

Finance

Batteries drive charge to lithium

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READERS with elephantine memories will recall our column last week on rare earths and the rush by the Chinese to secure supply of this highly prized industrial ingredient.

Lithium falls into the same "very useful" category as rare earths or mineral sands, and once again investors are taking notice. As with most minerals, local deposits will shape the supply picture although most of the known lithium resources are in South America rather than the Middle Kingdom.

Lithium is used in ceramics, glass manufacturing, lubricants, mobile phones and computers, and for treating depression.

It's also integral to lithium-ion batteries, which is what really has piqued investor interest.

"Lithium stocks have been high-powered performers on the ASX," Argonaut Securities' Troy Irvin says. Shares in the lithium-exposed Galaxy Resources (ASX code: GXY) have risen fourfold since mid-May, while other groovy movers are the aptly coded **Orocobre** (ORE) and Reed Resources (RDR).

Also add Reward Minerals (RWD), which has doubled since mid August. Reward is focusing on its development at Mt Disappointment in Western Australia, but has also lodged an application over lithium ground at Lake Dumbleyung in WA's southwest minerals field.

To date, development of electric cars has been a case of stuck in reverse. But now there's real impetus, with China mandating that 10 per cent of its vehicles must be emission-free by 2013.

Quite a few of Barack Obama's stimulus dollars are directed at kick-starting the post-carbon economy, while the Germans have dictated one million electric cars on the road by 2020. Galaxy chief Iggy Tan expects lithium demand to soar from

100,000 tonnes currently to 300,000t by 2020. And there isn't a lot of new supply coming on.

Galaxy holds the Mt Cattlin resource at Ravensthorpe in WA, which the company claims to be the world's second-biggest hard-rock lithium deposit.

Galaxy this month bought an 80 per cent interest in Traka Resources' nearby ground, extending Galaxy's resource base and enhancing the viability of Mt Cattlin.

“Our clear intent is to fast track moves towards production and build a sustainable resource and tenement base,” Tan says.

“The acquisition is a clear example of the company's intent to capture a large part of the total world lithium production at a time when vehicle manufacturers are clearly showing a preference towards long-life, battery-fuel-cell vehicles.” Galaxy is backed by Chinese tycoon Zheng Yuewen, who has taken a \$26 million, 19.9 per cent Galaxy stake. He's also committed \$130m of debt funding to the project, which would involve a processing plant at the China end to produce 17,000t of battery-grade lithium carbonate each year.

Reed Resources shares surged 84 per cent after its August 12 announcement of an option agreement to buy the high-grade Mt Marion lithium project near Kalgoorlie. The former Western Mining Corp ground boasts a head ground of 2 per cent (that is, good) and an undemanding strip ratio of 1.3 to one.

Orocobre is in the throes of hiving off its copper-gold assets to focus on its Salar de Olaroz lithium-potash project in northern Argentina.

Olaroz has an inferred resource of 1.5 million tonnes of lithium carbonate and is at scoping study stage, with a view to a \$US80m-\$US100m (\$93m-\$116m) development.

Like any sector there's also risks: Irvin lists them as a thin and opaque lithium market, the ability to secure off-take agreements and, of course, project financing.

Galaxy hopes to be producing in a year's time.

“We are the next project to get up and running,” Tan says. “The others are well behind us and the industry is going to get short (of lithium) again.”

Given the impressive share run of the lithium plays, our gut feeling is the current valuations capture much of the speculative upside. But if the Chinese et al are serious about tackling pollution, lithium will emerge as the new gold.