

New Century Resources braces for nickel downturn for Goro amid EV hope

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By Anthony Barich
Market Intelligence



Vale's Goro processing facilities in New Caledonia.

Source: New Century Resources via Vale

Vale Nouvelle-Calédonie S.A.S, or VNC, will be overcapitalized as New Century Resources Ltd. braces for prolonged low nickel prices that are reflected in the US\$900 million funding package arranged with Vale SA and New Caledonia to restart the problematic Goro nickel operation in the French state.

New Century Managing Director Patrick Walta told analysts on a July 28 call that the funding package would overcapitalize the Vale unit, in which his company plans to acquire a 95% stake. This would mean that there is enough working capital to deliver a simplification plan, which is already underway.

He said the package accommodated a "fairly conservative view on the time it might take to implement the simplification plan," and "quite a dour view on nickel prices going forward."

Yet by simplifying Goro's infrastructure, removing bottlenecks to make it a sustainable, long-life operation, Walta said it "opens up a pathway to deliver ethically-sourced nickel and cobalt into the electric vehicle boom or market that is growing."



New Century Resources
Managing Director
Patrick Walta.

Source: New Century Resources

Vale, which Walta said is "very much incentivized to ensure that New Century is a success as part of this operation," will contribute US\$500 million to what New Century said would be "at least" US\$900 million in equity and debt contributions, with €200 million coming from the French state.

New Century will source US\$100 million via a long-term debt facility from large financial institutions and another US\$100 million through a combination of third-party VNC-level strategic investments and offtake prepayments, as well as possible streaming arrangements.

Nickel specialist and independent analyst Jean-Francois Bertincourt told S&P Global Market Intelligence that it's "obviously quite unusual to see a seller contributing about US\$500 million to assist the sale of its own asset."

Yet he said the initial outlay is "relatively low" considering all the various funding sources, though "the level of debt is so significant that if things go wrong, it might more of a problem for the debt providers than for New Century."

Walta told analysts he has also received a "substantial amount" of conditional indicative offers from financial institutions for the US\$100 million debt facility, which New Century plans to convert into formal offers over the 45-day exclusivity extension for the potential transaction.

According to Walta, the "EV revolution" has triggered increased demand for nickel sulfide, which is primarily produced from mixed hydroxide precipitate, or MHP. MHP accounts for 20% of Goro's production, with the rest coming from nickel oxide production from its refinery.

With greater payabilities for nickel in MHP, as well as reduced maintenance cost from the shutdown of the refinery, it "makes a lot of technical and economic sense [for Goro] to move to that MHP-only operation," Walta said.

Tough environment

Though New Century has not released the key assumptions around cash use and timing to date, on July 28 it did release Goro's foreign reserves and resources comprising a total of 193.5 million tonnes at 1.36% nickel and 0.13% cobalt, containing 2.63 million tonnes of nickel and 249,000 tonnes of cobalt.

Bertincourt said the long-term average prices of US\$18,000/t for nickel and US\$50,000/t for cobalt used for the project's estimation of ore reserves and mine scheduling "appear optimistic" if they are actually used over the long term. Corrected for inflation, nickel's 100-year average is about US\$14,000/t.

While he shares New Century's view of a nickel price spike starting around 2023/2024, he warned that New Caledonia is a "very high cost environment with regards to energy and labour," which exacerbates the impact of low nickel prices for the local nickel industry.

Earlier this month, French online news portal *Capital* reported that New Caledonia's historical main nickel producer, ERAMET SA's 56%-owned Société Le Nickel, or SLN, has been losing money for eight consecutive fiscal years.

Capital cited SLN president Dominique Katrawa as saying the company could turn to shareholders as Eramet could not bail it out. SLN is running out of cash despite €525 million in loans from the parent company and the French state in



The dedicated port for Vale's Goro nickel operation in New Caledonia.

Source: New Century Resources via Vale

2016, and could be filing for bankruptcy by the start of 2021, according to the report.

Australian broker Bell Potter Securities research analyst Peter Arden said in an interview that New Century's nickel price estimate is "not extreme" as his firm sees nickel at around US\$17,000/t by 2023-2024.

"Their plan looks pretty sensible, and if they can get in there, change the culture to a small-company operation from the big gorilla company culture that couldn't make it work, they might have a chance," he said of New Century.

Bell Potter recently reduced its nickel forecast due to the weakening U.S. dollar – which "still has a long way to go yet" – and an unexpected small surplus in 2020, when the firm originally expected a deficit. There could even be a small surplus in 2021, he said.

While Market Intelligence research said this month that COVID-19 had turned Indonesia's nickel export ban into a "curse," Arden said the virus has also prompted a greater "green focus" in Europe which will only help the EV thematic, thus benefiting Goro and the premium it could receive for its product.

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