

How to play the Nickel Boom



EPIC	HZM
Current Mid Price	2.45p
52 Week High	4.05p
52 Week Low	1.65p
30MA Volume	2,339,115
Market Cap	£35.4m
Shares in issue	1,446,377,287
Market	AIM

LME NICKEL PRICE GRAPH OVER 2019



Source: LME

On Friday the nickel price surged to \$16,222/ton on the London Metal Exchange (LME), on further speculation that Indonesia is planning to bring forward its ban of raw mineral exports by three years. As the world’s largest miner of the widely used industrial metal, having produced over 560,000MT in 2018, any such ban would likely have a hugely disruptive effect on this already stretched market. In fact, the last time Indonesia banned exports, in 2014, the price shot up more than 50% over the following five months. It then peaked at \$21,150/ton. If the world’s largest island country follows through with its threat, a similar move could be on the cards today.

BUCKING THE RECESSIONARY TREND & SURGING IN 2019

Nickel has already put in an extremely strong performance over 2019. Having started the year at \$10,435/ton, it has risen over 50% to reach Friday’s close. The question now is can the base metal continue this run, despite wider recessionary fears gripping global markets?

LOOMING INDONESIAN DISRUPTION TO THE NICKEL MARKET?

When Indonesia banned mineral exports in 2014, it subsequently relaxed the embargo in 2017. However, the country put in place a new regulation at the time that it would reinstate the ban in 2022 to encourage mining companies to process minerals in the country.

The government hoped that this would lead to an increase in investment in smelting capacity and create more jobs.

Recent speculation that politicians in Jakarta are considering bringing this ban forward could be seen as a response to the perceived lack of progress many mining companies have made in building new smelters. In July, Reuters quoted Bambang Gatot, Director General of Coal and Minerals for Indonesia, as saying:

“ they (the mining companies) must finish building (smelters). If they don’t finish in time, they should continue building, but they won’t be allowed to export ore. ”

This message was emphatic and Friday’s speculation about the early restoration of the export ban could prove to be well founded.

FAVOURABLE FUNDAMENTALS

Whether the Indonesians bring forward their planned mineral export ban or not remains to be seen, but irrespective of this the fundamental outlook for nickel already looked strong. Two key factors have been cited as being the main drivers of the metal’s popularity over 2019, namely structural imbalance in the market and anticipation of increased demand from the Electric Vehicle (EV) market.

Speaking exclusively to ValueTheMarkets.com, Horizonte Minerals' (LSE:HZM) CEO Jeremy Martin told us, "consensus long term nickel price forecasts are currently above US\$16,000/ton. The demand picture for nickel is robust both from the traditional stainless-steel market and the evolving EV battery market. Additionally, we are seeing continued draw down in global nickel inventories with the LME levels currently at 142,000 tons, the lowest levels for the last 5 years."

This last point is worth picking up on.

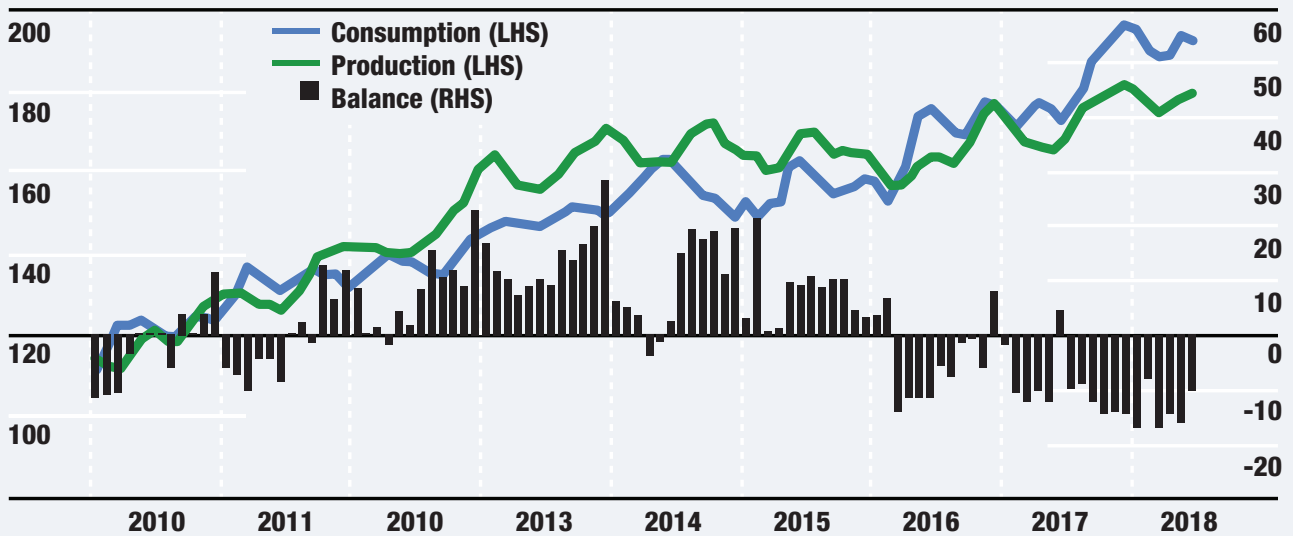
Earlier this year, the International Nickel Study Group (INSG) forecast supply would fall short of demand for the fourth consecutive year in 2019. As a reflection of this, the LME's reported warehouse levels of nickel holdings have shown a sharp deterioration in stocks held, from just over 450,000 tons in late 2015 to 144,790 tons on Friday.

