Event Transcript

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Start of Transcript

Operator: Thank you for standing by, and welcome to the Galaxy Resources Limited June Quarter 2021 Results Conference Call. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number 1 on your telephone keypad.

I would now like to hand the conference over to Mr Simon Hay, CEO. Please go ahead.

Simon Hay: Good morning everyone, just myself on the call today as Alan is on leave. A reminder that today's discussion will include forward-looking statements that are subject to various risks and uncertainties concerning specific factors. Information presented represents our best judgment based on today's information. Actual results may vary based upon these risks and uncertainties.

Firstly, to sustainability and COVID. Our activities continued on protecting the health and safety of our staff, contractors and communities. At Sal de Vida we had a small number of cases in May, and the management team did a great job in implementing their procedures and containing the situation. All personnel made full recoveries and we only lost a little bit of time on a couple of the programs, the drilling program and the piloting program, and no impact on the critical path for the project at all.

In Canada, restrictions are finally easing, and our team is together in the office for the first time in a long while. At Mt Cattlin we have no impact from the WA state border closures at this stage, but we are monitoring the situation closely. We managed the 2020 border closures successfully and we expect that this year will be no different.

On safety, we experienced a slight uptick in TRIFR as we had two low severity injuries in the quarter, and we've made good progress on our community infrastructure projects in Argentina, and the third project is currently nearing completion.

Moving to Mt Cattlin and a very good quarter. The team produced record rates for both the quarter and half year, Q2 production of 63,000 tonnes, was 12% up on the previous record quarter, and the half was 6% better than we've achieved on any previous six-month period. Mining was on plan, and we did experience higher grades than predicted across the full quarter, and that certainly helped production.

The process plant is running really well and benefiting from continuous operation compared to last year when we were in campaign mode. We're also running some circuits of the plant harder. Recovery was on plan at 60% for the lower targeted product growth. The outlook for Mt Cattlin is steady, steady production rates with the major change in half two being the pre-strip of the 2NW deposit, which we started in late June. We've currently got two scrapers in operation, just removing the topsoil, and activity will ramp up in September when we'll have a third excavator onsite and a dedicated fleet of trucks working the pre-strip only. First ore is to be exposed in early Q2 next year.

On the market we shift 48,500 tonnes in the quarter and missed the final shipment by just a few days. This has now sailed, as has a second July shipment. The very good production levels from Mt Cattlin mean that we'll have surplus stock to our contracted volumes, and we've auctioned off the first 15,000 tonnes of that surplus last week. Interest levels from customers was very strong and we are in the process of concluding that contract. The pricing trajectory that was evident in 1H21 continues across the three shipments of quarter 3 so far, and we're achieving price increases of 10% to 20% each time we conclude a shipment. This reflects the very strong market conditions across all aspects of the EV value chain.

Moving to Sal de Vida. Activity on the project is ramping up well, and we had a really busy quarter. Highlights being procurement of the ponds to wellfield packages underway, detailed engineering of the process plant package is well advanced at site. Five of eight wells have been installed and the second accommodation camp expansion was completed as well as various infrastructure items being installed.

Piloting work continues to show exceptional results. We completed the first end-to-end run at site including additional process steps of filtration and iron exchange. Results confirm battery grade, as we knew it would, however the quality exceeded expectations, with 86% of product achieving battery grade and with the very low impurity levels that you can see in the table. These impurities are comfortably inside battery grade levels, so we're really - we continue to be really happy with the progress on our flow sheet.

For Q3, key milestones we look forward to, the revised ESIA approval, which we expect imminently. The ESIA was submitted earlier in the half. We'll be awarding contracts for pond construction and commencing that package of work, replacing long lead item orders for the process plant, and we'll be further advancing the detailed engineering on the plans. We'll also continue with the customer engagement with the samples of battery grade product from site being dispatched in recent weeks.

Overall project schedule and cost remains as per our previous guidance, and the biggest risk to schedule remains COVID, which as I've said is quite serious in Argentina. In regard to later expansions, a study into accelerating or combining expansion stages is underway, and we expect to announce preliminary findings in the second half of this year.

On James Bay, basic engineering is underway with our target to advance to the project to a construction ready status by year end. Downstream study has commenced to examine options around conversion of spodumene concentrate into value-added lithium chemicals. The study encompasses screening of technologies and flow sheets whilst maintaining as much flexibility with final products as we can, and we're aiming to do this due to the very dynamic nature of the industry.

We're expanding the onus team at the moment as we increase activity on all project fronts. We're planning some further site geology work in the upcoming winter around resource definition and potentially resource extension. Similar to Sal de Vida, a revised ESIA was submitted recently, and we'll continue engaging with regulators over the coming period.

On finance at quarter end, Galaxy was in a very strong position, being debt free and with cash and financial assets of US$208 million. Total costs of production were $328 per dry metric tonne at Mt Cattlin, which was 17% lower than the March quarter, so obviously due to the 36% increase in spodumene production quarter on quarter. This was in part due to our decision to lower the concentrate grade but also due to various optimisation works throughout the operation.

