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Why is Nickel Underperforming

(and what's it mean for the future)

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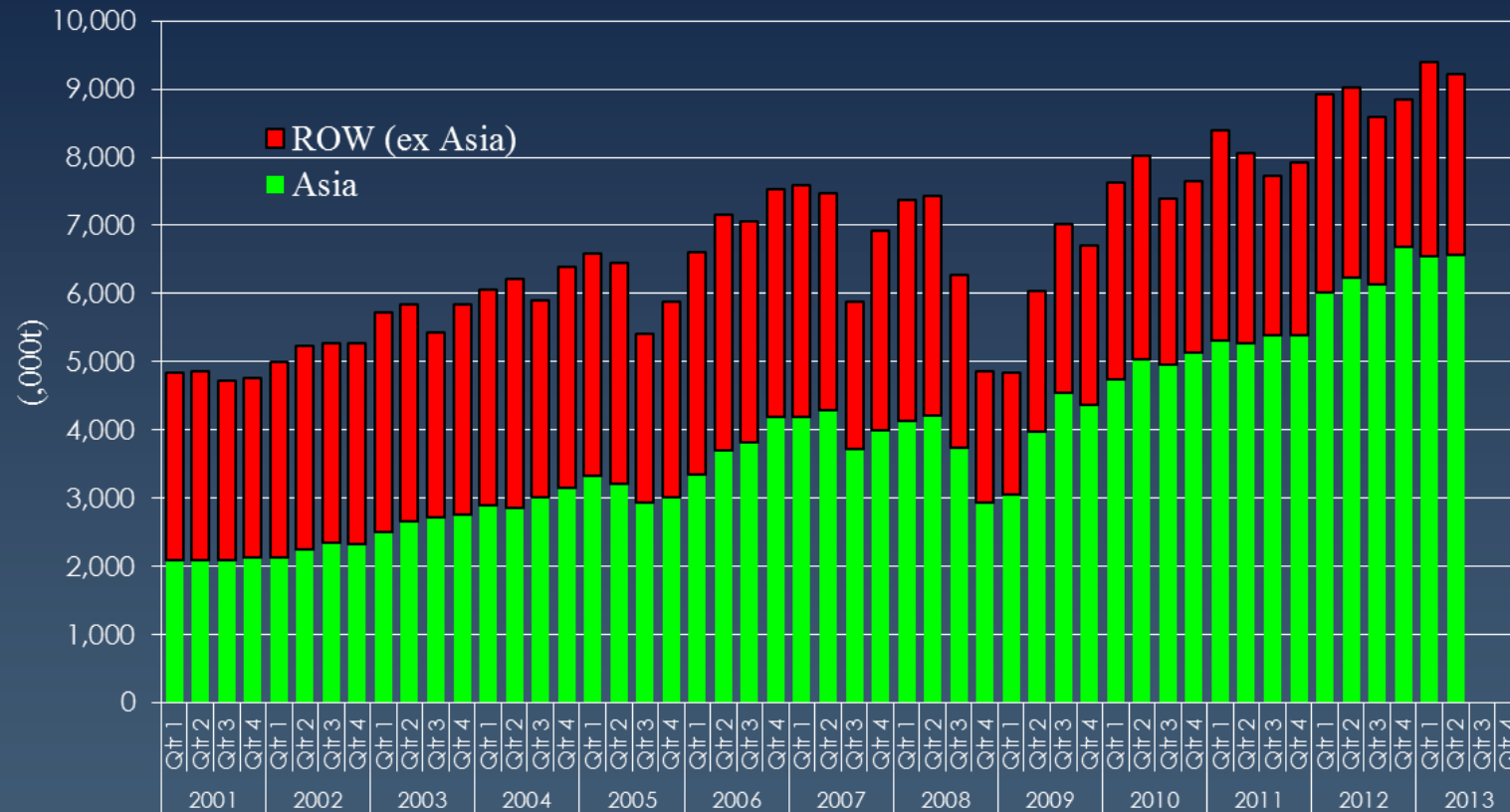
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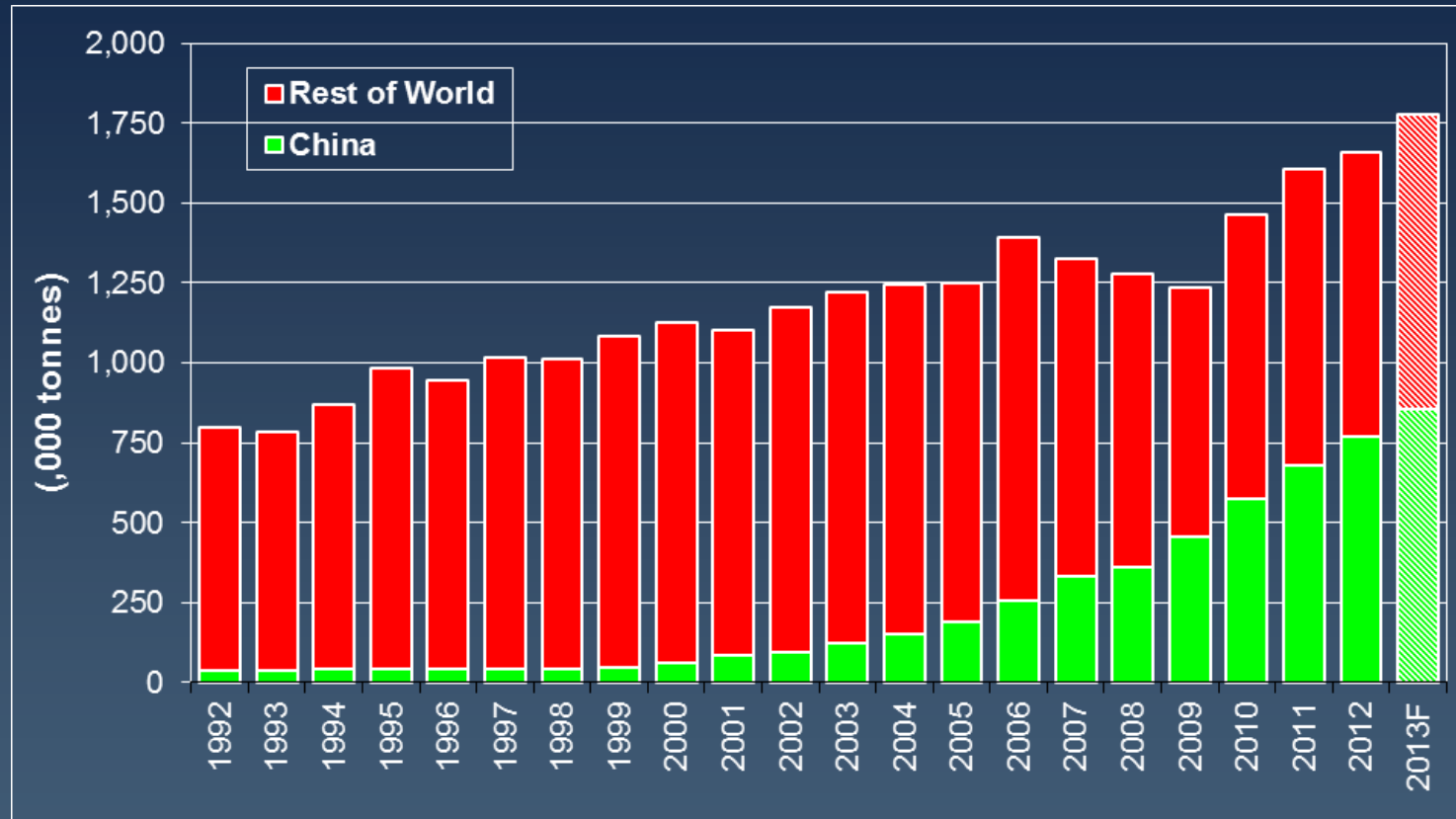
Why is Nickel Underperforming

