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Lithium emerges from the dark at D&D

Spare a thought for the lithium companies at Diggers & Dealers, writes **Barry FitzGerald**.

Loading Pilgangoora product onto a ship for export

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Barry FitzGerald

While the rest of the industry has been living it up in the 15 months between the 2019 conference and this week's COVID-delayed gathering, lithium has been in a dark space.

Prices for WA spodumene concentrates has plummeted in the intervening period from around US$600/t to $390/t a tonne, causing all sorts of pain for both small and large producers of the battery (and traditional uses) raw material.

China's wind back of electric vehicle subsidies meant the supply response to the $1000/t-plus prices of 2018 created an over-supply position, one which is still be worked through with mine closures and scaled back production.

Against that backdrop, it was a wonder that any of the lithium companies bothered showing up at D&D to make a presentation. But show up they did, two of ‘em at any rate - producer Pilbara Minerals and next-gen developer Liontown.

And while they had none of the swagger of the gold, iron ore and nickel companies, they did manage to create plenty of discussion around the prospect that lithium might just well be back in town, albeit off its current low base.

So if the 1900 WA-only delegates at D&D were looking to take home an emerging theme to watch, they got one in lithium, bolstered as it was by the parade of nickel companies - including BHP's Nickel West - that talked up the massive demand boost coming from, funnily enough, the lithium-ion battery powered EV and renewable energy story revolution.

In his D&D presentation, Pilbara boss Ken Brinsden did not hide just how tough things have been in the last 15 months for the group's newish Pilgangoora operation. At different points in the 2020FY, Pilgangoora was limited to just 30% of capacity to stop the cash burn.

But demand conditions have started to improve.

"We are not quite popping the champagne corks but there has been a material change in the customer base. They are stepping up to the mark and they are back with a buying mode, albeit with a backdrop of weak pricing,'' Brinsden said.

"With that in mind, we are finely poised for that period of time when both demand and the price continues to improve.''

Brinsden was not making it up. He was able to point a September quarter operational update released to the ASX.

While Pilgangoora only met guidance, plant utilisation for the period was 70-75%, leading to spodumene concentrate shipments being well ahead of the preceding June quarter's 29,312t at 43,630t.

"We are also setting up with higher production to deal with the demand we saw coming in the early part of the December quarter," Brinsden said.

Importantly, the increased utilisation rate, and improved recoveries from tweaking of the plant, delivered a lower average unit cash operating cost of $355/t (CIF China) for the September quarter.

That makes Pilgangoora the lowest cost spodumene concentrate producer apart from the long-established and super high-grade Greenbushes operation in WA's south-west, owned by Tianqi/Albemarle.

On the September quarter figures, Brinsden's optimism for the operation - one he said was "forged in fire''- is understandable, particularly if prices also turn for the better.

"We've got to the point now that when the plant is operating we are really confident about its reliability and what it is going to deliver, and that translates to a very low cost base.''

"Out of all that we are absolutely the horse to back in the lithium raw materials sphere because we have an amazing asset base, very low cost of production, and an expectation that the demand conditions have already started to improve,'' Brinsden said.

On a broader market perspective, Brinsden said the EV market had literally flipped on its head in the last 12 months, with an ever-greening Europe overtaking China in EV sales, and not by some small margin.

"And if you are a car manufacturer or a cell manufacturer in Europe, you have no choice today but to go to China for your raw materials.''

He said that was good news because China relies on supplies from WA. "That's why in the end we should all be excited about these changes in the market. The evidence is pretty clear,'' Brinsden said.

All that without having to mention the growing supply fears around the raw materials need to fuel the EV revolution, highlighted by the headlines around Tesla contracting to buy spodumene in the US from ASX-listed Piedmont, as well as thinking about getting in to the mining business from lithium-clay deposits in Nevada.

Share price wise, there might be something in the lithium renaissance theme Brinsden kicked off at D&D.

Pilbara last traded at A35.5c, up from a low of 14c in the market's March shakeout, and up on its level a year ago of 31c.

Liontown's share price performance has been stellar. It last traded at 29c compared with 6c in March and 10c a year ago. The performance has been aided by excitement around its Moora gold-PGE-nickel-copper exploration project, 95km north of Chalice Gold's Julimar discovery.

But the recently released updated PFS in to the development of its Kathleen Valley lithium project in WA's Eastern goldfields is a big part of the share price performance.

Kathleen Valley is pitched as a "second generation'' project with the tier one credentials needed to meet a lithium supply gap come 2025.

Operating costs in the update were greatly improved at US$345/t, which sits within the $320-350/t range that Pilgangoora is targeting.

More to the point, is that should both projects lock in those sort of costs, they could sport the sort of margins that have given the gold and iron producers their swagger, based on a Roskill forecast in the Liontown PFS for prices to average $US769/t for the period 2025 - 2040.

A (second) lithium boom for WA in the making? Quite possibly.