NICKEL LME WAREHOUSE LEVEL
144.79 KT 15 AUG '19



Source: InfoMine.com

GLOBAL NICKEL SUPPLY/DEMAND ('000 TONNES)



Source: Macquarie

To emphasize the structural imbalance between supply and demand over recent years, investment bank Macquarie produced the following chart highlighting the discrepancy between nickel production and consumption to the end of 2018.

Although questions have been raised about the reliability of the LME's warehousing stats (the belief is that owners of nickel prefer to store it in cheaper, non-LME facilities,

which do not report holdings), the Macquarie data tells a compelling story. Assuming the consumption/production deficit has continued into 2019 and will continue into the future, it is clear the positive effect this should have on the future price nickel.

EV DEMAND

And this impact could be amplified if forecasts for the nickel demanded by EV batteries become reality.

The reason for this is quite simple. The average chemical composition of an EV battery is eight parts nickel, one part cobalt and one part manganese.

Current nickel demand runs at about 2m tons a year. This is split roughly evenly between Class 1 and Class 2 nickel. Class 1 nickel is higher purity and used in EV batteries, aerospace and plating. Class 2 nickel is lower purity.

By 2025 Vale, the world's largest nickel producer, forecasts that 350,000-500,000 tons a year of Class 1 nickel will be needed to satisfy the demand for EV batteries. This would see global nickel usage in EV batteries rise from 3pc to 4pc of total output in 2019 to up to 20pc within six years. Put another way EV battery demand for nickel could account for 35pc to 50pc of current total annual Class 1 production.

As Martin put it to us, "nickel demand from EV batteries is set to grow by 30-40% a year, so this makes nickel the fastest growing battery raw material. EV battery and car manufacturers recognize one of the greatest challenges from a strategic supply point of view is nickel. There have been very few new nickel mines coming online in recent years and it takes on average 8-10 years to develop from exploration through to production. We expect that with demand at current levels, we are likely to see nickel prices higher in the mid to long term."

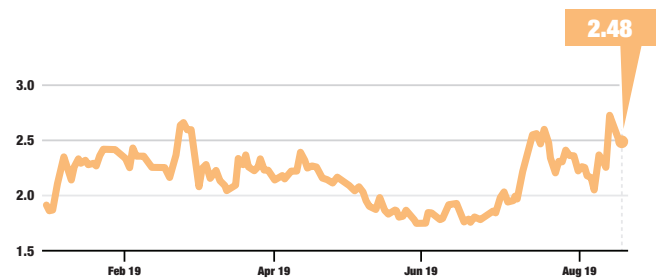
HOW TO PLAY THE NICKEL RALLY

For retail investors attempting to trade nickel directly can be extremely risky. Options are only available to professional traders and the spot price is subject to volatile swings. This can make trading on the spreadbetting platforms a perilous pursuit, so the more stable choice is to find stocks that offer direct exposure to the market.

London-listed Horizonte Minerals claims to be "the leading nickel development company". Unsurprisingly, its share price has rallied 35pc off its summer lows to close at 2.55p on Friday.

However, this is only 25pc above where the firm's shares started the year, so if the nickel rally continues further upside is possible. We asked Martin to give us his pitch for the company:

HORIZONTE MINERALS SHARE PRICE



"Horizonte now has 100pc ownership of a nickel district, with over 280 million ton of resource (in the measured and indicated category), in one of the largest mining districts in Brazil, the Carajás district, which has good infrastructure, water, energy and skilled labour.

This creates the potential for Horizonte to develop two mining centres within trucking distance of each other, the first, in the south at Araguaia, where we are developing a ferronickel operation to produce around 14,500 tons of nickel with the Stage 1 plant expandable to 29,000 tons of nickel per year. The second production centre in the north, at the Vermelho nickel cobalt project which has the capacity to produce 15,000 to 18,000 tons per year of nickel and associated cobalt into the EV battery market.

Work on Araguaia is focused around advancing the project finance and the recruitment and selection of the project development team as we move towards construction.

The pre-feasibility study on the Vermelho nickel-cobalt project is at an advanced stage and is currently being finalised. We aim to announce the PFS to the market later this quarter, providing investors with exposure to the fast-growing electric vehicle battery metals market."

With Horizonte seemingly on course to deliver significant news flow over the coming months, we pressed Martin further to give his view on what the rising nickel price might mean for his company:

“ We have seen increases in the nickel price over the last month with LME nickel trading at highs of around \$16,000. The Base Case and the Stage 2 Expansion Case for the Araguaia Feasibility Study used \$14,000 nickel; however, based on the current market price of \$16,000, the project NPV on the Stage 2 Expansion Case is \$1.1bn with an IRR of 30% generating free cash flow of \$3.6bn. ”

Of course, these numbers are subject to Horizonte securing project finance, but at 2.55p the firm is valued at £36m. This compares favourably to the Stage 2 Expansion Case NPV of \$1.1bn at \$16,000/ton nickel. If the fundamentals for the metal continue to tighten over the rest of 2019 and Indonesia confirms its plan to bring forward its minerals export ban, then any further strength in the price of nickel should have a direct and meaningful impact on Horizonte's stock.

At current prices, if you are bullish on nickel then Horizonte offers the obvious way to play further strength in this market.

HORIZONTE MINERALS MINING CENTRES



Source: Horizonte Minerals

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