Analysts question New Century Resources' ability to contain Goro's 'cash bleed'

Friday, 29 May 2020 2:11 PM AET

By Anthony Barich
Market Intelligence

The Goro mine operation in New Caledonia.
Source: Vale, via New Century Resources

Analysts have warned about the cash bleed of the notoriously problematic Goro nickel-cobalt operation in New Caledonia that New Century Resources Ltd. is looking to acquire, though it has flagged potential finance packages being negotiated with Vale SA and the French state.

New Century's May 26 announcement of entering a 60-day exclusivity period for due diligence with Vale Canada Ltd. was met with some skepticism from the market as the junior's stock shed 8% that day and is yet to recover.

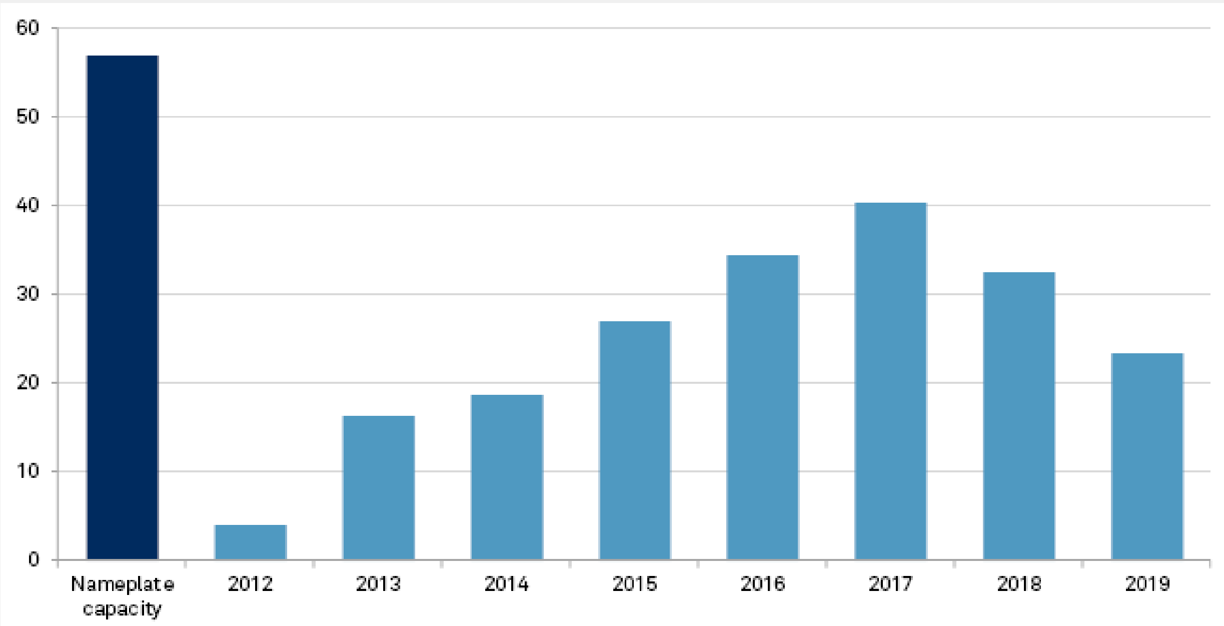
One unnamed analyst told S&P Global Market Intelligence that it would be reasonable for investors to expect New Century to return to positive cash generation and profit from the Century zinc tailings re-treatment project in Queensland, Australia, before undertaking any such acquisition.

New Century Managing Director Patrick Walta told analysts that it continues to track towards guidance, which is a "decent step change" on Century's record monthly March production, and the company anticipates being cash flow neutral-to-positive from the current quarter onward.

Walta told S&P Global Market Intelligence that while Goro fits his company's preference, with many decades of resources and some US$9 billion of sunk capital, it has a metallurgical challenge and "a historical legacy that can't be ignored."

As the chart below shows, Goro has never come close its 57,000-tonne-per-annum capacity. Walta said "we're going into this eyes wide open" regarding the challenges ahead.

Goro's nameplate capacity and production of finished nickel (000 tonnes)



Data compiled May 26, 2020.
Production figures are on a 100% basis and as-reported in annual production reports or 10-K filings.
Source: S&P Global Market Intelligence

"We're not going into this saying we'll just do the same thing Vale did, churn the butter harder and the nickel price will probably go up again so we'll be fine… that's crazy," he said.

Rather, enacting Vale's simplification plan can remove the historical complexity from the flow sheet "in the areas that have plagued them, that is ultimately sustainable for decades to come."

In doing so, Goro could become a "really good mid-range producer of nickel and non-Democratic Republic of Congo-sourced cobalt, which has a lot of implications for electric vehicle battery manufacturers."

Vale's simplification plan will shift the plant from producing 80% oxide production and 20% mixed hydroxide product, or MHP — an intermediate product for the nickel sulfate used in batteries — to 100% MHP.

Goro's processing infrastructure.
Source: Vale, via New Century Resources.

The existing refinery that caused most of the issues will be decommissioned, and the plant will only be fed consistent low-purity limonite that reduces the acid and limestone added when feeding in the higher-grade and geologically deeper saprolite, which caused additional complications.

This improves leaching performance at the front end of the plant, and the saprolite will be exported separately, pending legislation set to allow up to 2 Mtpa of exported product. New Caledonia exported 7 Mt in 2019, about 12% of the global 60 Mtpa of direct-shipping ore consumed mainly by plants in Indonesia and the Philippines.

Though the limonite is lower-grade than saprolite, Walta said Goro's ore body is so high grade that it still could still be the highest-grade nickel laterite HPAL operation in the world.

Clouded value proposition

Independent analyst Jean-Francois Bertincourt, who specializes in nickel, among other things, said in an interview that while the process simplification makes sense, "it is impossible to model and derive a value at this time," given the multitude of unknowns.

"Assuming that the implementation of the simplified process is going to be technically and economically successful in the medium to long term, we can still expect a lot more cash bleeding before the operation is cured," he said.

The key question, he said, is whether a company like New Century with market capitalization of A$166 million can support Goro when Vale New Caledonia is currently losing about US$50 million a quarter in EBITDA.

While most HPAL operations have experienced cost overruns, Bertincourt noted they also had large corporations to support those "considerable, unexpected" additional capital costs in the order of several billion dollars.

However, the unnamed analyst said there are examples in the world where nickel laterites have been turned around, including Ravensthorpe in Western Australia, which First Quantum Minerals Ltd. bought from BHP Group in 2010, Coral Bay HPAL in the Philippines, and to a certain extent, Ambatovy in Madagascar and Ramu in Papua New Guinea.

Walta told analysts that New Century is not acquiring any of Goro's publicly mentioned historic debt legacies, including those from New Caledonia, and cited Vale's May 25 statement that negotiations include a financial package to support the transition, while the parties also plan to jointly engage with the French state to secure continued financing support.

Having lived and worked in New Caledonia for four years, Bertincourt said he would also be "extremely cautious" of costs assumptions transposed from Australia to New Caledonia, "as well as the political situation," echoing analysts on the March 26 call who also voiced concerns about onerous regulations and cash bleed.

Anna Duquiatan contributed to this article.

This article was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global.