Resources
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Bauxite on Metallica's playlist

Plus, Kairos adds a cobalt leg in an emerging area just south of Breaker Resources' world-class gold discovery

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Barry FitzGerald

Rio Tinto is not spending $US1.9 billion on developing its Amrun bauxite project south of Weipa on Cape York Peninsula on a wing and prayer.

Due to start production in the first half of 2019, Amrun's planned annual output of 22.8 million tonnes will both augment Rio's existing Weipa operation, as well as allow a step-up in exports of the alumina/aluminium raw material to China.

The stepped-up export opportunity comes from the hand-over-fist growth in China's aluminium industry, and the demands it is making on China's domestic supplies of bauxite.

Around 2021/2022, forecasters reckon supplies of bauxite feeding China's domestic refineries will be pretty much depleted.

That feeds into expectations that China's annual bauxite imports – which have come from next to nothing a handful of years ago to 52 million tonnes a year – are headed off to as much as 120mtpa by 2025.

That sort of growth opportunity is pretty unique in the bulk commodities space – and with Rio tipping internal rates of return of more than 20% for Amrun, it is a pretty enticing one.

Competition to fill the forecast growth is keen though, with places like Guinea, Malaysia and Indonesia jostling for a share of the upside.

Despite the best efforts of Canberra and state governments to erode confidence in Australia as a reliable and cost competitive supplier of commodities, the country still has definite advantages over the three countries mentioned above.

The two key advantages are around sovereign risk and proximity to China, the biggest and fastest growing market for key commodity exports, including bauxite.

All of that is by way of background to this week's interest in Metallica Minerals (MLM), which is about to become Australia's newest bulk commodity exporter from its Urquhart bauxite project, the tenements of which butt up to Rio's Amrun.

Urquhart is no Amrun. But it doesn't have to be either given Metallica's modest market capitalisation of $16 million (5.7c a share).

Once the mining licence for Urquhart is secured, expected this quarter, Metallica will sign off on Chinese off-take deals and get down to exporting 1.5 million tonnes a year from the privately owned Hey Point, all of 15km away.

Access to the trans-shipment port, and the short trucking distance, is the key to the incredibly low start-up capital of $1.1 million. Metallica has 50% of the action with the remainder held by a private Chinese investor.

At the planned production rate, Urquhart is forecast to generate annual earnings at the EBITDA level of $18.8 million on a 100 per cent basis. The $12-a-tonne margin implied in that is based on a received bauxite price forecast pretty much where prices are now.

Mine life is not in the Amrun league because Urquhart is hemmed in by Rio tenements on one side and Gulf of Carpentaria waters on the other. Still, there is good reason to think mine life is good for at least seven years.

Assuming this EBITDA forecast comes to pass – the plan is to be in production in the current quarter – Metallica's 50 per cent interest is transformational stuff for a company of its size.

The receipt of a mining licence could well be the trigger for a re-rating of Metallica's shares to get going.

If Urquhart was all Metallica had, the current share price might be considered fair enough given it still needs to establish cash flows from the bauxite operation. But long-term followers of Metallica will know there is much more to the company than Urquhart.

There was a time when the East-Brisbane company was trying to be all things to all metals and minerals. It has tightened its focus in more recent times, making Urquhart the prime focus and hiving off interests to others better placed to make the running.

The SCONI scandium-cobalt-nickel project, about a three hours drive north-west of Townsville, is a prime example.

Metallica farmed out the project to Australian Mines (AUZ) in October last year. Under the agreement, AUZ can earn a 50 per cent stake in SCONI after completing a definitive feasibility study, or by spending $10 million on a DFS within four years.

AUZ can then get to a 75 per cent interest by arranging finance for any development.

SCONI is AUZ’s headline project and it’s worth noting that, while it is a $32 million company, it can be said that there is nothing in Metallica’s share price for its essentially free-carried 25 per cent interest in SCONI.

AUZ reckons SCONI is the most advanced project of its type in Australia, with mining and environmental approvals now in place and a bankable feasibility study underway.

Maybe so, but it’s a fair bet that Robert Friedland’s Clean TeQ (CLQ) reckons its Syerston project in NSW, to which SCONI is an analogue, is the most advanced.

More to the point is that Clean Teq is a $432 million company on the strength of the plan to make Syerston a supplier of nickel and cobalt sulphides to the boom lithium-ion battery market, with the scandium in its back-pocket as a play on the forecast strong growth in lightweight aluminium alloys.