Global Stainless Production



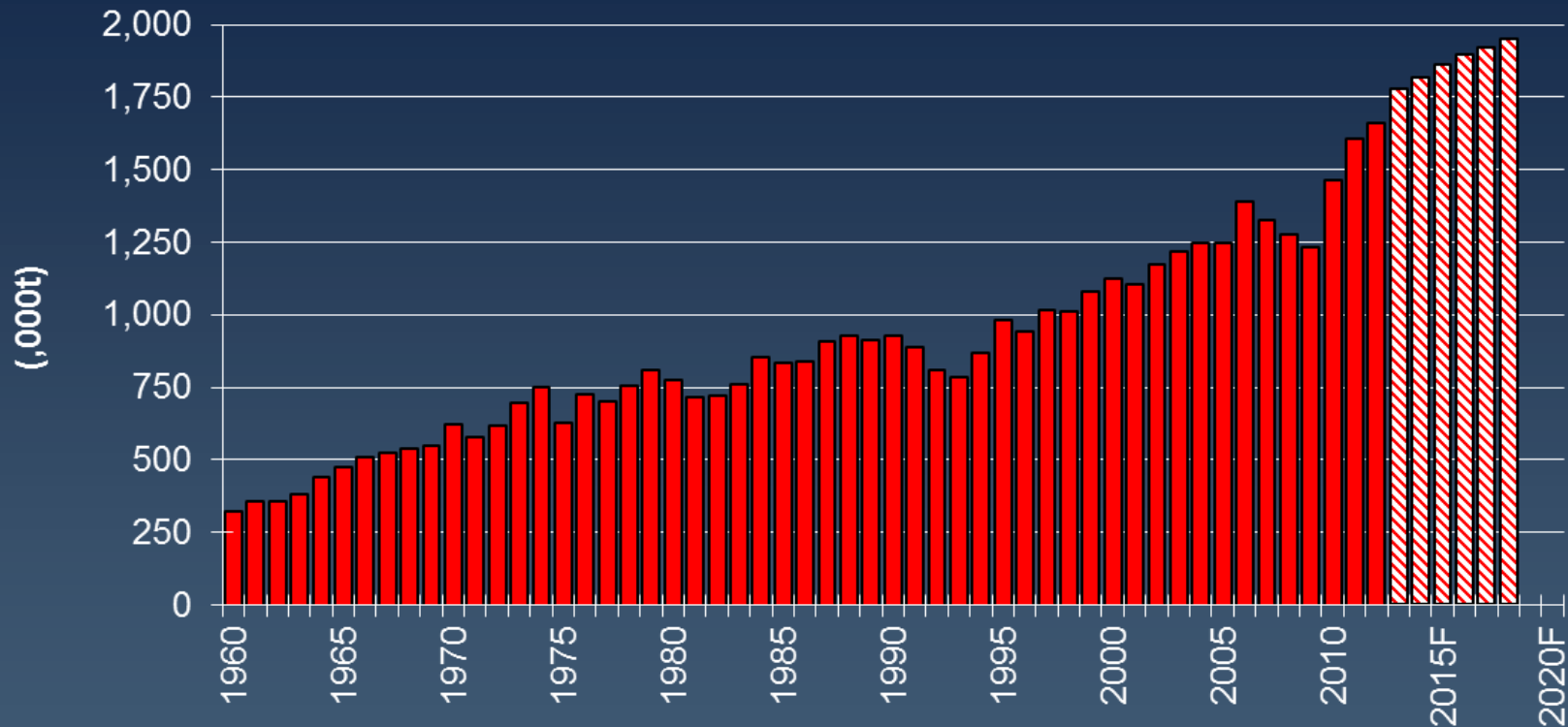
- Asia accounted for 71% of production in Q2 2013, up from ~40% in 2000
- China is the dominate player, approaching 50% of global Stainless Steel
- 2013 stainless production forecast to reach all time record (~37mt)

