Kerr Allan Financial Research

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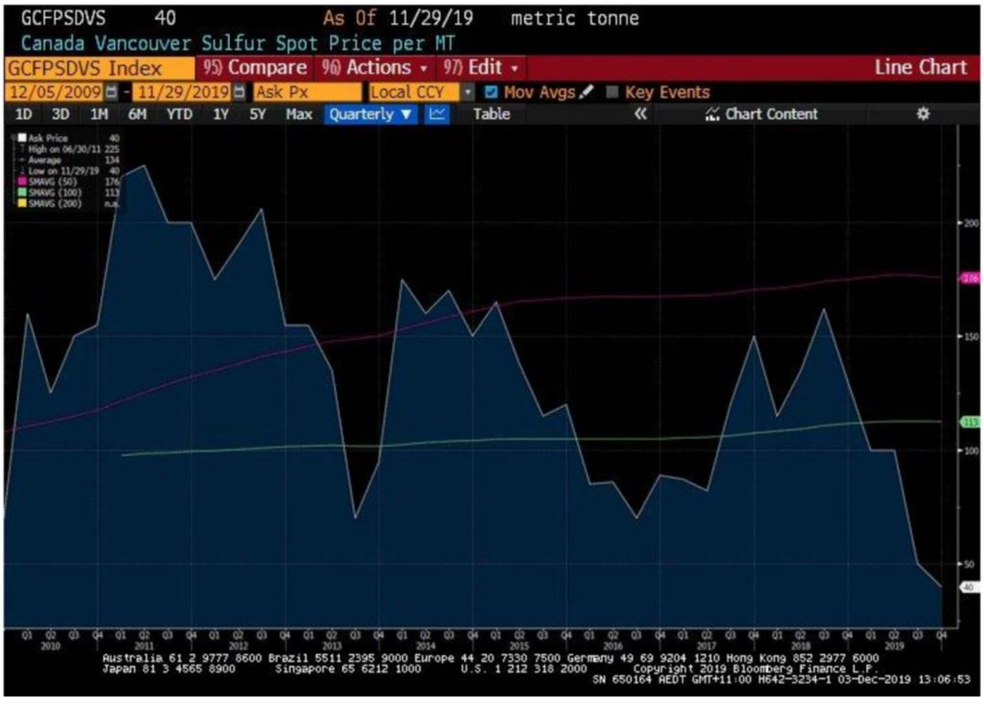
INR signs LOI with Shell Canada Energy for sulphur supply

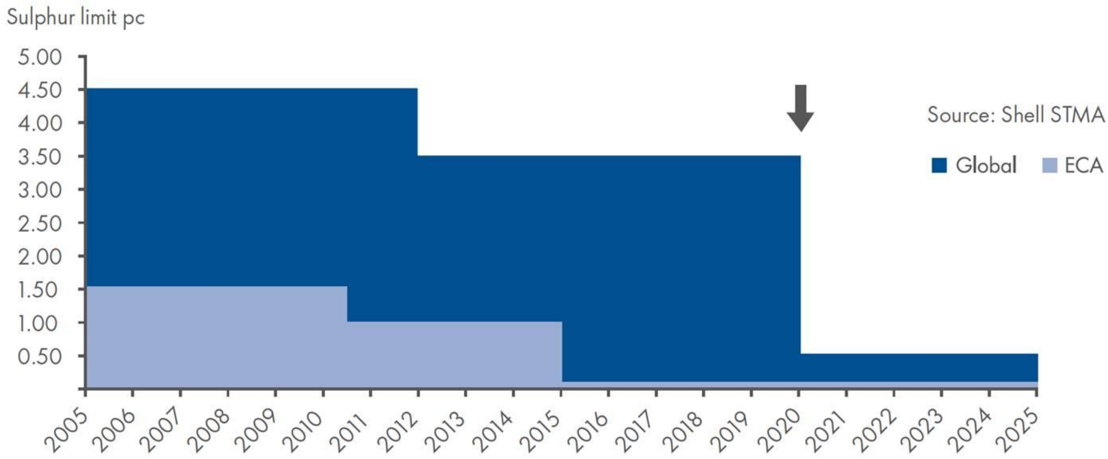
News – LOI signed for major opex component

ioneer Limited (INR.ASX, A$319m mkt cap) has signed a letter of intent (LOI) with Shell Canada Energy for supply of sulphur for its sulphuric acid plant at the Rhyolite Ridge lithium-boron project in Nevada. The LOI contemplates purchase of up to 250ktpa of sulphur, comprising ~60% of the plant's requirements. We anticipate these would be sourced from the significant sulphur stockpiles we observed on the dock in Vancouver during our site visit to INR's demonstration plant several months ago.

Impact – non-binding LOI at this stage, but sulphur is increasingly a buyer's market

Sulphur prices have been falling since the PFS was published in October 2018, and are expected to remain weak as new International Maritime Organisation (IMO) limits for marine fuel sulphur come into effect from 1 January 2020, reducing the permissible sulphur content from 3.5% S to 0.5% S (see charts below). Refineries will need to extract more sulphur, resulting in additional sulphur supply. As a major sulphur trader with its refineries producing more tonnes from next year, Shell is motivated to find new buyers. A good position for end users such as INR. While the LOI is non-binding, we consider it significant that Shell was prepared to sign a LOI, and with John Hofmeister on the INR board (former Shell Oil President), INR will be in a good position to advance the LOI into a more substantive agreement, and potentially include sulphur sourced from refineries closer to the project (eg West Coast USA).





Impact – softer sulphur pricing could have a significant impact on operating costs

Sulphur is a key component of INR's operating costs, and securing stable supply will be crucial for financing and maintaining operations. INR assumed a sulphur cost of US$120/t in its PFS (delivered to Rhyolite Ridge), which equates to ~40% of the US$47.96/t operating cost. Sulphur is currently trading at US$40/t FOB Vancouver (see chart above), having fallen from >US$150/t over the past twelve months. While we're not sure of the sulphur / transport input cost breakdown assumed in the PFS, any downward movement in sulphur price should have a positive impact on processing costs in the DFS due next quarter.

View

The energy sector is starting to reposition ahead of the switch to electrification, and as investors place more emphasis on ESG factors. Shell is no different (https://www.shell.com/sustainability/our-approach/sustainability-at-shell.html). We anticipate the optics of providing sulphur (a by-product of its oil refineries) to aid in the extraction of materials linked to electrification would be viewed favourably by Shell, and INR is well placed to continue to advance the LOI to a more formal binding agreement. INR should also benefit from sharper sulphur pricing as tighter sulphur controls on marine fuel come into play in 2020 leading to an increase in sulphur supply.