Event Transcript

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Start of Transcript

Operator: Thank you for standing by and welcome to the Galaxy Resources Limited March Quarter 2020 conference call. At this time, all participants are in a listen only mode. After the speaker's presentation, there will be a question and answer session for analysts and institutional shareholders. To ask a question during the session, you will need to press star 1 on your telephone. Please be advised that this conference is being recorded today. I would now like to hand the conference over to your speaker today Mr Simon Hay, Chief Executive Officer. Thank you. Please go ahead.

Simon Hay: Good morning, everyone and welcome to the call. Joining me today is Alan Rule, Chief Financial Officer. The March quarter 2020 activities report was released to the ASX this morning and is available on our website. As usual the Q&A is for analysts, however, we recognise the ongoing support of our other investors and stakeholders and if they have further questions after the Q&A, please contact Phoebe in Investor Relations and we'll get back to you promptly.

Before we begin, a reminder that today's discussion will include forward looking statements that are subject to various risks and uncertainties concerning specific factors. Information that we present today is our best judgement based on today's information. Actual results may vary based upon these risks and uncertainties.

Firstly, to sustainability, we are pleased to have released our first sustainability report earlier this week, which is available on our website. Sustainability is a key focus for us as we expand into international jurisdictions and in 2019, we started a two-year program to align our environmental, social and governance practices with international frameworks. Our performance, our plans, and the progress we've made is outlined in this report.

From a safety perspective, our performance is not good, with four low severity, low potential recordable injuries in the quarter. At Sal de Vida we have boosted our safety resources with the recruitment of a HSE manager and also a medical officer. At Mt Cattlin, we implemented safety programs targeting increased risk awareness and injury prevention. Additionally, towards the end of the quarter, COVID-19 health practices were implemented across the organisation without incident. I'll talk more about that on each project later in the call.

Our community programs progressed throughout the quarter, however in Argentina, the two school projects were stopped in mid-March due to COVID-19 restrictions, we will restart those as restrictions are lifted.

Moving on to production. At Mt Cattlin, we commenced the lower operational settings in the quarter as we adapted to soft market conditions while also satisfying the demand of our customer base. It was quite a busy quarter. We had a six week outage, we changed the mining contractor and we installed the optical ore sorter circuit. We resumed operations sequentially from mid-February until early March, and produced 14,306 dry metric tonnes for the quarter. Unit costs were high at US$592 per tonne but we need to bear in mind we only operated the plant for approximately four weeks. March unit costs of US$399 per tonne were more representative of ongoing performance.

The ore sorters are operating largely as we expected and we are now focused on further optimising the circuit and increasing the proportion of low grade stockpiled material that we process and this is expected to make a positive impact on recoveries. We are operating the process plant on a campaign basis of two weeks on, one week off - this is obviously not ideal as there are inefficiencies in starting and stopping the plant and this includes recovery losses and we are now working to minimise those recovery losses and optimise our campaign operating mode.

COVID-19 restrictions are not having an impact on Mt Cattlin. Our staff and contract partners have been very flexible and we moved early to relocate our interstate workforce to the Ravensthorpe area, which meant that we avoided the need to isolate staff and could continue operations unimpeded. Perth based employees are also working longer rosters with fewer transitions and we've implemented a range of health and hygiene practices at site to cater for the pandemic.

Moving to sales. Difficult market conditions continued throughout the quarter however, we managed to destock just over half of our carried over inventory from 2019 with a shipment of 32,500 tonnes. Additionally, the customer for the 15,000 tonnes shipment that was sold but not shipped in Q4 last year has confirmed a ship for next week, so this volume will also be moving.

Further, we have secured a new customer as part of our strategy to diversify our customer mix. This reflects the supply dynamic we started to see last year where customers approach Galaxy seeking stable and reliable producers with concerns around the future of spodumene supply from their existing suppliers. I'll provide some further discussion on sales outlook and the market later but for now, I'll hand over to Alan to take us through the financials.

Alan Rule: Thank you Simon and good morning everyone. From a cash and financial perspective Galaxy was debt free with cash and financial assets of US$129.6 million at the end of March. The reduction in this from the previous quarter is primarily as a result of positive cash flow from Mt Cattlin arising from the shipment of 32,500 tonnes but it was offset by capital expenditure of approximately US$8.5 million across the three projects, which included the front end optical sorter at Mt Cattlin, the pilot ponds and pilot plant and camp upgrades at Sal de Vida and the value engineering work at James Bay. There was a material reduction in creditors since the end of December. There was a reduction in financial assets due to the changed market prices of equity investments. However, the fixed rate note interest income exceeded the FX loss on the fixed rate note for the quarter. Thank you Simon, I'll hand it back to you.