The pre-strip of 2NW which will ramp up in the second half, is driving our expected increase in operating costs on 2H21. The guided range that we've put in the report is based on a budgeted throughput through the plant, continued over-performance through the plant would result in lower actual unit costs of course, time will tell on that. In regard to capital expenditure, we spent almost US$12 million in the quarter across the three projects, the bulk of this was at Sal de Vida with $9 million spent on feed costs on the pond and wellfield, commissioning and operation of the pilot plant and other site-based activities.

Capital spend for the year remains as previously announced which is approximately 75 million to 80 million at Sal de Vida, $8 million to $10 million at James Bay and $3 million to $4 million at Mt Cattlin. In summary our cash position and our operating position more importantly is very strong and provides funding certainty for Galaxy to execute the delivery of Sal de Vida stage 1.

I'll just very briefly on the merger with Orocobre, it's progressing as per plan. Senior executives from both companies are engaged on planning for the integration of the companies, and those plans are coming together.

With that I'll now open it up to questions from analysts, the shareholders questions can be directed to our website and Phoebe, and I will reply to you later on today. So, Harmony, back to you.

Operator: Thank you, if you 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. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Jack Gabb from Bank of America, please go ahead.

Jack Gabb: (Bank of America, Analyst) Thank you and good morning, a couple of questions from me. Firstly just on spodumene pricing, we've seen a pretty material increase since you came out with your early June announcement for more than $750 CIF. So, just curious what you're seeing in terms of pricing today. Obviously, your comment of 10% to 20% increases, but where does that put us today? Then secondly, can you talk to when the pre-stripping activities for 2NW start to roll off? Thirdly, just to remind, or can you remind us, the hurdles that you need to meet for the Orocobre merger to go through in terms of your scheme meeting, and just what feedback you've had? Thank you.

Simon Hay: Okay, thanks Jack. Spodumene pricing, as we said we finished last half at around $750 CIF. The auction result probably gives us the nearest term view on the current price obviously with those fresh bids just being received last week. The auction was confidential, the terms of the auction were confidential in regard to price and successful party, but what we can say is we received a number of bids in the US$900 per tonne CIF range.

In regard to the roll off of the 2NW pre-strip costs, 2NW pre-strip is being - the mining of 2NW is in three stages, so the pre-strip will continue throughout 2021 and '22, so it's a difficult question to answer. The higher costs that we're seeing in this second half, we will provide closer guidance on 2022 costs in due course. But those costs will not - the higher costs of $420 to $450 that we have flagged, won't continue for the life of mine.

In regard to the hurdles, the third question, the hurdles for the Orocobre merger, we're now down to the shareholder vote, which is on August 6, where we need 75% number by vote and 50% of shareholders who attend the vote, all to vote in favour of the merger. Feedback is very positive from the vast majority of everyone that we speak to are very supportive of the merger.

Jack Gabb: (Bank of America, Analyst) That's really helpful, thank you very much, I'll pass it on.

Operator: Thank you, your next question comes from Hayden Bairstow from Macquarie, please go ahead.

Hayden Bairstow: (Macquarie, Analyst) Morning, Simon. Just on Cattlin, just confirming these numbers for this quarter. So, your shipping volumes are what, 90,000 tonnes a spot, is that what you're targeting?

Simon Hay: For the quarter coming up, so yeah, 30 have gone now, we've forecast 60, the last 15 of that is very tight, so it's probably more likely to be 45 in the current quarter. Plus the 30 we've already done, so yeah, that 90 is ambitious, yes.

Hayden Bairstow: (Macquarie, Analyst) In terms of - can you just touch on newer term production on the strip ratio? I mean so Jack asked the question, so what sort of spike in strip ratio should we be thinking about and what's the grade profile look like for the rest of the year?

Simon Hay: Grade profile continues, because we can - for the rest of this year we'll be mining in 2NE, the grade of what we're experiencing now is around about, is what we expect for the rest of the year. The strip ratio is around, it's around so life of mine we're at six, we were dropping below around four and a half, so closer to eight for parts of, just from memory, parts of this year. But I'll have to come back to you separately on exactly what the strip ratio is, I don't have it to hand right at the moment.

Hayden Bairstow: (Macquarie, Analyst) Just on Sal de Vida, I mean everything seems to be going all right, there doesn't seem to be too many issues, but post the merger, is there any instantaneous benefits from having access to a second construction crew effectively at Olaroz that you can adjust timing on Sal de Vida or what you're actually doing?

Simon Hay: So, just to go back, full year strip ratio for Mt Cattlin, 8.65, so that includes the pre-strip element. So instantaneous - yes, Sal de Vida is tracking quite well and that's testament to the guys who what they're achieving in being surrounded by COVID, so that's really good. But we are coming to the ramp up stage where workforce expands, and we bring in a lot of contractors. So, our risk profile does change at that time.

Instantaneously, I think the best thing that we would point to is just the combination of management teams and the bringing in of that expertise. Our early engagement with Orocobre and their five years of operational experience on brine projects is really positive. So, we expect that would be where we would see the first benefits of the merger, Hayden. But it's a bit intangible at this stage, but we will be able to talk a little bit more about it obviously post-merger.

