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Juniors back in hunt for iron ore action, spurred on by latest Vale hiccup

Plus, the nickel planets look to be lining up for Mincor and its latest find

25th October 2019 **Barry FitzGerald**

Junior explorers/developers vacated the WA iron ore space in a hurry back in 2011-12 when the iron ore price began its almighty slide from $US168/t down to $US55/t in 2015.

But a couple of dam tragedies in Brazil and an annual global steelmake that has continued to surprise to the upside resulted in the iron ore price steadily rebuilding to an impressive $US102/t in the September quarter.

Add in the lower exchange rate and iron ore is again a licence to print money for the big three of the WA industry – Rio Tinto, BHP and Fortescue.

Yes, the iron price has fallen away in the opening weeks of the December quarter to around $US85/t. But it is still a magical price for the WA producers (Fortescue on Thursday reported cash costs for September quarter of $US12.95/t).

All that is why the junior explorers/developers are back in the hunt for a slice of the action. Two names that have popped up recently are Fenix Resources (FEX) and TAO Commodities (TAO), with TAO currently in a trading halt.

But ah ha, have they left their run too late given the iron ore price fall in recent weeks? Not at all.

The fall to $US85/t was widely anticipated on China slowdown fears, and as mentioned, it is still a fantastic price.

And while most analysts have it falling lower still in 2020 as Brazil's iron ore king Vale makes meaningful headway in restoring as much as 60mtpa of lost production caused by its latest dam disaster in January, there was a reminder from Vale on Monday of the difficulties it faces.

The reminder came in a self-imposed geotechnical review of the Itabiricu tailings dam at the Conceicao mine.

The move only impacts 1.2mt of lost production in 2019 from a mine that is slated to close in 2020 anyway. The bigger point though is that the issue demonstrates the complexity and challenges in Vale's production recovery plan across its vast iron ore network.

All that means that the expected retreat in iron ore prices to levels below $US85/t is less likely than it was, which is good news for our iron ore producers and a bunch of juniors that want in on the WA iron ore industry.

Fenix Resources (ASX: FEX):

A diary note suggests that Fenix (trading at 4.2c for a diluted market cap of $19m) is about to lob a feasibility study into the development of its boutique Iron Ridge project in WA's mid-west.

That can be said because a recent update from the company said the FS was on track for delivery in October, and here we are with five days to go.

Fenix has said previously that it was planning a 1.25mtpa dig and truck operation of direct shipping ore grading close to 64%, a couple of percentage points above the 62% benchmark, and that the indicated resource was 10Mt.

From that it can be assumed Fenix is looking at an initial mine life of about 7 years, with the quality ore to be trucked some 500km to the Port of Geraldton for export.

While trucking will account for a big chunk of costs, Fenix does not have the infrastructure burden of having to build a rail line and port - the perennial capex challenge for companies looking to become a producer.

Assuming Fenix will be using a long-term iron ore price of around $US80/t in the FS, there is every reason to suspect that Iron Ridge is shaping up as a small but sweet fish, one capable of a quick start-up and a low capex requirement.

It is best to wait for the release of the FS but it seems more than likely that it will point to Iron Ridge's potential to produce annual EBITDA at or around a level equivalent to Fenix's current market cap, something that can't be said all that often.

That's why once the FS is out and all the approvals are in, Iron Ridge is likely to be of interest to some established players in the region with "stranded" deposits along the truck route to Geraldton. It could be the catalyst for a bigger play.

TAO Commodities (TAO):

TAO went into a trading halt on Wednesday pending the release of an announcement on a "material acquisition".

Best to wait and see what that's about but there has been chatter that it is picking up a package of strategic iron ore prospects/deposits across the Pilbara, all within easy striking distance of rail and port infrastructure owned by others.

TAO last traded at 14.5c for a market cap of all of $4.5m, most of which would be covered by cash left over from its April 2018 float, making it a neat vehicle for the Pilbara push, if in fact that is what it is up to.

Nickel

The London Metal Exchange was nice and polite when it confirmed it would be having a look at what was behind the biggest-ever decline in nickel inventories to eight-year lows and the surge in the price to five-year highs.

The LME asked its members to identify client activity in nickel warrants since September 1, as well as what steps were taken to "ensure that the client's activity is not conducive to an abusive squeeze or other pattern of market abuse/disorderly market conduct".

But it also acknowledged that it was quite possible that the "market tightness may be reflective of genuine physical market conditions".

Indonesia's decision to bring forward its ore export ban from 2022 to January 2020 might have something to do it with, you would think.

But what the heck, after retreating from its peak in September, nickel has been doing nicely at around $US7.50/lb, making the year-to-date gain some 53% and the improvement on last (calendar) year's average some 23%.

Once again, it's a good time to be in the nickel space. It is a case of "once again" because it was only in 2016 that nickel got as low as $4.35/lb, having got as high as $US10.36/lb in 2011.

There is always a danger in suggesting things will be different this time around. But they might well be given this time there is a whole new growth sector for the metal on top of its current mainstay of stainless steel.

It's nickel as a key battery material for the electric vehicle and renewable energy storage revolution. And of all of the battery metals, nickel is not ready for coming demand due to under-investment and a lack of new discoveries caused by the 2011-2015 price collapse.

Mincor (MCR):

It is one thing to be returning Kambalda nickel mines to production in the greatly improved nickel market – things will get really exciting when and if the price hits $US9/lb – as Mincor (MCR) is busily doing.

It is another thing all together if the return to production can be matched up to one of the best nickel sulphide discoveries of recent times.

That's the position Mincor finds itself in through a restart feasibility study due in the March quarter next year and its high-grade exploration hits at Cassini, the new orebody to be wrapped into the restart plans with two previous producers, Durkin North and Long.

The feasibility for the restart plan, underpinned by the offtake agreement with BHP's Nickel West announced in August, is delayed from original expectations but only for the right reasons – the need to incorporate a run of high-grade exploration results from Cassini.

Most recently, Mincor reported a 12.3m hit grading 5.1% nickel within the CS5 channel and some 70m down-plunge from a previous hit of 15.4m at 4.7% nickel, with a new up-wedge hole aimed at finding out what is between.

The grade makes for very valuable dirt (more than $US800/t in-situ) which leaves the high-grade gold hits being reported around the place, and causing excitement for investors, in the shade.

It all augurs well for Mincor's plan to update the mineral resource estimate for Cassini (985,000 tonnes at 3.8% nickel for 37,800t of contained nickel) early next month. Some analysts believe something around 50,000t is well on the cards.

What is clearer is that the market, like the company itself, rates Cassini as something special. That comes through in recent broker valuations on Mincor, currently trading at 63c.

Euroz has a 90c target price on the stock, saying this week that the recent drill results have demonstrated the potential for Cassini to grow.

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