

Interview Producer seeks Chinese financing for Philippines project

European Nickel looks for 'dream team'

LONDON
BY CLEMENTINE WALLOP

European Nickel is looking to sign an offtake agreement with a nickel consumer for its Acoje project in the Philippines as a means of securing finance, md Simon Purkiss told MB last week, as he forecast stainless steel demand will recover in 18 months or two years' time.

Purkiss is aware of the tight credit conditions for mining companies, including European Nickel, on the London stock markets, but emphasises that "there are other ways of financing other than

through equity".

The company's share price has been under pressure as a result of speculation that it will come to the market for more money, but European Nickel is more likely to look to China for financial backing through an offtake agreement, Purkiss said.

"You want Chinese financing, a Chinese offtake, Chinese engineering, a good resource, Western management...and Western values: that's the dream team and that's what we're aiming for in the Philippines," Purkiss said.

Purkiss: 'There are other ways of financing'



Having a Chinese partner in a project will ensure that it is built quickly and to a high standard, Purkiss said, noting that "Chinese companies can bring things into production in half to a third of the time that we can".

The focus of project development for investors is no longer the metallurgy of a project, but rather the knowledge that a company will be able to secure financing for its operation, he said.

European Nickel's project provides a valuable investment opportunity because it will soon be in production, and because it has already completed a large share of its capital expenditure, Purkiss said.

European Nickel could also be looking to make acquisitions as junior companies' values plunge on London's Alternative Investment Market, he added.

"Given the struggle the juniors are going to have over the coming year, we like to think of ourselves as a consolidator in the nickel laterite space," he said.

The Acoje project could produce as much as 30,000 tpy when it comes on stream, while additional production from European Nickel's other operations will help to feed resurgent stainless steel demand as the global credit concerns subside in 18 months to two years' time, Purkiss said.

BHP Billiton has an offtake agreement for 80% of production from European Nickel's Çaldag project in Turkey, but there is "flexibility" around the offtake, Purkiss said, adding that the project will come into production as little as twelve months after receiving its final forestry permit from the Turkish government.

The company is likely to be given the final permits "shortly", Purkiss

said, without giving further details.

The Çaldag project is set to produce 21,000 tpy of nickel when it ramps up to full production 27 months after it comes on stream, Purkiss said.

The company has not yet finalised its hedging strategy, he said, but told MB that it plans to hedge around 30-35% of its production from the Turkish project.

Demand for stainless steel is slack at the moment, with the Western markets showing particular weakness, he said. But once the demand returns, LME stocks will be drawn down and nickel prices will recover, he added.

"We're still sitting with some fairly high LME stocks, and we're really waiting for the Western stainless side to show some stability. Once they return, [the consumers] will start pulling the stock down...and once stainless comes back and the nickel price goes up, they'll only have themselves to blame," Purkiss said.

Nickel stocks in LME-bonded warehouses stood at 55,260 tonnes on October 9, but despite the slow demand, Purkiss told MB that he remains a "Chinese bull".

"Beijing is 1.9% of China's GDP, so a bit of a slowdown there isn't going to hit anything. The Chinese government has no choice but to continue with infrastructure development - it has to, otherwise it will become another Bangkok or Manila," he said.

In the meantime, Toledo Mining, in which European Nickel has a 19.3% stake, will not be affected by the weakness in the Filipino ore market because it sells its product to BHP Billiton's QNI smelter, Purkiss said.

BHP is a good partner for Toledo because it understands the cyclical nature of the commodities markets, he said.

"A lot of people seem to have forgotten that metals are cyclical, but BHP knows that they will come back. \$14,000 is obviously more painful for producers...but [it is] still a really good price," he added.

SPOTLIGHT

Lower nickel prices yet to spark switch

Stainless steel producers are unlikely to switch back to production of austenitic grades of material from ferritic grades until the flagging London Metal Exchange nickel price looks to have bottomed out, market participants told MB.

While nickel's 49% decline on the LME this year makes austenitics more attractive to stainless producers, nickel traders and producers do not foresee increased demand for the material until nickel prices drop by as much as another \$2,000 per tonne, they told MB.

"To get austenitic back, I would say we need a nickel price of \$10,000-\$12,000 - the swing has been pretty complete," said one nickel producer.

The stainless market is wary of making the change while the markets remain so volatile for nickel and ferro-chrome, traders said, pointing to both the deterioration of the three-month nickel price in recent weeks and the fourth quarter chrome settlement at \$1.85 per lb.

"Consumers and mills in Europe are not concerned about austenitics or ferritics, they are

just concerned about their production...and their order books," said the trader.

Stainless steel mills are suffering as much as nickel producers and making the decision to move back into austenitic stainless is harder than some in the market might suppose, one market observer noted.

Traders agreed, saying that the fastest mills could make the change would be six months and - with the credit crisis set to continue until at least the second quarter of next year - mills would be reluctant to take on the additional cost nickel presents.

"The shift back will take at least six months for sure and, even at \$13,000, nickel accounts for as much as 30-40% of stainless producers' costs," said a second trader, who added that it would take a significant increase in special steels production for the nickel price to begin its recovery.

A rapid comeback for austenitic is also unlikely because of the preference for cheap goods over high-quality goods among the growing middle classes of China and India, a number of market participants said.