Hayden Bairstow: (Macquarie, Analyst) Okay terrific, thanks 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 comes from Reg Spencer from Canaccord Genuity, please go ahead.

Reg Spencer: (Canaccord Genuity, Analyst) Thank you, morning Simon and team, congratulations on a very good quarter. My questions are more related to the market itself. The spodumene price looks like it's continuing to move up and following on from Jack's question earlier, you're pointing towards $800/$900 a tonne, you're continuing to sell on those spot markets. Last time we saw spodumene prices at this level, Chinese chemical prices on a spot basis were $24,000 a tonne. I was just wondering; are you guys able to comment on what you're seeing or hearing from your customers with respect to converter capacity and that gap between where spodumene prices are today and where chemical prices are in China?

Simon Hay: Yes, thanks Reg. First of all on the converters, what we're seeing, utilisation is obviously picking up strongly. It seems to be bifurcated sort of a market. The majors are running at capacity, the have spodumene stock. The non-integrated unaligned converters are struggling for spodumene supply, so their utilisation in some cases is dropping, if they have no spodumene they can't run their converters. So, we are seeing very strong demand from both sectors, the aligned and the unaligned.

That throughout the value chain, what we can see in the cathode market in the cell manufacturing, it's very strong. Forecasts continue to increase in China in particular for LCE production throughout the value chain. So, look it looks very positive, and that is flowing through to the spodumene pricing, as I've indicated, where our sales will be in the $900 CIF market, CIF range.

From what we can see, the converters are making money, they are passing through those higher input prices and the demand right through the value chain should see that continue in my belief.

Reg Spencer: (Canaccord Genuity, Analyst) That could be suggestive, Simon then that we should start to see some uplift in chemical prices, which is obviously favourable to what you guys and Orocobre are planning to do in Argentina. That all sounds good, thank you for that. Just another question on transport and logistics, a lot of industries everywhere seem to be suffering from constraints. Are you guys seeing any issues with getting product out. It doesn't look like it at this stage, but are you seeing any pressures on shipping availability and transport?

Simon Hay: Yes, I'd say our road transport is close to capacity, and that's more a function of our production at Mt Cattlin, which is very strong, so we have exceeded our forecast there, so we need to bring in more - our contractors need to bring in more equipment and run it continuously. They're doing that, which is really good, so no constraints at this stage, but we're at the upper level.

In regard to shipping, it all [unclear] home in the freight rates and we are seeing higher freight rates from Esperance up to China. We still have the ability to bring ships in, so no, there's no real constraints other than price.

Reg Spencer: (Canaccord Genuity, Analyst) Excellent, great. Again well done on a good quarter guys, I'll pass it on, thank you.

Operator: Thank you, your next question comes from Al Harvey from JPMorgan, please go ahead.

Al Harvey: (JPMorgan, Analyst) G'day Simon and team, a quick one on James Bay. The updated ESIA submission, are you able to step us through what was optimised here relative to the preliminary economic assessment? If you can touch on the recent Geotech investigation, that would be helpful, cheers.

Simon Hay: Al, the main change was that we reduced the footprint of the site, the plant as well as the mine, as well as the stockpile areas, and obviously disturbing a lot less ground means that environmental impacts are lessened. So, that's what we've put in, and that all came out of the PEA and the value engineering, so that went into the revised ESIA. The Geotech work was quite positive, and that fed into our ability to shrink the site. You can only increase the walls and the weight of your stockpile areas if you can - if the ground can withstand it, so that's what we've done.

The Geotech work proved that that was possible, that's gone into the design and that has fed through into the revised ESIA.

Al Harvey: (JPMorgan, Analyst) Thanks, Simon. So, just to clarify, does the smaller site and processing, does that impact the ultimate production of spodumene at the steady state?

Simon Hay: No, it doesn't. We kept the plant - the plant capacities were all maintained. The only thing we changed was we revised the concentrate grade from 6 to 5.7, and that increased recovery as well as final product output. However it doesn't affect the plant at all and it doesn't affect the inputs into the project. You still mine the same amount of material, you're just producing a bit more with the higher recovery. So, no impact on plant capacities and design, just it's a great win, you shrink the plant, you shrink the footprint.

Al Harvey: (JPMorgan, Analyst) Great, thanks for that, Simon.

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. We'll now pause a moment for any further questions to come through. Thank you, there are no further questions at this time. I'll now hand back to Mr Hay for closing remarks.

Simon Hay: Thanks everyone for joining us on the call today. Quick summary, I think the Company is in really good health as we prepare for the merger with Orocobre. Mt Cattlin's producing strongly and will generate even stronger cashflows in half 2 as these very solid spodumene price increases start flowing through. Sal de Vida piloting confirms battery grade product, and the project is on track, both schedule and cost-wise. COVID of course the big risk factor with our schedule there.

James Bay, steadily advancing with engineering on the upstream component and examination on the downstream, and overall we look forward to talk to our shareholders at the scheme meeting in early August, so thanks everyone, we'll talk again soon.

Operator: That does conclude our conference for today. Thank you for participating, you may now disconnect.

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