

Rio's lithium muddle and why ioneer could benefit

RIO Tinto's intermittent messaging around adding lithium to its portfolio to plug in to the whole electric vehicle/renewable energy storage revolution thing has become increasingly confused, writes **Barry FitzGerald**.



Will Rio provide some clarity around its plans for Jadar in Serbia at tomorrow's Capital Markets Day?

Viewpoint > First up, it is known Rio had a look at acquiring a stake in Chile's lithium king SQM and considered bidding for Kidman, since acquired by Wesfarmers, but did not act.
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Fair enough, acquisitions in the lithium space are not compulsory, particularly for Rio as it has long had its "own" lithium option - the Jadar lithium/boron project in Serbia.

It has spent US\$200 million on Jadar and has told the Serbians that it intends to make a final investment decision in 2021 on whether the 2004 discovery will eventually become a producer from 2023 or thereabouts.

It is not the intention here to disappoint or mislead the Serbians but it has to be passed on that there has been lots of industry chatter of late that Rio is in fact looking to sell Jadar because it can't clear all the hurdles Rio had hoped it would.

Rio had no comment on the scuttlebutt earlier in this week. That's also fair enough.

But it is kind of interesting that the chatter on Jadar coincides with Rio's recent statement around a "eureka" moment at its borates mine at Boron on the edge of the Mojave desert in southern California.

The gushing statement did not make it on to the ASX announcements platform which is just as well as it was as loose as they come.

Anyway, Rio claimed that it had found a way to extract lithium from the waste rock accumulated over the decades at the mine and that "if the trials continue to prove successful, this has the potential to become America's largest domestic producer of battery-grade lithium".

So if Rio is in fact looking to sell Jadar, its regular references to lithium as part of its virtue signalling of its green credentials could live on with the Boron lithium opportunity. The ESG gate watchers out there will be pleased.

California, Made in America, electric vehicles, battery storage ...it doesn't get any better.

At this point though it has to be said that the eureka moment at Boron involves roasting the material to 950C so the net:net benefit to the environment is very questionable.

And given Rio is talking about 5000t of annual lithium carbonate output should the Boron waste project become commercial, it has got to be wondered why it would bother.

Rio managing director J-S Jacques did talk up the concept of the big miners having to consider smaller and more innovative projects in his speech to LME Week in London on Monday.

But at a commercial rate of 5000tpa of lithium carbonate, Rio might as well go and find itself a 20,000oz a year gold mine.

By now it can be seen that Rio's ambition around lithium really is a confusing state of affairs.

But if it really wants in on lithium, and if in fact it has gone sour on Jadar, there is a pathway to have a meaningful presence in the industry from a preferred address in the US.

The pathway is to take out ASX-listed Ioneer, the A\$345 million Sydney-based group looking to develop the world's only other lithium/boron project, Rhyolite Ridge in Nevada.

The idea is not original to this space. It comes from Ord Minnett analyst Dylan Kelly who initiated coverage of Ioneer on October 21 with a 45c price target when the stock was 17c. The stock has since moved higher to 23.5c, a gain of 38%.

Now Kelly did not mention the industry chatter about Rio wanting out of Jadar. But he did suggest Rhyolite Ridge could be a Jadar killer, and that Rio was its "potential owner in the long term as we see it could be attractive for several strategic reasons".

Those were doubts about the returns available on Jadar, maintaining the oligopoly Rio shares with Turkey in the global boron market, and the ability for Rhyolite Ridge to offset the inability to expand the ageing Boron mine to protect market share (30%).

Ords expects the \$600 million Rhyolite Ridge project - subject to financing - to start commercial production in 2023 producing 21,000tpa of lithium carbonate and 218,000tpa of boric acid over a 30-year-plus mine life.

Because there is 10t of boric acid (\$700/t) for each 1t of lithium (\$8000/t), Ords reckons the project's economics are "highly compelling" in that the boric acid revenue could make the project the lowest cost lithium producer there is.

Even at 21,000tpa, the project looks to be on the small side of things for a company of Rio's scale. But Ords makes the point that for a little more than \$70 million, output at Rhyolite Ridge could be increased by one-third.

Ords said the next catalysts for ioneer include the DFS release in the first quarter next year, securing offtake agreements, and the possible sale of a minority stake to a strategic partner.

All that of course assumes that ioneer doesn't get taken out first.

As an aside, there was an interesting cable from China's state-owned new agency last Friday that Turkey was preparing to strengthen its national defense industry by allowing a Chinese company to build a boron carbide plant in the country.

"We will be able to use boron carbide in the production of military equipment, such as steel shells, protective vests, helicopters and tanks which require high hardness and strength," the Turkish side was quoted as saying.

That would have sent off alarm bells in Washington where as much as \$5 billion is being marshalled to ensure the US has access to, or produces itself, the critical metals its economy needs, many of which China currently controls.

Made in America lithium is on the list and because the Boron mine is getting long in the tooth, maybe a new boron mine should be too, particularly with the meshing of Turkish boron with China's expertise in armour plating.



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