FROM ZERO TO HERO IN A BOOMING MARKET

A lot can happen in a quarter, but in the case of graphite player Valence Industries it has achieved milestones that have it raking in multiples of its market capitalisation. **Anthony Barich** reports

When *RESOURCESTOCKS* readers last saw Valence Industries in March it had mapped out a rapid path to production that would see it start producing graphite from its South Australian project by mid-2014.

Come August, CEO Christopher Darby and his experienced graphite producing team will have brought Valence, the first company to IPO on the Australian Securities Exchange for 2014 in January, from no operations to production.

This is a significant task in and of itself for any company. Critically, Valence will also have established a processing operation to the capacity of 14,000 tonnes per annum of graphite. Darby said the company has received a significant amount of interest from customers, with first sales of graphite to international customers occurring in April.

With Phase I – get the old existing plant and facilities up and running – underway, by August Valence will also have released a feasibility study for Phase II of its project at Uley that envisions expanding the Port Lincoln plant's capacity by up to another 60,000t of graphite, taking the total production to 74,000t.

With an estimated average graphite price of $US1400/tonne based on Valence's contracts, Phase I processing is expected to generate about $6 million in EBITDA for capital expenditure of just $2.8 million.

The modest Phase II cap-ex of $US34 million is an added bonus, considering about $A21 million of incoming revenue from the existing Phase I operations. This means the cap-ex costs of the Phase II expansion are capable of being covered. Construction on the Phase II plant will commence September-October and should go online in 2015. This will be a significant advance for the company.

This makes the project very attractive for financiers, and indeed Valence has been experiencing a significant uptake from this sector expressing interest in funding Phase II.

Every one of the top five banks has been looking at Valance, as well as a number of boutique funding arrangements, for which the company has been engaging a range of stakeholders.

"It's just a matter of striking the right balance for shareholders so you don't have too much of a debt leverage against your total share capital base, even though you do have a solid level of income coming in," Darby said.

By August, Valence will also have about 30 personnel working on site, heading towards 100 in the early part of 2015. Valence is working closely with state and local governments in that process.

This emphasis on what is essentially regional manufacturing is important not only for Valence, but for a local economy struggling with the announcement from car manufacturer Holden in December that it would close its South Australia plant, and the more recent news on Toyota.

"There is a strong push from federal, state and local governments to see more local manufacturing – and that's exactly what we're doing at Uley," Darby told *RESOURCESTOCKS*. "So we're not just digging up dirt and sending it overseas, it's really got to do with producing high quality end products that we deliver to our customers.

"So while you are seeing many competitors in the market saying they have big MoU contracts for taking tens of thousands of tonnes of dirt, it has very little to do with being a very specialist graphite manufacturer in this market. You really want to have a range of customers across a range of product lines to really differentiate yourself in the long-term – and

VXL Uley graphite operation. Photograph by James Knowler

that's what we're doing. That's why we're bringing that training and operational expertise to regional South Australia."

Valence also offers significant exploration upside, with an exploration license that goes for the remainder of its Eyre Peninsula tenements, with many thousands of tonnes worth of exploration targets that the company is still to increase and identify. The exploration lease goes for another 75sq.km, where it also has previously identified graphite targets.

All this is aimed at expanding on the JORC indicated and inferred resource of 6.4Mt at 7.1% which starts just below the surface, with the results of another drilling campaign to be announced by the time Diggers and Dealers 2014 rolls around. Valence expects to move more of that inferred category up to an indicated category from that program.

Global economic data is a very strong indicator for graphite, and on this front the trend is encouraging.

"We see base applications of the heavy industrial applications for graphite that grows steadily in line with global GDP," Darby said. "So things like industrial lubricants, industrial refractories and foundries are steady and provide a base demand that require graphite for that work to be done."

Then there is also a significant amount of new technologies ranging from solar panels to conductive paints to batteries for large storage of energy for the electricity grid that are significantly increasing right across the globe, whether it be in Europe as they push to reduce their emissions, or into the Asia Pacific region or North America where governments have made strong commitments in that regard as well. All this means that Valence has not only a very diverse range of markets to sell its product globally, but also very diverse markets in terms of the industries to which it sells the graphite products.

"So there is steady price increase but also a very sustainable business model, because you're selling across a range of regions and industries – and when there is a little shuffle in any one of them, you are quite capable of sustaining a business model," Darby said.

"And of course with any significant increases, you take the upside."

Darby emphasised that everything in graphite processing and manufacturing has to do with the quality of your product and its qualification by customers – and Valence has qualified customers now in Europe, North America and the Asia Pacific region.

This sets Valence apart in the graphite market, as it takes quite a period of time to get that qualification, which comes from actual production, not what a company thinks it can make.

"That's where our customers have been taking significant interest in the nature of the product that we've been able to give, and identifying the quality that we're able to give is right at the top end of what they're looking for," Darby said.

With this in mind, Valence has been working on qualifying its product for more than 18 months – even before it listed; and Darby noted that not one customer has come back with any problems with any of the company's products.

"In fact, they all really want to know when we can start delivering significant quantities, as they want to buy more of that material," he said.

"So we want to build those relationships very carefully in line with our ability to actually produce."

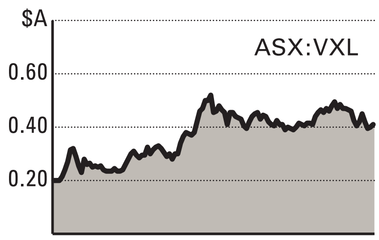
So everything is on track for the only graphite producer in Australia, with new work and new technology being enabled for not only South Australia but Australia. Valence's project is also the only new graphite mine to be coming back online thus far in the world this year. RS

The existing manufacturing facility at Uley. Photo by James Knowler

"There is steady price increase but also a very sustainable business model, because you're selling across a range of regions and industries."

CHRISTOPHER DARBY
VALENCE INDUSTRIES

VALENCE INDUSTRIES AT A GLANCE



6 months ending June 25, 2014

HEAD OFFICE
67 Greenhill Road, Wayville
South Australia 5034
Australia
Ph: +61 8418 8564
Email: info@valenceindustries.com
Web: www.valenceindustries.com

DIRECTORS
Graham Spurling,
Christopher S. Darby,
Glenister Lamont, Ian Schache

MARKET CAPITALISATION
$A70.6 million (at press time)

QUOTED SHARES ON ISSUE
168.2 million

MAJOR SHAREHOLDERS
Strategic Energy Resources 12.96%