

# Iofina PLC

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## Better times ahead for Iofina as iodine prices recover

Iofina plc (LON:IOF) is seeing light at the end of the tunnel after one of the worst slumps in the iodine sector for fifty years, says broker Finncap.

The iodine extraction group has had to cope with a price that fell below US\$20/kg in the first half of 2017, but has improved since to around US\$25/kg and sometimes more.

**WATCH:** Iofina maintains production despite tough winter and fewer plants. Finncap expects the recovery to continue given steady demand growth and competitor capacity expansion problems in Chile with the result prices might reach US\$30/kg in 2020.

The broker adds that management has performed an excellent job in the face of the 'brutal' industry downturn by cutting costs, improving efficiencies and honing its iodine extraction technology.

Now that market conditions are picking up, Iofina is one of the lowest cost producers globally and with better prices can generate strong profit and free cash flow going forward.

### Operational improvement

Some of Iofina's installed IOsorb iodine plants struggled historically with erratic brine volumes and low iodine concentrations. To remedy this, management has sought to improve water access and relocate underperforming plants; management is still pondering what to do with the IO#05 plant, which is currently offline, but has been heartened by the success of IO#07, the plant that cannibalised parts of IO#03 in a new location.

Iofina expects to produce 260-265 tonnes of its IOflo crystalline iodine in the first half of 2018 and 315-340 tonnes in the second half of the year; in the whole of 2017 the company produced 503 tonnes of crystalline iodine so this represents a big increase and assumes no contribution from IO#5.

"Our IOsorb plants are performing well and we are pleased that our expected production of near 600MT [metric tons] of crystalline iodine in 2018 is in line with analyst predictions in the market. The production from IO#7 has resulted in a lowering of our total per unit iodine production costs and this coupled with higher iodine prices and an increase in year-on-year production are all positive for Iofina's profitability," said Dr Tom Becker, the chief executive officer and president of Iofina.

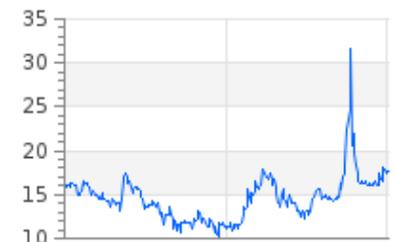
### China is the fly in the ointment

In June 2018, Iofina revealed that a preliminary determination from China's Ministry of Commerce (MOFCOM) regarding an Iofina Chemical product, namely hydriodic acid (HI), concluded that Iofina Chemical and the other HI manufacturers from the USA and Japan, had been selling HI in China at below market value.

**Price:** 19.9363p

**Market Cap:** £38.25M

### 1 Year Share Price Graph



June 2018 December 2018 June 2019

### Share Information

**Code:** IOF

**Listing:** LSE

**52 week High Low**  
33.18p 9.88p

**Sector:** Energy

**Website:** www.iofina.com

### Company Synopsis:

*Iofina plc is the holding company of a group of companies involved in the exploration and production of iodine and natural gas which has been discovered on acreages that the Group has acquired and is currently acquiring. Iofina is fully vertically integrated into specialty chemical manufacturing through its wholly owned subsidiary Iofina Chemical.*

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Preliminary dumping duties of 118.8% and 41.1% have been imposed with immediate effect against USA and Japanese importers respectively. Iofina believes this preliminary determination and the tariff imposed is incorrect and will investigate all means to reverse this decision before the final determination in the autumn of this year.

Given the recent deterioration of the USA-China trade relationship, the conclusion on the matter is unclear, Iofina said. Its best guess at the moment is that there will be a small negative effect on profitability of slightly more than US\$100,000 from the board's current expectations in 2018.

FinnCap did not seem overly fussed by the tariff as the expected profit hit is less than 3% of projected underlying earnings and it left its 2018 forecasts unchanged.

"More important drivers for 2018 earnings will be the iodine, which continues to improve, further production increases from IO#7 and whether IO#5 returns to production," the broker said.

#### Growth at last

FinnCap estimates that with its actions already Iofina has halved unit production costs and if you add in a growth factor, the numbers become compelling.

Each new WET IOsorb plant will be able to generate after-tax cash flow of US\$1.2-1.8mln at US\$25-30/kg and return its investment in less than two years.

A cash flow model - assuming one new IOsorb plant is added each year between 2019 and 2021 - gives a price target of 35p/share and an enterprise multiple of under eight in 2021.

#### By-product boosted

The company's proprietary IOsorb processing plants take wastewater and brine, a largely unwanted by-product of most onshore oil fields, as a feedstock and from them makes iodine - a commodity used in animal feeds, chemical manufacturing, chemistry and in medicine.

Iofina's five plants in Oklahoma take wastewater from just one-quarter of the producing oil fields that are still in operation, hence why the well doesn't run dry very often and, when it does, it doesn't last for too long.

At 15.5p, Iofina is valued at £19.3mln.

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