Simon Hay: Further on costs, during this period of uncertainty we are pursuing a range of cost reduction and deferral initiatives throughout all parts of the business. As part of that, we've applied a temporary 20% salary cut to the Board and executive teams to assist in preserving the Company's cash balance.

Onto the projects at Sal de Vida, we made significant progress both onsite and in an engineering sense during the quarter. The accommodation camp upgrade and expansion was completed early in the year and this allowed for extra resources on site for the subsequent work programs. Construction of the lining and pilot ponds and establishment of the first well and pump station was completed, leading to the filling of all ponds with brine. The pilot plant was constructed, advancing to wet commissioning before COVID-19 restrictions brought that to a halt. Offsite engineering work and studies on stage one continued unaffected. During the quarter, the front end engineering design package for the wellfields and ponds was issued for tender and award is imminent. We completed the sizing for the process plant and the process plant feed package is now also well advanced and we expect this to be tendered and awarded in Q2.

The sites for the initial wellfield and the production ponds were also selected. Logistics and energy evaluations were completed and preferred structures selected. You can see a fair amount of progress across all fronts on the engineering aspect of stage one. Further, test work in Australia of brine samples continue to deliver results that validate the simplified process flow sheet that we have developed to reduce technical complexity and risk.

In regard to COVID-19, case numbers in Argentina and Catamarca in particular are relatively low compared to the rest of the world as the government reacted very swiftly in implementing firm restrictions on travel and social distancing. At the moment, the Federal Government is devolving more decisions to the provinces and the Catamarca Provincial Government was one of the first provinces to permit the resumption of mining operations, this has recently permitted operating mines to resume. However, Sal de Vida is in the development phase and therefore remains subject to restrictions. We have a skeleton workforce onsite. Our priority is certainly to protect the health and safety of our workforce, but also the surrounding communities, and we have taken and will take a very cautious approach, especially when it comes to resuming operations when permitted.

We are in discussions with the government around the pilot plant operations. We're examining workarounds to see if we can progress piloting through different means. We do expect some delay to the project but at this stage it's too early to tell if those delays will be significant and the impact on the schedule material. We expect to make further announcements this quarter as the situation becomes more clear.

It's certainly important to note the engineering works are critical path and progressing unaffected, we are still making meaningful progress on the project despite the COVID-19 restrictions. With the delay to piloting, and a continuing delay, there would come a time where piloting becomes a critical path, but we are yet to cross that boundary. Onsite, evaporation of brine in the test ponds will of course continue unimpeded, so we continue make progress there.

Discussions with potential partners on the sell down of a minority stake in the project continue, however, progress has been delayed by COVID-19 restrictions as site inspections, some due diligence and international travel have been curtailed. As we previously advised, a partner is our preferred position but not essential for this project, we are not in a rush to do a deal, we will be patient and we will work with the other parties on a timeline that satisfies all.

James Bay onsite activities were postponed, however value engineering work on the upstream component continued and is on track to be completed in Q2. Our relationship with the Cree Nation and negotiations on the impact benefits agreement are both on a sound footing. Further, we're in discussions with various stakeholders to understand how the US$4.7 billion Canadian infrastructure alliance agreement could benefit the project and its surrounding communities. This is obviously quite a positive development for the project and we'll continue to investigate this over the coming months.

Moving on to the market, as you'd expect the impact of COVID-19 on sales remains uncertain and fluid to say the least, with supply demand imbalances evident throughout the supply chain. Some converters in China have restarted after COVID-19 restrictions however we are observing the downstream cathode and battery businesses are now experiencing declining orders, so we do expect this to flow upstream to spodumene orders and pricing in the near term.

Production sales in the auto industry fell globally in Q1 and battery and cathode suppliers are expected to adjust their inventory levels and production settings accordingly. Vulnerability in the European and US auto markets continues. Although we do note a number of production lines restarting, this vulnerability is certainly expected to further impact the lithium sector. The impact on EV demand coupled with weak oil prices certainly remains uncertain at this point in time. Before the virus hit in Europe, significant EV sales growth for January and February was evident.

Moving to China, stimulus targeting on the EV sector across a broad municipal and provincial level is occurring now and we expect this plus the release of flagship new models from EV manufacturers like BYD, and Tesla to assist in sales recovery. There has been some early indication of that post the close of the quarter however, the overall situation certainly remains weak and unclear.

