Investors wary of more cost blowouts on lithium deal

Thompson, Brad . The Australian Financial Review ; Melbourne [Melbourne]24 May 2019: 20.

FULL TEXT

Wesfarmers has sparked concerns among some investors about cost blowouts associated with its push into battery metals mining and processing after taking a big step forward in its $776 million takeover of lithium play Kidman Resources.

The Rob Scott-led Wesfarmers is on track to complete the takeover by September but on completing due diligence it has added $100 million to the capital costs it will cover for the development of the Mount Holland lithium mine in Western Australia and a lithium hydroxide plant.

Investors already unconvinced about Mr Scott's plans to diversify into lithium and rare earths, and possibly other battery metals, to gain exposure to growth in electric vehicles, said it might not be the last cost blowout.

Wesfarmers said on Thursday that it had locked in the backing of global lithium giant Sociedad Quimica y Minera de Chile (SQM) in replacing Kidman as SQM's joint venture partner in developing Mount Holland and a 45,000 tonne-a-year lithium hydroxide plant at Kwinana, south of Perth.

Kidman and Wesfarmers have also entered into a scheme implementation deed in relation to the $1.90 a share bid unveiled by Wesfarmers on May 2.

Three weeks ago Wesfarmers said it would commit $600 million for its share of capital expenditure in developing Mount Holland and the lithium hydroxide plant alongside SQM. But that has jumped to $700 million, taking its total investment to almost $1.5 billion.

Clime Investment Management senior analyst David Walker said the additional $100 million Wesfarmers had committed to capital expenditure as part of the Kidman deal might be a sign of things to come.

"It is more likely to blow out than go down," he said. "However, this is a very long-term play, a multi-decade play involving growth in electric vehicles.

"The wider question is whether lithium is the right commodity in the first place. I'm not saying it isn't, but yesterday BHP in their strategy update said they weren't pursuing lithium. They [BHP] are pursuing copper and cobalt. They think lithium will be over supplied."

Wesfarmers intends to take advantage of its chemical processing expertise and infrastructure at Kwinana in developing the lithium hydroxide plant with SQM. The $42 billion conglomerate would also look to build a first-stage rare earths processing plant at Kwinana if successful in its takeover tilt at Lynas Corporation.

Wesfarmers is considering its next move on the $1.5 billion bid for Lynas, which was pitched at $2.25 a share on March 26. The Lynas share price has climbed to $2.44 this week even without Malaysia providing certainty on an operating licence renewal for its Kuantan processing hub, a condition of the Wesfarmers bid.

The Kidman takeover will link Wesfarmers to Elon Musk and Tesla through a binding off-take agreement already in place with Kidman to supply the electric vehicle maker with lithium hydroxide. In addition to the three-year, fixed-price binding off-take agreement with Tesla, Kidman has non-binding off-take agreements with LG Chem and Mitsui.

Kidman said on Thursday that its board and advisers had concluded the Wesfarmers bid was in the best interests of shareholders, who will vote on the offer in August.

Along with the Kidman board and SQM, Wesfarmers has already secured the support of major Kidman

shareholders, including the RAMS Home Loans-founding Kinghorn family and ASX-listed nickel miner Western Areas.

"This is an important milestone in advancing a transaction that provides Wesfarmers with an attractive investment and delivers Kidman shareholders with a compelling premium and certain cash return," Mr Scott said.

Wesfarmers also said it had entered into a commitment deed with SQM which effectively shuts down talk of a rival bid for Kidman. As part of the commitment deed, SQM has agreed not to enter into discussions with any party proposing to make an alternative offer for Kidman.

The Wesfarmers share price rose 1.6 per cent to $37.70 on Thursday, with Kidman up slightly to $1.90.

CREDIT: Brad Thompson

DETAILS

Subject:	Stockholders; Growth rate; Electric vehicles; Lithium; Capital costs
Location:	Malaysia Western Australia Australia
People:	Musk, Elon
Company / organization:	Name: Sociedad Quimica y Minera de Chile; NAICS: 325314
Publication title:	The Australian Financial Review; Melbourne
First page:	20
Publication year:	2019
Publication date:	May 24, 2019
Section:	Companies and Markets
Publisher:	Fairfax Media Publications Pty Limited
Place of publication:	Melbourne
Country of publication:	Australia, Melbourne
Publication subject:	Business And Economics--Public Finance, Taxation
ISSN:	04042018
Source type:	Newspapers
Language of publication:	English
Document type:	News
ProQuest document ID:	2229175704
Document URL:	http://ezproxy.library.usyd.edu.au/login?url=https://search.proquest.com/docview/2229175704?accountid=14757