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back

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Nickel's wild ride leaves investors reeling, but juniors manage to turn a profit

Nickel has become one of the analysts' least preferred commodity exposures as WA companies battle costs and tumbling share prices.

Paul Garvey

8-PAGE SPECIAL REPORT

THOSE who have spent a while in the mining industry can be used to ups and downs. But for those in nickel, the volatility is something else altogether.

Western Australia's junior nickel sector was one of the success stories of the 2000s, with opportunistic juniors such as Panoramic Resources, Independence Group, Western Areas and Mincor Resources pouncing on old nickel assets unloved by the majors and turning them into cash machines.

As the nickel price climbed towards never-before-seen highs in 2007, both the nickel miners' profits and their share prices soared. The miners appeared to have the world at their feet.

Today, however, it is a very different story.

The price of nickel, having fallen dramatically during the global financial crisis, has since been trading sideways. Investor enthusiasm for the sector has dried up, with analysts invariably listing nickel as one of their least preferred commodity exposures.

With a wave of huge new international nickel projects looming, the market is betting on a significant supply glut developing in nickel markets in the next year or two.

The result has been carnage for the share prices of Perth's nickel miners.

Independence has fared the best, losing just under 50 per cent of its value from its peak. Western Areas, despite recording ever-improving numbers from its Flying Fox mine, has more than halved since May, while Panoramic and Mincor are respectively off 75 per cent and 85 per cent from the top of the market for nickel stocks in 2007.

Such horrendous share price outcomes would suggest a fairly dire situation for the miners. Yet, with the exception of Mincor, which battled some very specific operational difficulties in the past year, all the nickel juniors continued to generate profits out of their mines in 2011.

They have profitable operations, little to no debt and substantial piles of cash, yet little investor love.

Mincor chief executive David Moore has spent the bulk of the past year battling to get costs from his company's Kambalda nickel mines under control. Costs have fallen dramatically since the company removed contractors from its mines and began operating them itself, putting the mines back in the black.

Mr Moore said nickel sulphide mines – as opposed to nickel laterite mines such as Minara Resources' Murrin Murrin operation, which required costly and historically unreliable highpressure acid-leach processing – had an enviable record of profitability.

"At the smaller end of the market, the nickel sulphide players are some of the most consistently profitable mining businesses in Australia," Mr Moore told *WA Business News*.

"They have been for the past decade, but people tend to overlook that fact."

On top of the looming addition of substantial new nickel capacity elsewhere in the world, Mr Moore believes sentiment towards the nickel sector has taken a hit from pig iron, a common low grade of nickel ore that can be fed into stainless steel refineries as a substitute for typical nickel sources. As a general rule pig iron is a particularly expensive source of nickel, requiring a price of around $US9 to $US10 per pound to be economic, and putting a floor under nickel prices as a result. But if nickel prices climb too high, the market can be swamped by sources of pig iron.

The influence of pig iron partly explains why nickel has traded in such a tight range in recent years.

"Most of the nickel sulphide players in Australia would still be making good money at these prices. The real problem is investors aren't interested," Mr Moore said.

"They aren't interested because there is a view – and I'm not saying it's a correct view – but there's a view in the market that nickel has got both a floor and a ceiling. A commodity investor does not want to buy something with a floor and a ceiling."

With the nickel sector battling such a pessimistic market perception, it's perhaps unsurprising that most of Perth's nickel miners appear to have been taking steps to diversify their commodity exposure.

Independence was already diversifying when the nickel market was going strong courtesy of its 30 per cent interest in the substantial Tropicana gold discovery in WA.

The benefit of that diversity is reflected in Independence's share price outperformance in recent years compared to its nickel peers.

Panoramic has followed down the gold path, paying Apex Minerals $15.5 million earlier this year for the Gidgee gold project, while also spending $4 million on a stake in Chilean copper explorer Hot Chili.

Earlier this year Mincor struck a joint venture that will see it spend $30 million exploring four projects in Papua New Guinea, with the company hunting for substantial gold and copper-gold deposits.