There continues to be a natural supply side response in the lithium raw material sector to this weak demand and we have seen a number of Greenfield projects and Brownfield expansions deferred or stopped outright in recent months. Our 2020 sales remain fully contracted and we are in regular contact with our customers on shipping schedules. Pricing remains soft as I've indicated, we estimate spodumene inventory in China sits at around four to five months of supply. We expect our average realised price for the first half to be sub US$450 per tonne.

In conclusion, Mt Cattlin continues to operate with no impact from no COVID-19. Galaxy remains in a strong position to navigate the current turmoil in the markets with a solid balance sheet and no debt to service places us in a quite a strong and flexible position that many of our competitors do not have. We continue to make solid progress on our tier one asset in Sal de Vida despite the COVID-19 restrictions and we will advise as I have indicated any delays to the schedule later on. Management is actively scenario planning on cost, sales and project schedule fronts at this stage as we take on board the very dynamic situation in the market. So, with that Taylor, I'll throw it back to you for questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you're an analyst or institutional shareholder and wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star 2. Your first question comes from the line of Rahul Anand from Morgan Stanley. Please go ahead.

Rahul Anand (Morgan Stanley, Analyst): Hi, good day, thanks for that and thanks for the opportunity. Simon, I would like to start with the cash preservation comment. In the event that your costs run higher than spodumene prices what's the strategy? Is it to keep running the plant at a certain level of production so that your cost can come below and you stockpile tonnes for spodumene, or is the strategy that as soon as the demand is low enough that you can't keep the costs below the price, would you put the plant on care and maintenance? and how does that marry up with the new contractor or the new contract for site that you've signed recently? That's the first one. I'll come back with more thanks.

Simon Hay: Sure. Thanks for Rahul. Look, our priority at Mt Cattlin is to optimise the ore sorter circuit and to really get better at this campaign mode of operation. First quarter production is certainly not indicative of where we would expect to see production and cost sit for the for the full year, we have a number of things that we're working on so that's our focus at the moment.

In regard to care and maintenance, we are not considering that at this stage. It's very much dependent on where prices go and as I said, on all the levers that we can pull onsite and in costs around the business. I think we will react at the time should costs decline below our cost of production and we will act, of course very prudently and quickly, but I don't want to speculate on care and maintenance at this stage.

Rahul Anand (Morgan Stanley, Analyst): Okay and the new contract, is there any minimum commitment there in terms of tonnes moved for the year in there?

Simon Hay: Look, it's a fixed and variable contract that has a mixture. We put that in place because we wanted to be able to ramp up the throughput at a particular time should demand indicate the need for that, at the moment it has a lower fixed basis than we would have been under the previous contract. So of course there is, should we have to go into care and maintenance, of course there would be some costs but we don't need to publicise those at this stage because as I said, our focus is on further optimising the plant under the new operating settings.

Rahul Anand (Morgan Stanley, Analyst): Okay, fair and just one quick one regarding recoveries. In the month of March, are you able to specify what recovery is worth because I think that was the period when you were able to achieve good costs.

Simon Hay: The recoveries well, we didn't operate for a long period of time in February so you can consider the reported recovery is indicative of the campaigns. We did have some specific issues. We had a problem with one of the primary cyclones during the latter campaign and we found that at the end when we shut down and investigated that cyclone. That has been fixed but that was a one off. Also, this goes back to running in campaign mode, it's not optimum for a process plant, as you will understand and you can overshoot and undershoot grade. We overshot grade for a period of time and that is the biggest impact on recovery on the grade recovery curve, that's why I say our focus on learning to operate to start the plant quickly and efficiently and also to stop at the end of the campaigns is fundamental to how we improve our operating performance both from a production, quality, cost and a recovery point of view. That's the focus for the operating at the moment.

Rahul Anand (Morgan Stanley, Analyst): Okay, so that unchanged recovery guidance, obviously is taking into account all that campaign processing?

Simon Hay: Correct and as I said last year, we do expect the ore sorters once they're running fully optimised to have a positive contribution on recovery.

Rahul Anand (Morgan Stanley, Analyst): Okay, then final question from me in terms of the contracted sales for this year. Are you able to shed a bit of light in terms of the timing of these? I mean, is there the flexibility for the buyer here to be able to delay taking those shipments just like you saw at the end of last year or are these taker pay contracts with a fixed delivery date?

Simon Hay: In terms of schedule, no they're definitely not fixed, we are negotiating with our customers on schedule for all sales for 2020. We're well advanced as some others for Q2, but things are fluid. Things are very dynamic in China and the rest of the world, so we continue not to provide guidance on sales for the rest of this quarter at least.

Rahul Anand: (Morgan Stanley, Analyst) Understood. Okay. Thanks for that. I'll pass it on.

