2 million tonnes annually. Due to the shallow nature of the potash deposit, existing infrastructure, and proximity to year round markets, the Company is likely to be one of the lowest cost producers as the mine and production come on line.

KEY INVESTMENT CONSIDERATIONS:

Mature market with disciplined, well capitalized players – The top 5 producers represent approximately 2/3 of the market. The major players react rationally to price fluctuations and use their balance sheets to build inventories during periods of weakness.

Demand is likely to outstrip supply in a few years – There are only 25 deposits in the world with large deposits of potash and it's not likely that new large sources will be found soon. Given that global production is expected to grow at just 3.5% and demand is expected to grow at 5%, it's likely that demand will outstrip supply during the next several years.

People still need to eat...secular trends point to long-term growth in agricultural demand – The world's population grows by 80 million people per year. That's 220,000 new mouths to feed each day. They aren't making more land, and in fact the amount of agricultural land is shrinking due to economic development particularly India, Asia and other emerging economies. The only way to boost food production is to increase yields, which requires more fertilizer.

Experienced Leadership – Prospect recently hired Brian Wallas as Chief Operating Officer. Wallas has 28 years of mining and specialty chemical business experience and was most recently President of \$1.2 billion specialty chemical provider Dyno Nobel Americas. Other recent hires have similar experienced backgrounds.

Prospect Global Resources, Inc. (NASDAQ:PGRX)

\$2 billion supply agreement confirms value of the asset – While prospect has yet to deliver revenue and potash, its recent agreement with Sichuan Chemical Industry Holding Co. to supply at least 500,000 metric tons of potash annually over 10 years starting in late 2015, provides significant validity of the Company's deposits. For frame of reference, this deal represents twice last year's U.S. exports of Potash.

It will cost \$1 billion to develop the mine. Prospect Global has spent about \$75 million of the roughly \$1 billion it will cost to develop its mine and production facility. So far the company has plans to issue \$100 million to Private Equity firm Apollo Global and issue at least 30 million new shares.

VALUATION:

According to the recent preliminary prospectus, the net present value of just one of the two ore deposits was valued at \$3.8 billion. The valuation assumed a base case 85% mill recovery rate, a potash selling price of US\$496/tonne (\$450/ton) and a 10% discount rate.

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Investment Data (as of 10/31/12)

| | |
|--------------------------------|------------------|
| Recent Price | \$2.76 |
| 52-Week Range | \$1.77 - \$10.50 |
| Fiscal Year End | Mar |
| Dividend | NA |
| Yield | NA |
| Shares Outstanding | 55.3 M |
| Average Trading Volume (3 mos) | 80K |
| Market Capitalization | \$152 M |
| Cash | \$1.3 M |
| Long-term Debt | N/A |
| Enterprise Value (EV) | \$150 M |
| Book Value | \$0.14 |
| TTM Revenue | N/A |
| P/ Revenue | N/A |
| TTM EPS | \$0.08 |
| P/ EPS | N/A |
| TTM EBITDA | N/A |
| EV/ EBITDA | N/A |