Mr Moore said the foray into PNG was not

TOP TONNAGES

Commodity	Total tonnage 2010-11	Total tonnage 2009-10
Iron ore	343,643,525	329,837,576
LNG	17,094,479	17,214,420
Alumina	12,239,269	12,508,730
Manganese	1,881,708	1,645,950
Coal	1,333,000	545,000
Mineral sands	1,293,944	1,312,733
LPG	922,882	1,975,261
Ammonia	765,499	796,165
Copper	626,255	666,002
Silica sand	421,073	411,399
Nickel	389,764	429,507
Spodumene	387,204	248,051
Zinc	185,817	234,892

about diversification but growth. Nickel sulphide projects were so rare, he said, and gold and base metals exploration so complementary to Mincor's existing skills set, that the PNG pursuit made sense.

Panoramic managing director Peter Harold told *WA Business News* his company had been looking to diversify for around five years and had taken a serious look at between 15 and 20 projects. The only asset that Panoramic was able to win was Gidgee, a project that was first mined in 1926 and which has now had four different owners since 1999.

Mr Harold noted that most of the modelling of Gidgee's resources was done using a gold price of around $US500 an ounce and he hoped to upgrade the resource base ahead of a resumption of mining in the next couple of years.

He said Panoramic currently had three people working full time to find suitable projects for the company. Nickel was still a preferred commodity, along with copper, gold and platinum group metals.

The challenge in securing new projects has not been helped by the number of different companies trying to win assets.

"Resources have been the flavour of the last few years, so it's very competitive and there's not a lot of assets for sale," Mr Harold said.

"When they are for sale, there's umpteen bidders and normally we get priced out."

For now, the search continues. In the meantime, Mr Harold is trying to ignore the declining share price, focusing instead on running lean operations and waiting for the sentiment towards nickel to improve once again.

The biggest help for Panoramic and the other Australian nickel miners would be for some of the major new nickel laterite developments to hit hurdles, as they have done in the past.

The mega nickel projects set to come into production include the Goro and Koniambo projects in New Caledonia, which have experienced numerous delays, and the Ravensthorpe project in WA, which was a costly disaster when built by BHP Billiton and which is set to be reopened by Canada's First Quantum Resources.

Mr Harold knows the difficult history behind nickel laterite projects, but is not spending his time wishing for them to fail.

"All the companies which are bringing that capacity on are spending big dollars and are convinced by their projects. There's no question a fair chunk of it will come on," Mr Harold said.

"The ramp-ups will be slower, they will take longer, and there will be all the issues that usually have with these things, but at the end of the day there's a fair amount of new supply coming on stream and there's no question that's going to impact.

"We've got to keep an eye on our costs and make sure we can make a reasonable return at lower nickel prices."

OUTLOOK: David Moore says nickel sulphide miners are doing well.
Photo: Mincor

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OPTIONS: Peter Harold (left), with Trevor Elton and Chris Williams, says Panoramic has been looking for the past five years to diversify away from nickel. Photo: Grant Currall

PANORAMIC

Mines: Savannah project, East Kimberley; Lanfranchi, near Kambalda;
Copernicus, East Kimberley (care and maintenance)

Production: 17,027t

New investments: Gidgee gold project, acquired in Feb 2011 for $15.5 million. $4 million stake in Chilean copper explorer Hot Chili. Base metals exploration JV in Norway and Finland with Drake Resources. Owns 25m shares in Magma Metals.

MINCOR RESOURCES

Mines: Mariners, Miitel, McMahon, Otter Juan, Carnilya Hill, all near Kambalda. Otter Juan and Carnilya Hill expected to close later this financial year.

Production: 10,372t

New investments: Joint venture with Niuminco Ltd for exploration in PNG, spending up to $30m over eight years to earn interests in four projects – primarily gold and copper-gold. Drilling at Tottenham copper-gold prospect in NSW. Looking for iron ore opportunities.

[illegible]DENCE GROUP

Mines: Long nickel mine, near Kambalda

Production: 9,753t

New investments: Acquired Jabiru Metals in June 2011. Jabiru's Jaguar mine produced 8,468t copper and 14,642t of zinc. Also owns 30 per cent of Tropicana gold discovery in JV with AngloGold

WESTERN AREAS

Mines: Flying Fox and Spotted Quoll, near Forrestania

Production: 32,222t

New investments: Looking to list its 77.2 per cent Scandanavian base metals exploration joint venture on London's AIM later this year.