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Nickel Mines wows visitors amid soft markets

AS NICKEL Mines took another bunch of capital market types to Indonesia this month to wow them with what's said to be a truly stunning operation carved out of the Sulawesi jungle, backers of the company will be very much looking forward to a big change in fortunes in 2019.

Commodities > Base-metals

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Staying in the reportedly luxurious splendour of the hotel adjoining Indonesian Morowali Industrial Park, the Nickel Mines travelling party got a first-hand look at a facility described by no less than Glencore as "world-class and arguably the lowest cost ferro-nickel operation in the world".

Nickel Mines, which has been a supplier of laterite nickel ore to the massive project built by the world's largest stainless steel producer, Chinese company Tsingshan, since 2015, is in the process of heading downstream at Morowali.

With construction well and truly underway it'll next year have a major stake in circa-30,000 tonnes of nickel output per annum.

And another deal announced this month suggests it could increase that leverage to circa-50,000tpa nickel in the medium term, which would put its profile comfortably above current ASX-listed nickel mainstays Western Areas and Independence Group.

However, less of a wow to date for those already on the Nickel Mines register has been its market performance since its A$200 million IPO in August that issued new shares priced at 35c each - and hence part of the reason at least for the dog and pony show!

The stock this week was at 25c, with chit-chat around the place suggesting funds holding shares in Nickel Mines who are under pressure elsewhere from poor global markets generally have been selling the relatively well-performed stock to cover redemptions.

Uncertainty over the state of the nickel sector has been helpful, with a stark dichotomy existing between those saying there's a deficit in the market and others such as Citi arguing declining LME inventories reflect stocks of the metal going to "off warrant trader or consumer stocking" rather than into consumption.

Somewhat ironically for Nickel Mines, concerns over the future nickel market are also related to Tsingshan's success at Morowali, with low-cost, expanding production out of Indonesia a clear focus for bears given the stunning ascent of the operation in next-to-no-time.

Then there's the emerging split in the nickel market itself, with separate pricing for the commodity seen as being on the cards given the different end markets - stainless steel and electric vehicles markets in particular - requiring different forms of nickel.

Again though the likes of Tsingshan may again emerge as a key player, with its plans to build a HPAL-style operation in Indonesia seen as a ‘precursor' to supplying markets ex-stainless steel - albeit there may be a headwind or two given Macquarie was last week saying there was some "scepticism" in China about Tsingshan's plans, and that its "relationship with China's foremost HPAL technology providers is ‘strained'".

In any case, there's no lack of uncertainties!

Nickel Mines has had that further emphasised this month with nil-reaction to what appears two very positive bits of news flow.

Firstly, news out of Indonesia that it would pay no tax for nine years was met by a yawn by the market. And a yawn despite the fact broker Bell Potter estimated tax savings of US$270 million - or $160 million attributable to Nickel Mines based on a 60% stake in the two production lines due to kick into operation next year.

The ASX was also completely nonplussed by another agreement a week or so later pertaining to Nickel Mines acquiring a future interest in a further two production lines at Morowali.

Again, nada!

On a high level basis, there are probably one or two obvious points that could be argued for the lack of reaction.

As alluded-to, mining markets are generally poor at the moment, with uncertainty around the supply-demand equation for nickel and other metals in the complex being compounded by the US-China trade war.

If most buyers aren't already packed up and left for the year, they are sitting firmly on the sidelines.

And secondly, Nickel Mines is doing business with China and Indonesian interests, which, rightly or wrongly elicits a large degree of scepticism from the broader ASX investment community.

So even though Nickel Mines can point to a relationship that's been building for some years, even though it can physically point to the construction of the production lines they'll majority-own, and even though it can point to the Chinese also being significant shareholders, perhaps this very much represents a classic ‘show us the money' type case.

Simply put, if and when Nickel Mines' cash at bank starts growing, arguments of risk will be rendered null and void.

Another uncertainty may relate to exactly how much ownership Nickel Mines will ultimately have (or choose to have).

All in all, there are quite a few balls in the air.

Still, while those associated with Nickel Mines are no doubt a tad frustrated, they do have the ultimate comfort to reassure themselves with.

And that's their company's alignment with the world largest stainless steel producer at, as Glencore puts it, "arguably the lowest cost ferro-nickel operation in the world".

That's got to be extremely comforting!