Resources
Rising Stars
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Liontown timing its WA lithium project to catch the EV wave

Goyder aims to be Goldilocks with not-too-early, not-too-late development of Kathleen Valley. Plus, Centaurus awaits first assays from Brazilian nickel sulphide project.

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STOP PRESS: Legend Mining (LEG) has gone into a trading halt pending the release of assay results from the third hole in its current drilling campaign at its Area D prospect, part of its broader Rockford project in WA's Fraser Range.

The Perth gossip was that it has made a nickel-copper "discovery", though there was no fix on the size of the intersection or the grade of the mineralisation, presumably because the hit had only been made in recent days.

The widespread use of the term discovery in the gossip suggests that visually at least, Legend has hit something special.

Should assays next week, at the earliest, confirm a discovery, the find will give the other juniors in the Fraser a boost.

Exploration in the remote Fraser lit up in 2012 when junior explorer Sirius Resources discovered the Nova nickel-copper deposit. Sirius was taken over by Independence in 2015 for $1.8 billion, and the hunt has been on for the next Nova ever since.

Independence owns 14.2% of Legend while prospector legend Mark Creasy owns 26.8%.

Now back to Liontown Resources (LTR)

Virtue signalling celebrities are increasingly taking to social media platforms to declare that they plan to either curb or avoid all together air travel because of the carbon emissions intensity involved.

Cars with internal combustion engines will be next. But unlike air travel, where the only alternative is to flap their arms, the celebrities and the rest of us have an alternative when it comes to cars in the form of electric vehicles powered by lithium-ion batteries.

There was some of that in Tim Goyder's address as chairman - and 17% shareholder - to shareholders at Liontown's (LTR) packed annual meeting in Perth on Wednesday.

In what amounted to a rallying call to shareholders in the face of the great 2019 slump in lithium markets, Goyder said he believed the wave of demand from lithium-ion powered batteries was coming at a rapid pace.

Still, he said shareholders had to be patient for the next few years, which is in keeping with what most battery supply chain observers are suggesting.

And that is that the current over-supply in lithium markets is set to reverse sometime around the mid-2020s, if not before.

The raft of production cuts, project deferrals and closures by industry incumbents such as Albemarle against a backdrop of demand growth from the EV and renewable energy storage sectors means that when the current mismatch is turned on its head, incentive pricing will have to return.

It is a scenario that Liontown is positioning itself for at its flagship Kathleen Valley project near the Goldfields Highway between Leinster and Wiluna in WA.

A big increase in Kathleen Valley's resource to Australia's fifth biggest in July, and a sweetly timed capital raising in August which funds the company through to the completion of a definitive feasibility study, means Liontown ends 2019 in a strong position.

Its share price is off its 17c high in July at 8.5c but it has got to be remembered it started the year at 2.5c, suggesting support for the idea that second generation WA lithium projects like Kathleen Valley will be needed as the 2020s unfold.

While much is made of the world not being short of hard-rock lithium deposits to meet the growing demand, the current shakeout in the sector is drastically reducing the number of second-generation contenders to fill the coming supply gap.

As it is, Goyder let slip at the annual meeting that a preliminary feasibility study into Kathleen Valley's development will be released next week, presumably to coincide with Liontown's presentations at the Resources Rising Stars "Summer Series" of one-day investor conferences in Sydney on Tuesday and Brisbane on Thursday.

A base case outlined in an earlier scoping study pointed to the potential for a 2mpta development costing $232m. What will be indicated in the PFS obviously supersedes the scoping study, itself a precursor to a definitive feasibility study expected in the September quarter next year.

Assuming the PFS confirms potential internal rates of return north of 20% based on necessarily trimmed pricing expectations, Kathleen Valley's status as a strategically important asset with real development potential to help meet the 2025 or so supply challenge could gel in a big way.

It is against that backdrop that both incumbents and newcomers in the WA hard-rock lithium industry have already been jockeying to secure the resource bases for what they clearly see as the coming wave of demand, notwithstanding the current market malaise.

In recent times, there has been the Wesfarmers' acquisition of Kidman, Albemarle's Wodgina deal with Mineral Resources and the pick-up by Mineral Resources and Ganfeng of Neometal's stake in the Mt Marion operation.

All up there is a couple of billion dollars in those deals betting that EV and renewable energy storage demand will surpass lithium supply at some point in the 2020s.

And assuming that does unfold, Kathleen Valley's strategic appeal to any number of groups in the lithium-ion battery supply chain will only grow, assuming the PFS and later DFS confirm a robust project.

Just as an exercise, it is kind of interesting to note then that a "see-through" valuation of Liontown drawn from those previously mentioned deals ranges from 32c a share (the Kidman deal) through to 60c (Albemarle at Wodgina).

The guess here then is that the implied 32c-60c range is why Goyder was urging shareholders at the annual meeting to take a longer-term investment perspective of things compared with where sentiment in the market for lithium equities currently sits.

CENTAURUS (CTM):

While the debate between lithium's true believers and the naysayers rages on, it can be said there is no such debate when it comes to nickel.

As mentioned here back in August, BHP's nickel boss Eddy Haegel put some context around what was coming for nickel from the EV and renewable energy storage revolution in a speech at Diggers & Dealers.

Haegel said nickel-based cathodes were taking market share from non-nickel cathodes in batteries because they're "simply better" as increasing nickel in battery chemistries increases energy density, delivering better performance and lower costs.

"It is important to understand that a 60kwh NMC811 battery needs 9kg of cobalt, 11kg of lithium and a massive 70kg of nickel," Haegel said.

While stainless steel still accounts for about 70% of nickel consumption, battery demand is the fast-growing subset of demand, with the potential for EV demand alone to account for all of the current production in the late 2020s.

But the prolonged period of weak pricing and the subsequent lack of exploration and developments means that the nickel industry will struggle to meet the expected growth in demand, particularly from the preferred sulphide sources.

Following on from BHP's August commentary, we've seen Mincor (MCR) get away a $35m capital raising for the restart of its Kambalda operation with ease and Independence (IGO) stalking the $215m Panoramic (PAN) which is ramping up its restarted Savannah operations.

Things are clearly stirring.

Today’s particular interest though is in Centaurus (CTM), which got a mention here in August along with Hagel’s commentary because it had just struck a deal to acquire the Jaguar nickel sulphide project in Brazil from Vale.

Jaguar came with a foreign resource estimate of a near-surface 40.4mt grading 0.78% nickel for a total of 315,000t of contained metal across a cluster of deposits.

Centaurus was trading at 0.9c at the time and since moved higher to 1.4c, which is not a bad turn in itself.

But the focus on the stock is heating up as the company sets about its 10,000m maiden diamond-drilling program which has the dual aim of extending the known high-grade nickel sulphide mineralisation intersections, and identifying new high-grade zones outside of the historical resources.

Centaurus employed the latest in targeting techniques ahead of the two drill rigs starting to whirr away.

First assay results are expected in mid-December and given the company’s modest market cap for the scale of the Jaguar opportunity, the drill program stands as one to watch.

The company will also be updating investors at the RRS “Summer Series” conferences next week. Ideally, it will have some early drill results, but we’ll wait and see.