Chinese Ni Consumption



- % of global consumption has grown from ~4.5% in 1990's to over 43% today
- China currently consuming over 800,000t nickel per annum
- China switched a lot of its stainless feed stock to NPI (Nickel Pig Iron)

Historic Nickel Consumption (BREE)



- Consumption growth 1960 – 1970 6.9% p.a.
- Consumption growth 1970 – 1980 2.2% p.a.
- Consumption growth 1980 – 1990 1.8% p.a.
- Consumption growth 1990 – 2000 1.9% p.a.
- Consumption growth 2000 – 2013 3.6% p.a.
- Consumption growth 1960 – 2013 3.3% p.a.

New Production

(at some stage)

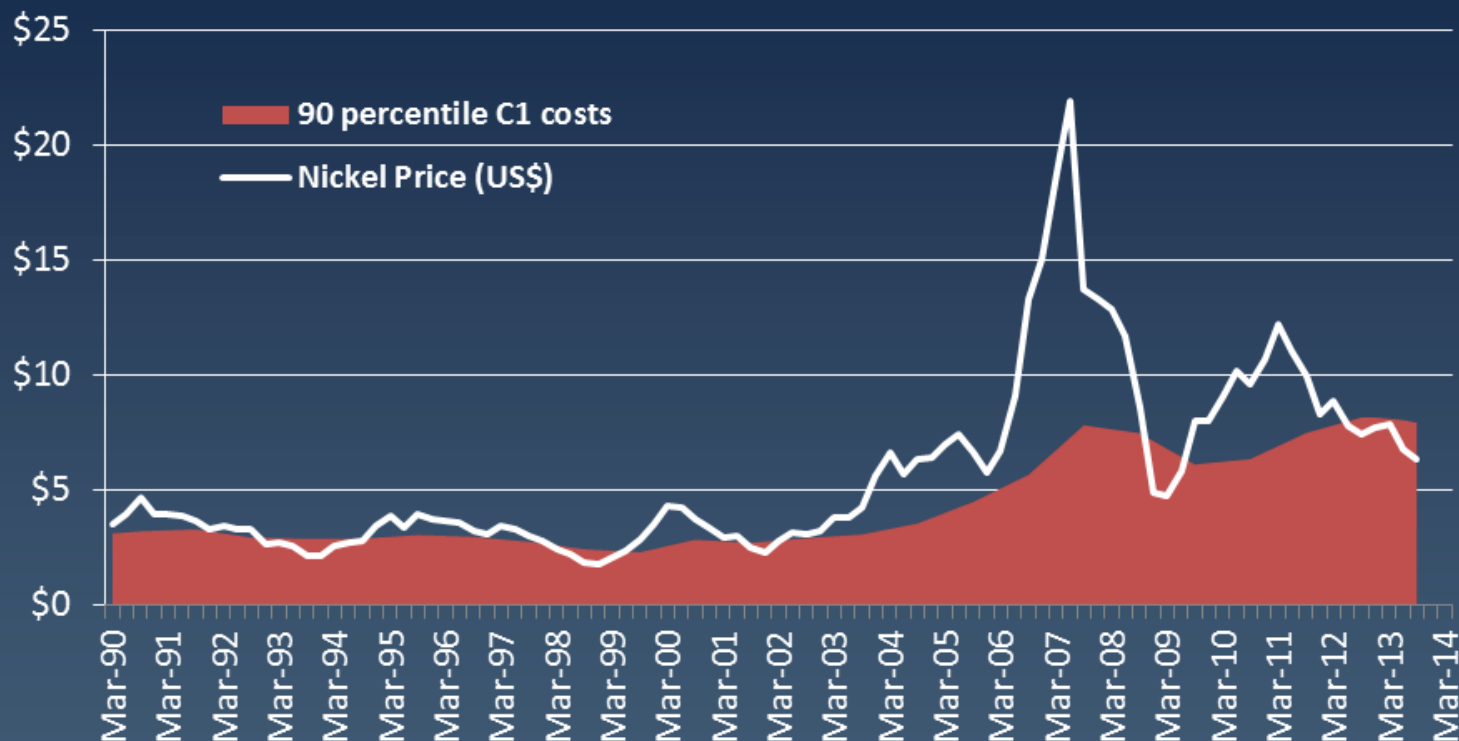
Project	Capacity	
Onca-Puma	58,000t	(limited restarted late 2013)
Barro Alto	36,000t	(~50% until mid 2016)
Ramu	31,000t	(Slow Ramp up)
Koniambo	60,000t	(Slow Ramp up from next month)
Ambatovy	55,000t	(Very Slow ramp up)
Tanganito	30,000t	(Commercial production Q4 ??)
VNC (Goro)	60,000t	(Slow Ramp up)
Totals	330,000t	

