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Investment Ideas

Nickel: Philippine supply uncertainty offers opportunity

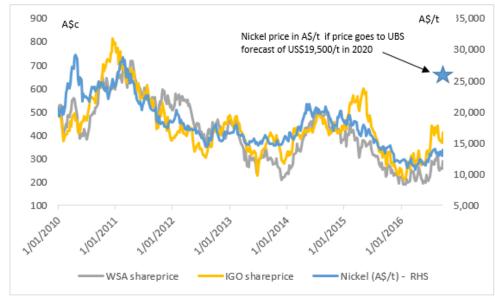
Press reports indicate that - on the back of environmental issues - the Philippines government has shut down 11 mines in the country, with 20 facing suspension. The country has 41 metallic mines, mostly nickel, along with copper and gold operations. The potential impact on the global nickel supply (and Ni price) could be significant. In 2015, the Philippines was the world's number one producer (of primary nickel) accounting for some 21% of global supply.

Primary nickel supply by country

Nickel production and reserves 2015E				Producing nations are relatively well
Country	Production	Reserves	Reserve	spread around the World – also allowing for a competitive market Top five nickel producing countries responsible for 56% of global output The Philippines (#1 producer) may drop out of the top five producing nations when its reserve are depleted Based on current reserves there is significant growth potential in: Australia Russia New Caledonia Brazil
-	tons	tons	years	
Philippines	530,000	3,100,000	5.8	
Russia	240,000	7,900,000	32.9	
Canada	240,000	2,900,000	12.1	
Australia	234,000	19,000,000	81.2	
New Caledonia	190,000	8,400,000	44.2	
Indonesia	170,000	4,500,000	26.5	
Brazil	110,000	10,000,000	90.9	
China	102,000	3,000,000	29.4	
Cuba	57,000	5,500,000	96.5	
South Africa	53,000	3,700,000	69.8	
Other countries	608,500	11,160,000	18.3	
World total	2,534,500	79,160,000	31.2	

Source: BME Original Source: USGS

Ni price (A\$/t) versus WSA and IGO share price (2010-Present)



Source: IRESS, compiled by State One Stockbroking

We note that UBS is forecasting a Ni price of +US\$11,000/t in 2017,+US\$13,000 in 2018, and +US\$19,500/t in 2020.Note: Current spot price is US\$10,500/t

US\$19,500/t @ *the current* exchange rate = a Ni price of $\sim A$26,000/t$.

At this price level, and based on the historical Ni price/share price relationship, we suggest that Ni-producers' Western Areas and Independence Group share prices could trade over A\$6.00.



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