BHP joins Rio in keeping close watch on lithium

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The Big Australian's new chief admits to reviewing the battery metal's potential "on a regular basis". The comments are particularly relevant for the runaway Liontown, which is seen as owning the only Tier-1 hard rock lithium orebody in WA which remains totally uncommitted to an end-user. And $34m Kingston poised to attract attention from gold-hungry investors.

BHP's posturing that it stands to benefit from the world's great decarbonisation event – the electric vehicle and renewable energy storage revolution – through its electrification and battery metals exposures of copper and nickel is well known.

It likes to call the exposures its "future-facing" commodities and it has just declared an appetite for more copper and nickel resource positions through exploration and early-stage entry into projects owned by others.

What is not so well known is that securing a position in lithium is part of its consideration. That in itself gives the (currently) beaten up lithium ASX-sector something to cheer about.

BHP's newbie CEO Mike Henry was asked about the company's future-facing options at Tuesday's briefing on its iron ore-underpinned interim profit, which was up 39% to a handy $5.18 billion ($A7.8b).

More specifically, the question was around if there were actual opportunities for a company of BHP's scale in the battery metals beyond copper and nickel, given it has a preference for the things it does to "move the needle".

Henry said cobalt was essentially a by-product and was "too small an industry and would not be of the scale that we would looking to from a BHP perspective".

He went on to say that BHP had concluded the same thing about lithium. But he added that it was a commodity in transition.

"At this point we look at it and say it has a relatively flat cost curve, so we don't see any opportunity to extract rent. But we can never say never. We will (continue to) review that, and other commodities on a regular basis".

So there it is. The world's biggest miner is keeping its eye on lithium, just as Rio Tinto is through its potential development of the Jadar lithium-borate project in Serbia.

Given both of them have probably missed the boat, it does not really matter if they get into lithium or not.

What is more important here is that there is an acknowledgement from the world's biggest miners that lithium is a market they might need to be part of as demand and potential returns form "future facing" commodities start to leave the likes of coal and iron ore in the shade.

That's got to be heartening for the ASX-listed lithium producers and developers which were hit hard last year when China removed subsidies for EV's at a time of clear over supply of lithium ahead of the coming crank up in global EV production.

BHP's central case is that come 2025, EVs will account for close to 9% of global sales of light vehicles, up from 2.4% last year. By 2035, EVs could have a 30% share. It's no wonder that BHP has lithium under watch.

LIONTOWN RESOURCES (LTR):

BHP is not alone in keeping an eye on lithium's likely status as the high-growth commodity as the 2020s unfold.

That was on display in Liontown Resources (LTR) in Thursday's market where the stock put on 9% to 14.2c in response to high-grade lithium hits at its Kathleen Valley project in WA.

Individual hits of up to 5.7% lithium, albeit from deeper positions, got the market excited. The reality is though that the market should have got excited back on February 13 when Liontown released an interim resource upgrade from 75mt to 139mt at a grade of 1.3% lithium.

The upgrade confirmed Kathleen Valley as one of the new mega hard-rock lithium deposits in WA alongside the likes of the Pilgangoora (Pilbara Minerals/Altura), Wodgina (Mineral Resources/Albemarle) and Mt Holland (Wesfarmers/SQM).

Chris Baker at Bridge Street Capital – it has a corporate advisory relationship with Liontown – said in a post resource upgrade note that in every respect, Kathleen Valley can now be classified as a Tier 1 deposit.

His "bottom-up" valuation of the stock was 18c a share (it was trading at 11c at the time), although a 59c-a-share value could be inferred from the price Wesfarmers paid last year to acquire Kidman Resources, the 50% owner of the undeveloped Mt Holland.

Baker also noted that Kathleen Valley is the only Tier 1 hard rock lithium orebody in WA which remains totally uncommitted to an end-user. That's kind of interesting when the likes of BHP are keeping a watching brief on the sector, along with any number of existing players in the battery supply chain.

Liontown is continuing with in-fill and extensional drilling until mid-March to establish a likely bigger-still mineral resource estimate. It will be plugged into a definitive feasibility study on an open pit/underground development.

Being a second-generation project in WA's hard-rock lithium demand response, Kathleen Valley stands to benefit from the lessons learnt from the first generation response, and a development timetable that could dovetail nicely with expected take-off in lithium demand around 2022-2023.

KINGSTON RESOURCES (ASX:KSN):

It is the best of times for junior gold companies to be working towards getting into production. Gold at $US1,610/oz, or an astonishing $2425/oz, tells you that.

Investors are awake to all that and have been busily shifting through the various options in the local scene.

They haven't run out of options just yet but it has to be said their buying into the thematic at these gold prices is starting to make the upside in some of their choices look thin.

It is on that basis, the more intrepid can be expected to step up their perusal of ASX-listed gold developers with projects in overseas locations.

They generally trade at a discount depending on the sovereign risk considerations around their projects. But the money they can make at current gold prices is pretty much the same as their Australian counterparts, if not better,

All that is why stocks like Kingston Resources (KSN) might be expected to come into their own this year. It is trading at 19c for a market cap of $34m on the strength of its Misima project in PNG.

PNG is not flavour of the month with some notable ASX-listed oil and gas stocks at the moment, or those looking to develop big-ticket gold/copper operations on the PNG mainland.

But it is a different story out on the smaller PNG islands with gold, particularly where there has been a demonstrable benefit to the locals from previous operations.

Misima falls in to category thanks to the first world approach of Placer Dome (now part of Barrick) when it mined 3.7m/oz from 1989-2004, stopping as it did when gold prices were a somewhat more challenging $US300/oz.

Kingston came into the project in late 2017, attracted as it would be by the 2.8moz mineral resource at slighter lower grades that was left behind by Placer.

A mineral resource update is likely around mid-year and will include what success Kingston has had in outlining a starter pit(s) to provide mill feed in the early years of a mine restart, given the bulk of the existing resource will require a cutback.

Assuming that has been going well – and reported exploration results to date suggest it has been – the company will probably be in a position to kick of a pre-feasibility study by year-end.

Under Placer, the mine averaged annual production of 230,000ozpa for 15 years at an all-in sustaining cost of $US218/oz. Given the existing resource base, and what it is to come from the start-pit focus, Kingston would likely shoot for a something approaching a similar, in terms of ounces produced anyway.

So it is a junior with production well in its sights, the potential scale of which is something it could be argued is not yet fully recognised in its market valuation.