- Large delays in above projects resulted in average 3 - 5 year delays
- Instead of a time spread of new capacity, majority bunched into next 6-12 months
- History points to commissioning problems and slower than planned ramp-ups
- Potential for additional oversupply in 2014?

**Unlikely that any will be profitable at current Ni
 Price (allowing for capital charge)**

Nickel Price & C1 Costs

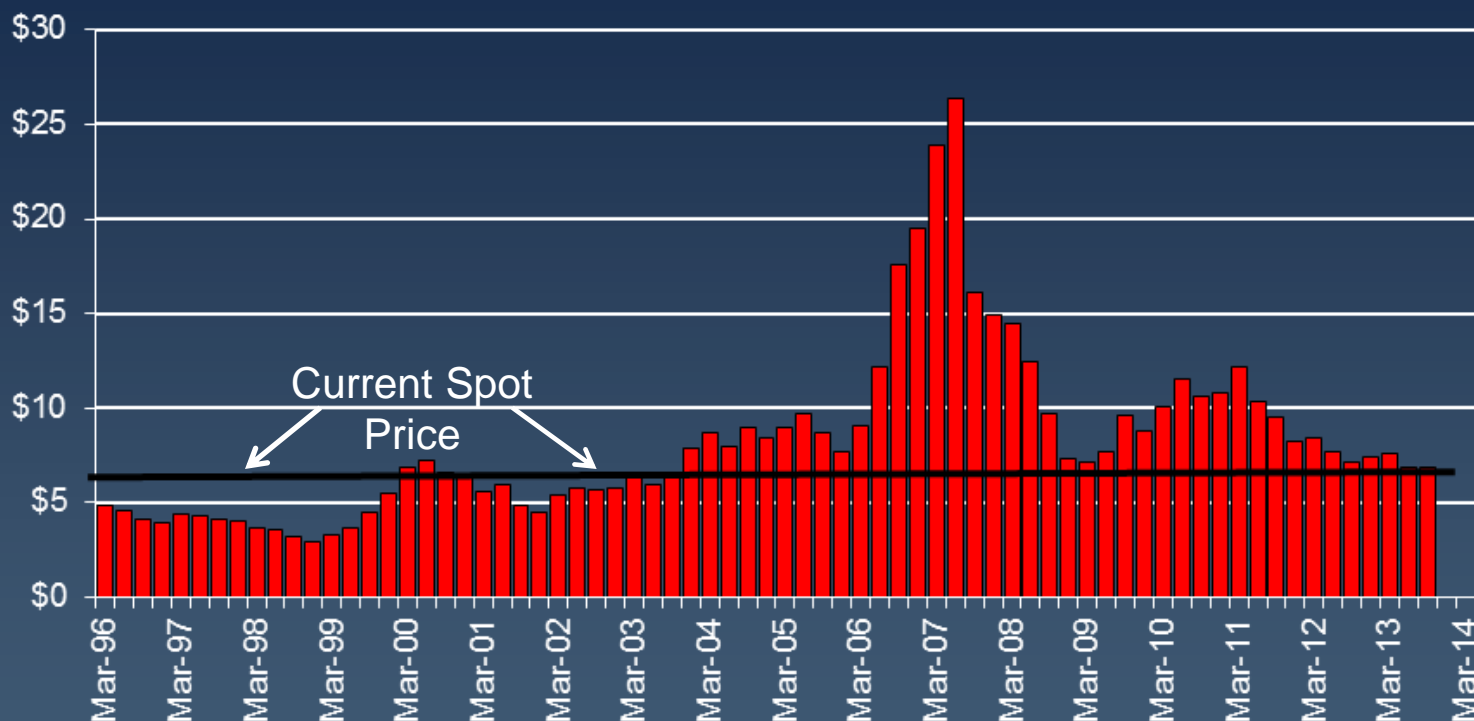
(Quarterly Average)



