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Nickel Mines hits the boards on back of China steelmaker's punt on Indonesia

by **Brad Thompson**

Veteran investor and deal maker Norm Seckold expects nickel prices to soar over the long term after playing his part in one of the biggest initial public offerings on the Australian Securities Exchange in the past year.

Nickel Mines will list on the ASX on Monday with a market capitalisation of $485 million after a $200 million raising, which was 1.7 times over-subscribed.

Mr Seckold said it was a remarkable achievement for what was until recently a virtually unknown private company that had hit major challenges because of changes in government policy in Indonesia.

Nickel Mines has an 80 per cent interest in the Hengjaya mine in central Sulawesi which, in the stroke of good fortune that changed everything for the company, now sits on the doorstep of a $US6 billion ($8.2 billion) industrial park built by China's biggest stainless producer, Tsingshan.

Tsingshan will emerge from the initial public offering as Nickel Mine's biggest shareholder with an 11.7 per cent stake with another cornerstone Chinese investor, Shanghai Wanlu, not far behind at 10.8 per cent.

Mr Seckold said the equity raising, with Bell Potter Securities as sole lead manager on the deal, had attracted strong support from London, Hong Kong and Singapore.

They bought into the Nickel Mines story of having a world-class resource, a strategic partnership with a global industry leader in Tsingshan and a $US22,050 a tonne long-term price forecast based on nickel supply and expected demand for both stainless steel and as a battery metal.

Mr Seckold, a Nickel Mines director since 2007 and until recently the chairman, joked the company was an overnight success 11 years in the making.

Its original business model of direct shipping ore from the Hengyaya mine to China was cruelled by the Indonesian government banning the export of unprocessed minerals in 2014.

However, a much bigger opportunity opened when Tsingshan opted to embrace Indonesia's desire for downstream processing investment by building nickel pig iron (NPI) and stainless steel capacity at the Indonesia Morowali Industrial Park.

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This led to an off-take agreement for Nickel Mines to supply high grade saprolite ore and then a strategic partnership with Tsingshan to collaborate on the funding and and construction of a $US200 million two-line rotary kiln electric furnace (RKEF) to produce 150,000 tonnes a year of NPI containing 15,000 tonnes of nickel metal equivalent.

The NPI produced can be fed directly into Tsingshan's adjacent stainless steel plant.

A pre-IPO round raised about $US77 million to help facilitate the deal, including $US50 million in subscriptions from Tsingshan and Shanghai Wanlu. Nickel Mines can increase its interest in the RKEF project up to 60 per cent after the $200 capital raising and ASX-listing.

It also has an option to increase that 100 per cent within 12 months of first NPI production for an additional $US120 million.

Tsingshan already has 20 RKEF lines at Morowali, which boasts a 1.2 gigawatt coal-fired power station and five-star hotel, to feed the stainless steel plant. It wants 26 lines with Nickel Mines building 21 and 22 and with an option to build two more.

Mr Seckold said everything had fallen in place for Nickel Mines when it could have been so different after Indonesia's ban on direct shipping ore to encourage investment.

"The concept of just digging up a bunch of dirt, putting it on a ship and sending it to China was a terrific idea ... but then it all got very complicated with the ore ban," he said.

"But, thanks to a bit of serendipity, Tsingshan decided to build the world's largest integrated stainless steel plant 25 kilometres from us. God bless them.

"They are very good people, good shareholders, good partners and have been fair and honourable."

Wood Mackenzie research attached to the Nickel Mines prospectus suggests a significant shortfall in the nickel market unless the price rises to breathe life into undeveloped or mothballed projects.

Australian nickel producers BHP Nickel West and Independence Group are attracted renewed interest and are moving into downstream processing to meet demand from battery manufacturers and electric vehicle makers.

In another sign of the renewed interest, the Andrew Forrest-backed Poseidon Nickel last week attracted a $67 million takeover bid from Texas-based private equity fund Black Mountain Metals.

Black Mountain has declared its intention to secure a foothold in Western Australia and said it expects to launch "a substantial nickel production base in coming months".

Mr Seckold acknowledged nickel's reputation as a fickle commodity but said there was a general acceptance in the institutional marketplace that demand for stainless steel and lithium ion batteries would push prices higher over the long term.

"Despite the hiccups going on in the commodity markets at the moment, there's a strong underlying belief that the nickel price is going up and there are significant shortfalls coming," he said

"Stainless steel grew by 10 per cent last year and is forecast to continue to grow at about 6 per cent according to some research. The demand for nickel for batteries is now at about 100,000 tonnes but is probably going to be fives times that within five years. It has to come from somewhere.

"The fact that base metals are having the crap kicked out of them at the moment because of Turkey or trade wars or whatever, none of those things are going to go on forever."

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