Mining

Tim Treadgold: Canaccord confirms what smart readers already knew about Nickel Mines' winning ways

2 hours ago | **Tim Treadgold**

Prospecting does not always mean going bush with a metal detector, it can be done in easier ways, such as reading Stockhead to unearth opportunities like Nickel Mines, which has **seen its share price rise by 50% since it was "discovered" here** three months ago.

The stock's price rise from 28c to 42c after our story of January 29 could be just the start for a company which was "re-discovered" last week by analysts at Canaccord Genuity.

What the professionals at the Canadian-based bank see in Nickel Mines is exactly what we saw somewhat earlier, a business which has identified a niche opportunity to supply nickel to the Chinese stainless-steel industry, while also gaining exposure to the red-hot battery business.

Canaccord's view of Nickel Mines is of a stock which represents "superior nickel leverage", with a price target of 90c, more than double where it is today and 220% higher than when Stockhead alerted readers to an emerging winner thanks to it becoming "an integral part of the booming Indonesian nickel industry".

Unlike most conventional Australian nickel mines which are focussed on the deep mining of hard rock resources, the nickel mines of Indonesia are near-surface operations extracting soft laterite ores which are of a lower grade but a lot cheaper to mine.

Australia's only successful laterite nickel mine is the Murrin Murrin operation of Glencore, but that took decades to perform as promised after its construction by Anaconda Nickel in the 1990s.

Indonesia came from virtually nowhere after launching its nickel industry as a source of cheap but controversial feedstock for China, shipping material which grades less than 2% nickel, meaning 98% was in the form of waste.

The direct shipping of low-grade nickel ore was as unpopular in China as it was in Indonesia which wanted to see value added to its raw material exports.

The solution is major investment by Chinese companies in the processing of Indonesia's nickel ore in Indonesia, with a leader in that process being the world's biggest stainless-steel maker, Tsingshan, through an aptly-named subsidiary, Shanghai Decent Investment.

Where Sydney-based Nickel Mines enters the business is through its 80%-owned Hengjaya laterite nickel mine on the island of Sulawesi which started life direct shipping ore to China, stopped at the request of the Indonesian Government, and has resumed as a raw material supplier to Tsingshan which is producing stainless steel and a semi-finished product call Nickel Pig Iron (NPI).

The relationship with Tsingshan has seen Nickel Mines emerge as part owner of a series of furnaces to produce NPI which makes its way into the stainless-steel works located in the Indonesia Morowali Industrial Park (IMIP) in eastern Sulawesi.

From being a simple exporter of unprocessed ore Nickel Mines has emerged as a producer of 15,000 tonnes of nickel a year in the form of 150,000t of NPI.

The good NPI

Canaccord said last week in a 46-page research report that Nickel Mines had rapidly emerged as the next Australian Stock Exchange pure-play nickel producer through its strategic partnership with Shanghai Decent.

"This unique earn-in arrangement provides Nickel Mines with flexibility to acquire up to 33,000 tonnes of nickel a year by 2020 (the highest of its ASX nickel peers) from the world-class NPI facility at the IMIP," the bank said.

"With Indonesia expected to be the epicentre of emerging supply to the 2.2 million a year nickel market, Nickel Mines provides direct exposure to the bottom quartile of nickel production."

While most nickel continues to be used in the production of stainless steel, it is enjoying strong growth (off a low base) in the battery sector where it is used in the production of lithium-ion batteries.

For Australian investors who missed the rise of NPI as a processing technology when it started (for good reason given its poor environmental record in its early years) there is now a game of catch-up under way.

Or, as Canaccord's put it: "NPI is still misunderstood, but for how long?"

"Despite the many advantages of NPI (high payability, low technical risk) over other forms of nickel, the segment is generally less understood due to the dominance of Chinese players and associated market opaqueness," the bank said.

"We note, however, the rapid shift that is occurring in the nickel sector, with Indonesian NPI expected to account for 50% of near-term supply."

Potential profits from its part-owned NPI project in Indonesia could be substantial for Nickel Mines with Canaccord tipping pre-tax earnings next year of $72.5 million from revenue of $196 million, rising to $83.5 million in 2021 from revenue of $218 million.

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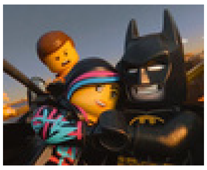

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