- Price floor historically around the 90th percentile of C1 costs
- 90th percentile C1 costs currently ~US\$7.80/lb
- Sep Quarter Average Price US\$6.30/lb (current spot price \$US6.25/lb)
- Over short periods (6 – 12mths) nickel price can fall through 90th C1 cost

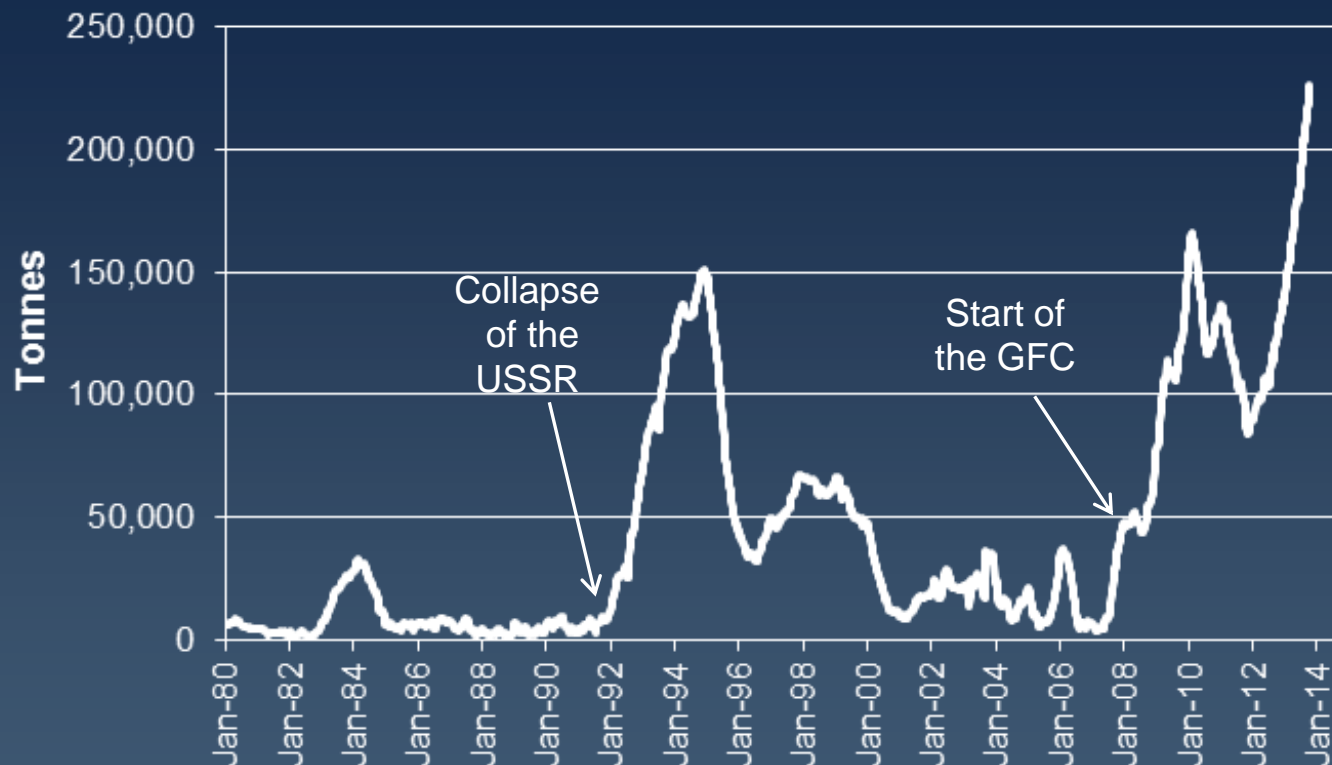
Nickel Price \$A

(Quarterly Average)



- June and September quarter prices averaged <A\$7/lb
- Even during GFC A\$ quarter average >A\$7/lb
- Lowest quarterly average in A\$ terms since Sep-2003 (10 years)

Nickel LME Stockpile Data



- Stockpile levels at all-time high (approx. 48 days of consumption)
- Global demand remains insufficient to significantly reduce Stockpile
- New supply has begun to hit the market
 - VNC (Goro)
 - Ramu
 - etc.