Operator: Thank you. Your next question comes from a line of Harsh Bardia from Citigroup. Please go ahead.

Harsh Bardia: (Citigroup, Analyst) Hi, thanks, a couple of questions from my side. Firstly on Sal de Vida. Can you share some of the outcome of the sizing study if possible, capacity for the staged development there? And secondly, in terms of Capex, out of that US$8.5 million in first quarter, how much was spent on Sal de Vida and what's the expectation for this quarter, June quarter? Thanks.

Simon Hay: Okay, Harsh on the sizing study we are not at liberty to reveal what that is until we update the NI43-101 under Canadian standards because the entity is held in Canada. What I can say is it's similar to what we have said throughout, since we really publicised the new flowsheet in November last year and that is whereas previously we were talking around the 25,000 kiloton LCE production capacity, we continue to break that down into two stages but yes, we will reveal that capacity when we do update that feasibility study NI43-101 later in the year.

Alan Rule: In relation to the Capex for the quarter, Sal de Vida was about US$6.2 million of that US$8.5 million for the quarter. We are not going to disclose what our forecast Capex is for the coming quarters because the situation is pretty fluid with access to site and various other things, at this stage we are not going to disclose where we think that's going to end up.

Harsh Bardia (Citigroup, Analyst): Okay, thanks.

Operator: Thank you. Your next question comes from the line of Andrew Bowler from Macquarie. Please ask you a question.

Andrew Bowler (Macquarie, Analyst): Good day guys, just a quick one from me and I did jump on the call late so you might have expanded on this earlier but did I hear you say towards the end of the market update that you expect realised pricing to be sub US$450 this year?

Simon Hay: Yes, that's correct. Andrew. That is an average realised cost for half one sales.

Andrew Bowler (Macquarie, Analyst): No worries, thanks.

Operator: Thank you. Your next question comes from the line of Glyn Lawcock from UBS. Please ask your question.

Glyn Lawcock (UBS, Analyst): Good morning Simon, just a couple of quick ones, cash drawdown was in fact US$13.6 million. Alan was kind enough to run through the US$8.5 million for Capex. So just wondering what the remainder was?

Was that just the market to market on your financial assets and when you say cashflow positive at Mt Cattlin, you mean operating cash flow or sustaining? So, including the spend on the optical sorter? Just trying to make sure I understand the definitions thanks.

Alan Rule: Firstly, the financial assets, there was a material reduction as a result of movement in the share price of the underlying equity positions which you can easily see for yourself if you look at underlying share prices. The cash flow from operations was positive before and after the Capex component at Mt Cattlin.

Glyn Lawcock (UBS, Analyst): Thank you, that's great. And then just second question, The US facility US$40 million that you put in place with BNP for Alita is that still on foot? So you've still got that in the background until the end of the calendar year?

Alan Rule: Yes, it wasn't put in place for Alita, it was a working capital facility that we had available if we wanted to draw it down for Alita, which we did but it's just general working capital.

Glyn Lawcock (UBS, Analyst): Okay, so it sits there undrawn at the moment?

Alan Rule: Correct

Glyn Lawcock (UBS, Analyst): Wonderful. Thanks very much.

Simon Hay: Okay, thanks Glyn.

Operator: Thank you. Your next question comes from the line of Peter Arden from Bell Potter Securities. Please go ahead.

Peter Arden (Bell Potter, Analyst): Hi, Simon, just if I could clarify what you were talking about in terms of final concentrate grade? You said that under the new arrangement at Mt Cattlin the grade was somehow, not where you'd like it to be. Can you just clarify is a high better than 6% lithium oxide grades still very much the target and the market still wanting that or what's the current position there?

Simon Hay: Yes, sure Peter. The target is still 6.0%. The customers are satisfied with that, there does not seem to be a push in the market for anything higher, all our customers are content with that. In one of the campaigns we certainly overshot that, I think we averaged 6.1% lithium in final product. May seem small but that point 0.1% does have a 3% recovery hit on the grade recovery curve, that's why we really need to target 6.0% and not higher.

Peter Arden (Bell Potter, Analyst): Right, thank you very much.

Operator: Thank you. Your next question comes from Al Harvey from JP Morgan. Please ask your question.

Al Harvey (JP Morgan, Analyst): Good day guys, I'm just wanting to follow up on Mt Cattlin costs. You've said towards the end of the quarter, they were about US$400 a tonne. Just wanted to know, are these the sort of costs we should expect for the rest of the calendar year and same with the production numbers and how long do we factor in these lower production rates?

