

Pointon's pressure

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PRESSURE is mounting on BHP Billiton's Stainless Steel Materials president Dr Chris Pointon to bring the group's \$US1.8 billion (\$A2.4 billion) Ravensthorpe nickel development on-line with minimal fuss. Report by Stephen Bell*

BHP Billiton's major Western Australian nickel laterite project, which has already suffered one major cost blow-out, is under close scrutiny to try and ensure the company can avoid the pitfalls of earlier capital-hungry WA nickel laterite developments.

On top of that, Pointon has to squeeze more juice out of some tired-looking former WMC Resources nickel sulphide assets.

That he is here, surveying a nickel empire, is due to that fact that BHPB last year trumped Xstrata and paid \$A9.2 billion for Melbourne-based WMC.

Casual observers could have been forgiven for thinking WMC consisted entirely of the Olympic Dam copper-uranium mine in South Australia. However, along with Olympic Dam, BHPB also gained a pretty handy WMC nickel division, now called Nickel West.



As a result, Pointon moved to Perth in August to oversee BHPB's nickel business, which includes the Cerro Matoso operation in Colombia alongside the former WMC and Billiton assets in Australia.

Just a few months after arriving, Pointon was the bearer of bad news: costs at the combined Ravensthorpe/Yabulu expansion had blown out by \$US400 million to \$1.8 billion.

BHPB, like many of its peers, was caught out by the China-driven mining construction boom in Australia that has soaked up workers and inflated materials costs.

Nine months down the track, Pointon is softening up the market for another Ravensthorpe cost increase, having started a "definitive review" that is due in the third quarter.

"It wouldn't surprise me if the final cost comes out a little bit higher than what we announced in September," he told *Australia's Mining Monthly*. It is a "constant battle" to contain costs at the state-of-the-art nickel laterite project, he said, partly because "there are not enough good contractors to go round".

However, Pointon has not budged yet on the start-up schedule and dismisses talk that Ravensthorpe may become another expensive laterite ordeal in the vein of Minara Resources' Murrin Murrin venture, also in WA.

Ravensthorpe is more than 40% complete, with the project set to produce its first nickel in the second quarter of 2007. BHPB is "pretty confident" that the schedule will be met, Pointon said, adding that the mine would not reach its full production rate of 50,000 tonnes per annum until late 2008.

Investors and nickel consumers are watching closely to see if Pointon can deliver.

Nickel prices have risen by more than 40% since November on strong Chinese demand but some analysts predict the price will ease in coming years as big mines such as Ravensthorpe, and two multi-billion dollar Inco projects – Goro in New Caledonia and Voisey's Bay in Canada – ramp up production.

Conversely, any delays in these mines should support prices. Goro, for instance, was due to produce around 60,000tpa of nickel and 5000tpa cobalt from late 2007 but that schedule now looks optimistic after Inco evacuated project workers last month because of violent local protests that caused \$10 million in damage.

Pointon (not surprisingly) is a nickel bull, being "increasingly confident" about demand and predicting

that nickel's recent consumption growth of around 4% pa will be maintained over the next decade.

He also points out that not every laterite project went pear-shaped in WA. Cawse, its financial problems aside, actually had a "very good ramp-up and has not suffered any significant technical problems," he said. "Murrin Murrin did, but that was really because of the compromises made on materials and construction."

Nevertheless, the tight-labour market is still a source of anguish. BHPB will need around 1300 workers on site at Ravensthorpe, plus another 400-500 at the Yabulu refinery in Queensland, which is being expanded to process the mine's concentrates.

Ravensthorpe will further propel BHPB into the nickel big league. Goldman Sachs JBWere predicts BHPB could earn \$2.1 billion from nickel alone in 2010, or 17% of total forecast earnings, which compares with "near zero" nickel earnings in 2001 and 2002.

A major rebuild is looming at the Kalgoorlie smelter, though Pointon has a team working to "extend" the current campaign.

On the mining side, the company is in no hurry to expand Mt Keith, near Leinster, by developing the nearby Yakabindie deposit. Leinster is another ageing operation that needs careful attention. Goldman Sachs said there was a "significant risk of disappointment in nickel production at Leinster" as mining moves ever deeper at the ageing Perseverance underground mine.

The broker is more comfortable with the former WMC Kambalda assets, where it believes there will be "ample scope for continued production for the foreseeable future", because of high prices.

On the corporate front, BHPB has locked horns with rival Inco on the share register of laterite hopeful Heron Resources. Both mining giants have a 10% stake in the junior, while Inco is also funding a major feasibility study into Heron's Kalgoorlie Nickel Project.

Does BHPB plan to buy any more Heron shares?

"Not at the moment," Pointon said, adding that Heron managing director Ian Bucchorn did a "great deal" with Inco. "They have a fairly aggressive target that they've got to meet in terms of discovery for Ian, and if they make it, terrific. We have a stake in their success."

But if the Inco deal doesn't work out, "clearly we'll talk to Ian and see if anything else can be done as a fallback".

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Aspermont Limited

Street Address 613-619 Wellington Street, Perth WA Australia 6000

Postal Address PO Box 78, Leederville, WA Australia 6902

Head Office Tel +61 8 6263 9100 **Head Office Fax** +61 8 6263 9148

e-mail contact@aspermont.com **website** www.aspermont.com **ABN** 66 000 375 048