Where has all this Production Coming From

NPI Production

- **Growth**
 - NPI Growth

2009	100,000t
2010	160,000t
2011	280,000t
2012	350,000
2013	400,000 ??
 - 2009 – China 455kt Ni (355kt traditional, 100kt NPI)
 - 2012 – China 770kt Ni (420kt traditional, 350kt NPI)
- **Cost**
 - Costs estimates range from <\$6.00lb to > \$9.00lb (costs vary widely)
 - Major cost inputs: laterite ore, transport and power
 - New “Rotary Kiln/Electric Furnace” (RKEF) dominate source ~60%
- **Indonesia**
 - Indonesia responsible for ~60% Ni supply growth since 2005 (~250kt of Ni)
 - Demand for higher grade ore (+1.8%) will increase as more RKEF comes on (Unclear how long current high grade resources can last)
 - Indonesia export ban planned for end 2013 (Unlikely to occur)

Indonesia is key to NPI future (and therefore nickel price)

NPI Production Items

(Nickel Pig Iron)

	USD/RMB 6.30	USD/RMB 6.12
• NPI Price (Ni unit)	(28-Sep 2012)	(30-Sep 2013)
- 10 – 15%	1,190 RMB (US\$189)	985 RMB (US\$161)
- 6 – 8%	1,210 RMB (US\$192)	1,000 RMB (US\$163)
- 4 – 6%	1,230 RMB (US\$195)	1,000 RMB (US\$163)
- 1.6 – 1.7%	2,825 RMB (US\$448)	2,725 RMB (US\$445)
• Ni Ore Prices	(28-Sep 2012)	(30-Sep 2013)
- 1.9 – 2.0%	560 RMB (US\$89)	425 RMB (US\$69)
- 1.8 – 1.9%	485 RMB (US\$77)	375 RMB (US\$61)
- 1.7 – 1.8%	410 RMB (US\$65)	325 RMB (US\$53)
- 1.6 – 1.7%	350 RMB (US\$55)	275 RMB (US\$45)
- 1.4 – 1.6%	275 RMB (US\$44)	205 RMB (US\$33)

Prices provided by Shanghai Metals Market (www.metal.com)

Listed Australian Nickel Sector

(Doing better than you think)

Aussie Mid Caps

- **Financial Strength**

- All have very strong balance sheets
- Enables flexibility and cushion during periods of low prices
- Ability to take advantage of opportunities as they arise

- **Costs**

- All Australian mid cap producers currently profitable at C1 payable Ni level

	<u>Jun Qtr</u>	<u>2012/13 FY</u>
- WSA	~A\$4.40/lb	~A\$4.50/lb
- IGO	A\$4.38/lb	A\$4.34/lb
- MCR	A\$4.94/lb	A\$5.34/lb
- PAN	A\$5.28/lb	A\$6.18/lb

- **Management**

- World class first rate management teams (best in sector)
- Proven exploration / development / production records
- Understand importance of financial discipline (rare amongst explorers and/or miners)

Aussie Mid Caps

- **Market Values**

	Mkt Cap	Debt/(Cash)	EV
- WSA	\$530m	\$135m	\$665m
- SIR	\$500m	(\$40m)	\$460m
- POS	\$40m	\$35m	\$75m
- PAN	\$70m	(\$15m)	\$55m
- MCR	\$100m	(\$60m)	\$40m
Total	\$1,240m	\$55m	\$1,295m
- PNA	\$1,210m	\$150m	\$1,360m
- SFR	\$990m	\$210m	\$1,200m
- LYC	\$720m	\$320m	\$1,040m

- **Market Sentiment**

- No investor interest at all (a great contrarian indicator?)
- Only real interest is in nearology plays (i.e. to Sirius)

Actual Cash flows of Aussie Mid-Cap Producers

Aussie Mid Caps

Western Area's (WSA)

Half Yearly								
Operating Cash Flow	Jun-13	Dec-12	Jun-12	Dec-11	Jun-11	Dec-10	Jun-10	Dec-09
Receipts	\$156,184	\$157,745	\$174,392	\$152,416	\$245,354	\$192,103	\$88,943	\$72,188
Payments	-\$95,394	-\$92,207	-\$77,395	-\$83,352	-\$81,120	-\$63,208	-\$38,503	-\$31,229
Gross Cash	\$60,790	\$65,538	\$96,997	\$69,064	\$164,234	\$128,895	\$50,440	\$40,959
Other Operating Revenue	\$9,820	\$1,879	\$6,025	\$2,686	\$3,143	-\$1,086	-\$4,743	\$19,091
Interest received	\$782	\$839	\$5,815	\$4,442	\$2,463	\$1,015	\$1,365	\$1,318
Interest paid	-\$8,401	-\$12,712	-\$12,472	-\$11,780	-\$9,345	-\$13,084	-\$10,212	-\$11,011
Income tax paid	-\$1,048	-\$7,468	-\$1,524					
Net Operating Flow	\$61,943	\$48,076	\$94,841	\$64,412	\$160,495	\$115,740	\$36,850	\$50,357
Investing Cash Flow								
Payment (PP&E, Expl & Dev)	-\$34,189	-\$59,217	-\$53,792	-\$84,949	-\$56,643	-\$47,504	-\$70,955	-\$43,189
Proceeds from PP&E							\$300	
Net Investing Flow	-\$34,189	-\$59,217	-\$53,792	-\$84,949	-\$56,643	-\$47,504	-\$70,655	-\$43,189
Free Cash Flow	\$27,754	-\$11,141	\$41,049	-\$20,537	\$103,852	\$68,236	-\$33,805	\$7,168

