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## Rarer than gold mineral lures investors

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When Neil Biddle first travelled from Perth to China to drum up sales for ASX-listed Pilbara Minerals, he didn't get the reaction he was after.

"People naturally assumed we were an iron ore company," he laughs.

In the shadows of Western Australia's once-in-a-generation iron ore boom, Pilbara Minerals has quietly drilled the region's red dirt to firm up its large Pilgangoora lithium deposit.

The Perth-based company is weeks away from producing tantalite at another Pilbara mine, Tabba Tabba, and hopes to have Pilgangoora in production in 2017.

Considering the market malaise dampening investor sentiment in other commodities, the excitement building around "new world" minerals means it is a relatively good space to be in.

Investor interest in tantalum, a highly corrosion resistant metal far rarer than gold, has grown because of its use in electronics, particularly capacitors for tablets and mobile phones, but graphite and lithium are sparking interest because of the projected demand growth for lithium-ion batteries, fuelled by an expected surge in the use of electric vehicles and home power storage.

Billionaire entrepreneur Elon Musk's Tesla Motors is the sector's central focus as it builds a \$US5 billion (\$6.9 billion) lithium-ion battery Gigafactory 1 in Nevada, USA. And with electric vehicle rivals hot on Tesla's heels, industry watchers are tipping demand for both lithium and graphite to swell.

Biddle says Pilbara Minerals has fielded strong interest from the US, before even setting foot in the country at the epicentre of the anticipation.

"I would already get a call a week from a US fund manager," Biddle told *The Australian Financial Review* from China.

"Australian fund managers are starting to work out they need to be in lithium, so we are now getting interest from [Australian] institutional brokers and institutions themselves."

## Share price surge

The company's share price has surged to 26.5 from 3 in just a year, giving it a market capitalisation of about

Founder of New York-based advisory firm Union Square Capital Advisers, Cameron Leslie, has been working to connect a number of ASX-listed graphite plays with US investors.

Graphite was arguably the sexy mineral of 2014, as investors tracked the strong stock performance of Syrah Resources and poured into a pool of smaller graphite hopefuls such as Kibaran Resources and Triton Minerals. But the enthusiasm deflated somewhat this year as price weakness, due to softening industrial demand for steel, and a crowded junior industry dampened the positive macro picture.

But Leslie, like Biddle, says US investors are closely following the battery story.

"In respect to Magnis [Resources], we have seen a lot more support from offshore investors," Leslie says.

"We initially organised just a few days of meetings for them in the US, but had enough interest to fill a few weeks. The stock has doubled since they came through the States in June and at this stage we don't think there is an Australian insto [institution] holder."

Mr Leslie says it is harder to attract the interest of Australian funds, which are resources weary.

"We think the Australian investor community is yet to grasp the size of the market for high quality natural graphite and its end products. Understandably they have been overwhelmed by the slump in mining stocks."

Pengana Capital fund manager Tim Schroeders isn't buying into the hype. He argues it's easy to be wooed by the "green lustre" and the risks in such a thin market are too great.

"There is an underlying extremely strong thematic around the growing use of graphite, lithium, lithium-ion batteries and electric vehicles – all that is really sexy, but what it all means and who develops the relationships with the end customers in these new markets, that is the difficult part to ascertain and I am not sure even the so-called industry experts have it figured out," Schroeders says.

## Tesla supply chain the place to look

"When you get into these speciality areas, there isn't a great degree of confidence in the ability to understand the end market."

Albion Capital Partners principal Tony Grist says specialist minerals usually polarise people because of the high risk involved, but says he believes there is potential upside in graphene, which is found within graphite. Veteran investor Warwick Grigor is also a vocal advocate of graphene, having invested millions into Swedish-focused play Talga Resources.

Schroeders says the Tesla supply chain is an "obvious place" for investors to look but he believes the journey to returns won't be "be as simple as most people would like to believe".

"Experience over 20 years tells me you don't want to take this as a given in terms of producing economic returns because we have seen a long history of these mini booms – rare earths, tantalum, uranium going back a long time – and lot of companies have failed to deliver," he says.

"A lot of these companies will never see the light of day, in terms of real development. You can spend a lot of time and they will provide a lot of angst for not much else. And getting into production doesn't necessarily translate into profitability either."

There is a long list of hopefuls on the ASX, including Pilbara Minerals, and the exploration fervour has not decreased despite soft prices, warnings about small end markets and the potential for oversupply.

Market darling Syrah Resources is developing the vast Balama graphite deposit in Mozambique, Triton Minerals plans to develop the Nicanda Hill graphite in Mozambique, while Orocobre is ramping up the Argentinean Olaroz lithium facility and Neometals is advancing the Mt Marion lithium project in Western Australia.

## Lithium ticking up

For graphite, prices vary by product and contract, but according to research provider Stormcrow Capital prices for large flake, high purity graphite peaked at about \$US3000 a tonne in 2011 and have since slumped to around \$US1100 a tonne.

Lithium has been ticking up slowly. Roskill, a UK-based metals market researcher, says the current price of lithium is around \$US5000 and \$US6000 a tonne, with different grades commanding varying prices.

But each product market presents its own hurdles.

In graphite, the swarm of explorers and developers preparing new projects provides more than enough potential supply to meet most demand projections, posing a key question of when or if these projects will come on stream and what affect they could have on market conditions.

Patersons Securities analyst Jason Chesters expects graphite demand to grow by about 400,000 tonnes between now and 2020, with much of that growth to be met by existing producers' expansion capabilities.

"Outside of [expansions by] existing producers this would likely leave around 200,000 tonnes per annum of supply from new projects, many of which should be able to reach production in 2017 or 2018. So the quantum of planned new supply remains far in excess of the potential new demand and therefore many graphite hopefuls are

likely to be disappointed."

Chesters uses a six-step system to rank graphite players and of the ASX plays, rates Valence Industries and Kibaran Resources the highest.

## Three companies dominate supply

"Valence has commenced production at its Uley graphite project in South Australia, while Kibaran has completed all the required steps to proceed with its Epanko graphite project in Tanzania, other than funding," he said.

In lithium, three companies supply 90 per cent of the world's lithium, which commentators argue create challenging conditions for smaller players to secure customers unless demand grows.

However, Stormcrow president Jon Hykawy doesn't believe it is possible for incumbent producers to meet future lithium demand.

"As in many other mining sectors, it is likely to be junior miners that serve as the source of new production for the industry," he says.

For Pilbara Mineral's Biddle it is a welcome view.

"The lithium market is very tight at the moment, but we are meeting a lot of end users here [China] that are very keen for additional supply," Biddle says. "We have been able to secure [agreements] for 100 per cent of our projected production and we have done that without having to work too hard at all."

*This story was found at: <http://www.smh.com.au/business/mining-and-resources/rarer-than-gold-mineral-lures-investors-20150922-gjno7n.html>*