ENK’s pieces fall into place at Acoje

Nickel group ENK (LON:ENK, ASX:ENK) will reach a key stage in the development of its Acoje project in the Philippines in September.

It is when the company expects to publish a bankable feasibility study for the project, which, for nickel producers, is usually the point investors and rivals sit up and take serious notice.

It is also when the discussions about how to move Acoje from development into production also really begin in earnest.

ENK is already in a strong financial position after a rationalisation of its portfolio to focus on the Philippines.

The Caldag prospect in Turkey was sold last year for US$40 million, while last month the company disposed of its stake in Berong Nickel and other non-core assets for a further £4.5 million (US$7mln) and a recent announcement said that its local partner Montemina will be paying back its loans (circa US$11M).

Earlier this month, the company said its cash position still stood at close to US$40 million, which while not enough to finance the construction at Acoje, will comfortably get it though the BFS with something to spare.

Glimpses of the plan have already been revealed. Acoje will be developed over two stages with a focus on the higher grade ore first to reduce the upfront capital costs.

The first stage will see an annual throughput of 1.5 million tonnes of ore each year, producing about 15,000 tonnes of nickel.

Production schedules in the early years will also be optimised to take advantage of higher nickel feed grades to realise higher revenues.

The sulphuric acid plant will only be built during stage two, greatly reducing initial project capital requirements, ENK said.

In year five, the plant will be expanded to 24,000 tonnes per year over a 20 year life of mine, making it a sizeable global producer.

ENK has taken one bold decision already by plumping for tank leaching rather than traditional heap leaching to process the ore.

Costings for this leaching process will be keenly scrutinised as ENK’s choice will make it one of the first miners to use atmospheric leaching at a nickel laterite project.

ENK’s managing director Rob Gregory says the traditional heap leaching method would have worked, but because of the heavy rainfall in the Philippines it would have been more difficult to manage.
The equatorial laterites that make up the ore at Acoje are also better suited to tank leaching, he adds.

"Recoveries are higher, acid usage is less and the working capital is much reduced because the process does not take a year as it does with heap leaching."

Much of the infrastructure is in place and already permitted, he adds.

A resource upgrade at Acoje earlier this year showed an indicated 40.9 million tonnes grading 1.08 per cent Ni, 0.05 per cent Cobalt and an inferred 29 million tonnes grading 0.96 per cent Ni and 0.06 per cent Co.

Further drilling will provide the basis for a resource upgrade at Acoje in the next few months.

ENK has continued small scale production with five direct shipping ore (DSO) shipments during the quarter to March, totalling 258,415 tonnes.

Four of these shipments, totalling 208,030 tonnes, were with an average nickel grade of 1.80 per cent, while one high-grade shipment of 50,385 tonnes was at 2.0 per cent nickel grade.

Total revenue from DSO shipments was in excess of US$1.6 million.

In future, DSO shipments will come from the neighbouring Zambales prospect, where an updated JORC compliant resource estimate is expected by the end of this month.

Gregory said that the reason for switching DSO output to Zambales is that ENK’s local partner has a larger stake in that deposit while the use of direct shipping takes away from the value added future opportunities in tank leaching.

The existing resource at Zambales contains 23.6 mt of inferred material grading 1.2 per cent Ni.

Gregory added that in future he can see Zambales and the surrounding area becoming a significant nickel producer.

Metallurgy is critical to nickel production. Some big names have come a cropper through not getting it right and the market is taking a cautious view of ENK while the leaching process remains unproven.

Broker Investec estimated recently that ENK is being valued at an enterprise value of just £1 million.

Given that 15,000 tonnes of nickel would generate over US$260 million of revenue at current market prices, the market is clearly waiting-and-seeing on the choice of processing.

Investec, for example, has a 34 pence target price based on a comparison of nickel resources in the ground with its peers against the current 8.8 pence market price.

Granted, nickel companies in the exploration stage generally tend attract a large discount to their undervaluing resource value.

This discount narrows as the execution risks diminish, first with the pre-feasibility study and then when the BFS is published and the hard numbers are on show.

Production at Acoje could commence in late 2013 or early 2014, but if previous examples of nickel development are a guide and with a BFS due in September, the share price will respond well before that if all goes to plan.
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