



This little-known ASX small cap is on fire

Cale Kalinowski | February 8, 2019 | More on: [NIC](#)

Nickel Mines Limited ([ASX: NIC](#)) is a little-known nickel producer which floated on the ASX in August of last year. Nickel Mines has seen its share price rise over 50% in the past month coinciding with the announcement of first production at the company's new furnaces and a rally in the price of nickel.

Below is a summary of the Nickel Mines situation.

- The company owns an 80% economic interest in the Hengjaya Nickel Mine located in Indonesia.
- The company is focused on producing nickel pig iron, which is used in the production of stainless steel.
- Nickel Mines has collaborated with Tsingshan, the world's largest stainless steel producer, to construct a Rotary Kiln Electric Furnace (RKEF) plant. This plant has developed as an expansion of an existing production facility owned by Tsingshan, the Indonesian Morowali Industrial Park (IMIP).
- Nickel Mines holds a 60% interest in the RKEF plant which is currently in the latter stages of development, with full-scale production set for later this year.

There are several reasons why I think Nickel Mines is strongly positioned for the future.

Low operating costs

Nickel Mine's production costs for nickel pig iron are expected to be in the first cost quartile of global nickel pig iron producers.

Firstly, the RKEF plant's integration with Tsingshan's existing production facilities allows for reduced electricity costs, stemming from Tsingshan's purpose-built power plant which offers cheaply priced electricity.

Secondly, the use of RKEF electric furnaces in the nickel production process results in lower average production costs.

And lastly, the vertically integrated nature of the Hengjaya Nickel Mine and RKEF furnace allows for cheap nickel sourcing. Indonesian Government bans on the export of raw materials prevent cheap nickel from being exported elsewhere.

Low capital intensity

The RKEF plant is an extension of Tsingshan's existing facilities, which has the consequence of significantly reducing capital intensity. Through this collaboration, Nickel Mines is saving on capital expenditure that would typically be spent on supporting infrastructure and site preparation.

Nickel price tailwinds

Nickel prices have been on the rise lately, gaining 15% in the past month. Additionally, resolution in US-Sino trade relations would likely fuel further increase in the price of nickel, provided that the Chinese or global economy doesn't experience an unexpected slowdown.

Innovations in battery technology have been predicted to be long-term drivers of the nickel price in the future, with nickel metal hydride batteries having applications in electric vehicles.

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The Motley Fool Australia, PO Box 4635, Ashmore, Qld 4214