IGO's dive into New Century emits telling signals about why it may be time to be bullish on zinc

And the squeeze on supplies of zinc concentrate is likely to prompt smelters to offer strong support to those juniors hunting and developing the galvanising metal, such as Orion and Venturex.

24th April 2020 **Barry FitzGerald**

Share Article

It looks like it's time to dust off the zinc equities, something IGO (ASX:IGO) provided leadership on earlier in the week with its $27 million investment in the Century mine redeveloper/rehabilitator New Century Resources (ASX:NCZ).

The investment will give IGO 18.4% of NCZ and was part of a broader $51.1m capital raising at 15c a share – a 19% premium to the 5-day average.

NCZ shares popped 2c higher from its last trade to 17c when it came out of its trading halt for the fund raising, giving joy to some that the shorts in one of our most shorted of stocks were being squeezed.

But more than that was the signal which IGO's investment sent the equity market on what was going on in the zinc market, and what that means for NCZ's extreme leverage to the galvanizing and battery metal, which is currently down 25% on last year's (calendar) average of $US1.15/lb.

NCZ is the world's tenth-biggest zinc producer from its tailing retreatment project at Century, which is now good for an annual processing rate of 12mtpa. At a 50% recovery rate, the "new" Century is good for 350m/lbs of annual payable metal.

From that it can been seen that even a modest move in the zinc price can swing earnings in a big way. Now zinc at the current US86c/lb is hurting all producers. The fall from last year's $US1.15/lb average was a response to too much supply and smelter bottlenecks.

The smelters took advantage of all that and drove their treatment charges to 10 year-plus highs of $US320/t.

But then along came the coronavirus and the forced closure of a host of big overseas mines. When the supply hit from the virus-related closures is added to the closure of mainly small Chinese producers which had already succumbed to zinc's price retreat, the smelters all of a sudden found themselves seriously short of supply.

The end result of that is that treatment charges have been collapsing, with the $US320/t charge of a couple of months ago plunging to $US240/t in recent deals, with expectations of further falls to well below $US200/t.

To put that in perspective for NCZ – it is roughly cash breakeven at the current metal price with improvements to come as its ramp-up to the 12mtpa treatment rate is completed - every $US50/t drop in treatment charges reduces its costs by about US5c/lb.

Multiply that cost reduction out for a possible $US150/t fall in treatment charges over 350m/lbs of payable metal, and NCZ starts spinning out lots of cash relative to its market cap.

Add in the potential for the zinc price to improve back to a long-run price of $US1-$USD1.10/lb because it has to in response to the current price being 70% into the global cost curve, and NCZ's leveraged earnings exposure runs off to multiples of its current market cap.

That sort of outlook obviously gave IGO comfort in making its investment. The other driver for IGO was NCZ's already built infrastructure in a highly mineralised but still lightly explored part of far north-west Queensland.

IGO likes big regional exploration plays and the investment and exploration alliance with NCZ means any discoveries will have a speedy pathway to production, and export, from 100 per cent-owned infrastructure.

Zinc developers

The turnaround in the fortunes of zinc producers like NCZ because of the collapse in treatment charges and the expectation for a return to long-term prices for the metal can be expected to rub-off on to the juniors looking to get into development.

The current squeeze on concentrate supplies to smelters won't be forgotten in a hurry so there is every chance they will go hunting for future supplies through offtakes deals and by taking up corporate/project equity positions in advanced development projects.

On that score, it is assumed that stocks like Orion Minerals (ASX:ORN), trading at 1.6c, and Venturex (ASX:VXR), trading at 6.9c, won't be left out in the cold much longer.

Orion owns the Prieska zinc-copper project in South Africa's remote Northern Cape Province. The project is pretty much ready to go once financing and/or a strategic partner are secured, with Macquarie on the job.

As mentioned here before, the previously mined Prieska remains a globally significant VMS mineral resource (30.49Mt at 3.7% zinc and 1.2% copper) with lots of exploration upside.

Talking about exploration upside, Orion comes with the appeal of an exploration joint venture with IGO in the Fraser Range.

A drilling program at their Pike Eye and Pike & Hook prospects is about to kick off and will be closely watched given the targets are 16km north-east of Legend Mining's (ASX:LEG) exciting Mawson nickel-copper discovery.

Legend's hits are the best in the remote Fraser region since the 2012 discovery of the Nova nickel-copper deposit by Sirius Resources, acquired by IGO in 2015 for $1.8bn.

Meanwhile, Venturex has been moving things along while the base metals markets get ready for life after the coronavirus, with final environmental approvals for its Sulphur Springs copper-zinc project in the Pilbara now expected by June.

Capex of around $200m remains the main challenge but at least permitting is no longer a reason for would-be financiers and/or strategic partners to hold back from committing to what will be a high-grade development.

Gold, base metals and Centaurus

Bank of America Merrill Lynch got plenty of airtime during the week with its forecast that gold could hit $US3000/oz in 18-months.

The ultra-bullish call was alarming stuff given the flip-side of $US3000 gold would be that everything else has gone to the dogs.

Yet within the note on gold, the firm also had zinc recovering to $US1.01/lb in 2021, and a nickel surging 45% from its 2020 forecast to $US8.50/lb for 2021.

It is a bit hard to see how we can have conditions that give rise to $US3000 gold yet have at least some of the key base metals on the tear.

Still, while it is out on a limb with its gold call, its zinc and nickel calls aren't radical departures from main street.

In the case of nickel, it is why the recent nickel discoveries in the west by Chalice (CHN) and Legend have fuelled big share price responses/market caps.

As mentioned here on April 9, Centaurus Metals (CTM) seemed to be missing out on the fun for no other reason than its Jaguar nickel project having a Brazilian address.

It was trading at 11c at the time but it has since shot to 17c as it rolls out more and more near-surface and high-grade nickel sulphide hits at the project, acquired from Vale with a foreign resource estimate of more than 300,000t of contained nickel.