Aussie Mid Caps

Mincor Resources (MCR)

Half Yearly								
Operating Cash Flow	Jun-13	Dec-12	Jun-12	Dec-11	Jun-11	Dec-10	Jun-10	Dec-09
Receipts	\$54,972	\$56,312	\$64,641	\$70,788	\$80,886	\$77,601	\$107,902	\$104,656
Payments	-\$47,809	-\$40,380	-\$43,237	-\$55,996	-\$66,149	-\$60,518	-\$60,741	-\$54,854
Gross Cash	\$7,163	\$15,932	\$21,404	\$14,792	\$14,737	\$17,083	\$47,161	\$49,802
Dividends received								
Interest received	\$797	\$593	\$1,133	\$1,177	\$2,803	\$1,865	\$2,067	\$1,528
Interest paid					-\$15	-\$34	-\$12	-\$65
Income tax paid			\$385	\$972	-\$549	-\$9,689	\$500	-\$1,490
Net Operating Flow	\$7,960	\$16,525	\$22,922	\$16,941	\$16,976	\$9,225	\$49,716	\$49,775
Investing Cash Flow								
Payment (PP&E, Expl & Dev)	-\$14,728	-\$18,334	-\$13,485	-\$16,834	-\$25,093	-\$23,943	-\$16,452	-\$17,089
Proceeds from PP&E	\$15		\$433	\$24		\$13		
Net Investing Flow	-\$14,713	-\$18,334	-\$13,052	-\$16,810	-\$25,093	-\$23,930	-\$16,452	-\$17,089
Free Cash Flow	-\$6,753	-\$1,809	\$9,870	\$131	-\$8,117	-\$14,705	\$33,264	\$32,686

Aussie Mid Caps

Panoramic Resources (PAN)

Half Yearly								
Operating Cash Flow	Jun-13	Dec-12	Jun-12	Dec-11	Jun-11	Dec-10	Jun-10	Dec-09
Receipts	\$90,765	\$97,799	\$112,580	\$116,940	\$127,845	\$99,005	\$148,871	\$135,359
Payments	-\$82,911	-\$79,175	-\$94,001	-\$90,250	-\$85,202	-\$73,482	-\$76,378	-\$68,588
Gross Cash	\$7,854	\$18,624	\$18,579	\$26,690	\$42,643	\$25,523	\$72,493	\$66,771
Dividends received								
Interest received	\$353	\$762	\$2,081	\$2,136	\$3,237	\$1,856	\$2,939	\$1,491
Interest paid	-\$406	-\$430	-\$282	-\$71	-\$173	-\$159	-\$181	-\$159
Income tax paid			\$4,357	-\$3,021	-\$2,839	-\$18,008	\$38	\$3,934
Net Operating Flow	\$7,801	\$18,956	\$24,735	\$25,734	\$42,868	\$9,212	\$75,289	\$72,037
Investing Cash Flow								
Payment (PP&E, Expl & Dev)	-\$20,817	-\$30,224	-\$38,249	-\$42,063	-\$44,980	-\$20,767	-\$23,652	-\$18,390
Proceeds from PP&E								
Net Investing Flow	-\$20,817	-\$30,224	-\$38,249	-\$42,063	-\$44,980	-\$20,767	-\$23,652	-\$18,390
Free Cash Flow	-\$13,016	-\$11,268	-\$13,514	-\$16,329	-\$2,112	-\$11,555	\$51,637	\$53,647