Simon Hay: Okay Al, I've talked about how we are trying to optimise the ore sorter circuit and also learn and do a better job of operating in a campaign mode and that is our focus. We are not going to guide on operating costs until we really bed down those two aspects of our operations and that will be across quarter two. When we come to the end of quarter two, I think that will give a better indication of our operating costs under this operating regime. Safe to say our target of course, is to keep it under US$400. We were quite pleased with what did occur in March, so how long this continues, we have said that these lower operational settings will continue for 2020, that's our plan at this stage, we are not looking beyond that as yet. The situation is so dynamic, we need to be flexible as well.

Al Harvey (JP Morgan, Analyst): Great. Just another one just on Sal de Vida. Just wanting to know what sort of catalysts you're looking for to give certainty on when you will make the FID decision and if you could just take us through what the timeline beyond that might be?

Simon Hay: Yes, sure, there's a range. Probably the main internal ones are that we need to finalise the operating capital cost estimates, those two feed packages that I talked about. The ponds and wellfield being one that's underway or will get underway very shortly and then the second one being the plant and non-process infrastructure, which we expect to award this quarter. They are the two biggest elements that really guide our operating and capital cost projections for the project. They're fundamental. We have to have to complete those.

Secondly, I would say on the marketing side of things, we expect to complete binding offtakes with partners with customers for at least half the product before we would make an FID. On that front, we have had good progress, we continue to make good progress remotely with the customers and we have a number that we've exercised MOUs and are now talking in much more detail about selling product to those customers and meeting their specifications and matching our product outcomes with their specifications. There are the two main ones but there's a whole range of others, a financing package as well. As we have always said we largely can self-fund the first stage of the project, that is something that we continue to work on, the overall financing package but we continue to be in a strong position there. They're the main three that I would talk about Al, that we need before FID.

In regard to schedule, that very much depends on what happens in Argentina. We can do a lot of work remotely, but we have to be onsite to complete a lot of the work and that is certainly dependent on restrictions being lifted and/or the spread of COVID-19 in Argentina, that's why we can't advise on the schedule right at this stage.

Al Harvey (JP Morgan, Analyst): Great, thanks very much for that.

Operator: Thank you. Once again, if you wish to ask a question, please press star 1 on your telephone and wait for your name to be announced. Your next question is a follow up question from Glyn Lawcock from UBS. Please go ahead.

Glyn Lawcock (UBS, Analyst): Thanks very much, sorry to come back through again, just a couple of ones to follow up on. I know, it's hard, you talked about the fact that you can't progress projects in Argentina because of COVID. Do you have a sense of the Capex spend at the moment then to help us think about the next quarter? And then just on the Opex side, the US$399, I just want to make sure I understand, were you campaigning in March or was March a period where you actually ran all four weeks in your start campaign? I'm just trying to understand is US$399 a campaign run rate cost or was that because you ran for the full month? Thanks.

Simon Hay: I'll take the second one first. Glyn. No, we definitely campaigned in March, it was reasonably representative of where we expect to be. That being said it was only the second campaign so there's still a lot to improve on in regard to our operating settings there. But no, we didn't run fully throughout March. Capex, I'll pass to Alan.

Alan Rule: Glyn, our expectation given the current circumstances is that the Capex in this quarter will be lower than the March quarter because we are not able to get access to site to complete the commissioning of the pilot plants, getting the feed contracts underway is taking a little bit longer, our expectation is that it will be materially lower than this quarter.

Glyn Lawcock (UBS, Analyst): Okay, and sorry, just so it does sound like you could probably do better than US$399, which is great. So that's an FOB cost, excluding royalties, I assume?

Alan Rule: Correct.

Glyn Lawcock (UBS, Analyst): The price that you talk about less than US$450 is a CIF price. Is there any benefit coming through on freight or anything at the moment or is it still tracking around sort of US$30 a tonne or something in that order of magnitude?

Simon Hay: Yes, correct. It was a CIF price Glyn. Yes, definitely we are seeing far better freight rates; sub US$20 a tonne is across the last two shipments at least. So yes, we are we are seeing a benefit.

Glyn Lawcock (UBS, Analyst): Okay, so it's a nice offset. Thanks very much.

Alan Rule: Yes.

Operator: Thank you. There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Simon Hay: Yes, thanks, everyone for being on the call. A very difficult time for everyone in the industry, Galaxy is no different. We continue to be in a strong position financially and we are certainly adapting very quickly to market events, staying in touch with our customers and trying to work out what the impact is on both our market, on our operations and also on our projects. We will advise any material changes as we make decisions based on these events. So yes, thanks again for your time. We'll speak soon.

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