Aussie Mid Caps

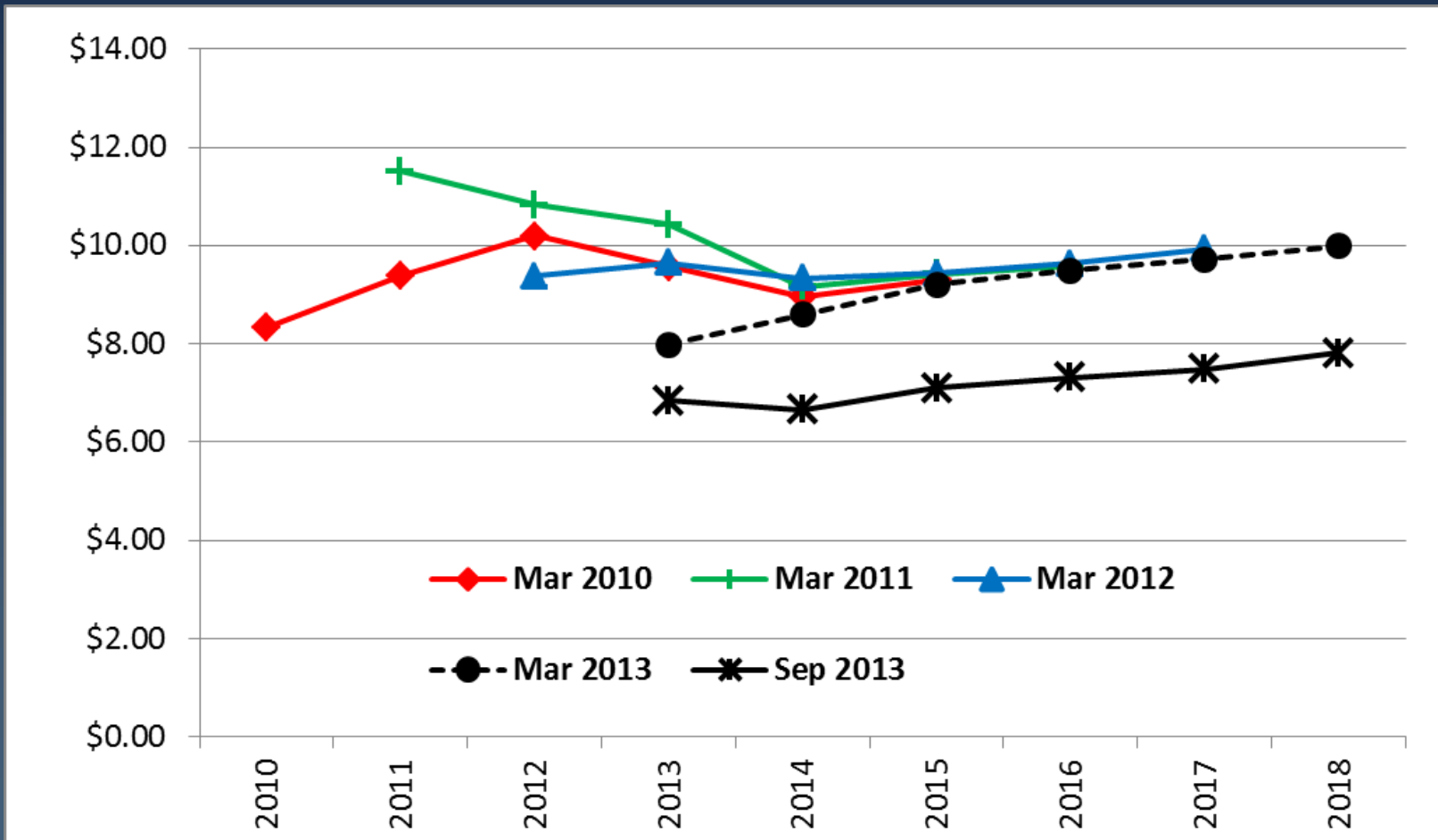
Independence Group (IGO)

Half Yearly								
Operating Cash Flow	Jun-13	Dec-12	Jun-12	Dec-11	Jun-11	Dec-10	Jun-10	Dec-09
Receipts	\$101,186	\$139,978	\$103,280	\$108,110	\$106,818	\$67,600	\$57,453	\$61,059
Payments	-\$73,440	-\$99,915	-\$88,897	-\$94,190	-\$76,074	-\$33,599	-\$28,302	-\$27,105
Gross Cash	\$27,746	\$40,063	\$14,383	\$13,920	\$30,744	\$34,001	\$29,151	\$33,954
Dividends received	\$294	\$7	\$104	\$159	\$9	\$10		
Interest received	\$772	\$2,775	\$5,767	\$5,655	\$6,020	\$3,877	\$3,201	\$1,904
Interest paid	-\$555	-\$759	-\$715	-\$592	-\$268			
Income tax paid	\$0	\$0	\$10,057	-\$2,524	-\$4,190	-\$5,074	-\$700	-\$3,518
Net Operating Flow	\$28,257	\$42,086	\$29,596	\$16,618	\$32,315	\$32,814	\$31,652	\$32,340
Investing Cash Flow								
Payment (PP&E, Expl & Dev)	-\$97,891	-\$121,105	-\$87,794	-\$81,147	-\$56,693	-\$31,350	-\$22,874	-\$19,097
Proceeds from PP&E	\$3	\$1,255	\$70	\$326	\$570	\$11		
Net Investing Flow	-\$97,888	-\$119,850	-\$87,724	-\$80,821	-\$56,123	-\$31,339	-\$22,874	-\$19,097
Free Cash Flow	-\$69,631	-\$77,764	-\$58,128	-\$64,203	-\$23,808	\$1,475	\$8,778	\$13,243

Stuff to Finish on

The Uncertainty of Forecasts

Bureau of Resources and Energy Economics (BREE)



Presentation Conclusions

- Long-term outlook for nickel robust (post 2014)
- Short-term outlook remains challenging (2013 - 2014)
- New projects coming on stream will leave market flush with nickel
- Indonesian Laws regarding export of laterites critical to future outlook
- 2014 average price forecast US\$17,500t (US\$8.00lb)
- Mid-Cap Nickel producers to out-perform over next 12-months
(WSA, MCR, PAN)

Presentation available at:
www.altocapital.com.au/presentations