THE AUSTRALIAN

Hastings may yet be a rare treat

CRITERION THE AUSTRALIAN SEPTEMBER 05, 2012 12:17PM

AS more advanced rare-earths plays run into obstacles, WA junior Hastings is challenging the deepening view that the boom in these exotic metals has run its race.

On the back of a scoping study, Hastings (HAS, 13.5c) today declared a "strong business case" for its eponymous project in the Kimberley region, based on an open-cut facility producing 10,000 tonnes of rare-earth oxides and rare-metal oxides over 25 years.

"The strong demand and supply shortage projected for heavy reare earths is highly opportune for the project," Hastings says. "Heavy rare earths, such as dysprosium and yttrium, both on the US Department of Energy's critical list, represent the majority of the projected revenue."

Based on the current prices for these magical industrial ingredients, the study cites a net present value for the project of $US1.9bn. The clincher is the project would cost $720m, plus another $96m contingency.

Unlike with common-and -garden iron ore, the Chinese (which account for 95 per cent of rare-earths production) are cutting back exports and stockpiling. And it wasn't too long ago they were capturing Japanese fishing boats in a high-seas dispute relating to rare-earths access.

In July, Alkane Resources (ALK, 89c) struck a deal to supply Japan's Shin-Etsu Chemical with rare earths from its planned $900 million zirconia, niobium and rare earths project near Dubbo in NSW.

Alkane also has useful sideline in gold, having received NSW government assent for its 812,00 ounce Tomingley mine, also near Dubbo.

Investors have to be wary about treating the sector as a whole because there are light rare earths (the stuff Lynas Corp plans to produce) and the heavy variety which is meant to be even rarer than the light material.

In the wake of the sector's strong run, some experts believe both varieties are not as rare as the proponents want to believe.

"The rare-earth boom has ended," trumpets New York investment bank Hallgarten & Co in a recent report.

"We see the rare-earth element world being winnowed of its chaff over the next year, with companies repurposing themselves in droves."

Meanwhile there's deafening silence from Lynas (LYC, 57c) on whether they've heard from the Malaysian government on securing an operating licence for its environmentally-contentious processing facility.

Lynas is fast approaching D-Day with a convertible bond maturing on October 15.

If the licence hasn't been granted by then, the bonds are converted at 20 per cent above the weighted price over the ensuing month, rather than $1.25 a share if the permit has been granted.

Given the shares have plunged to 57c, this means more dilution.

While we gather the company's heard nothing from the Malaysians, chairman Nick Curtis last week was supremely confident of a resolution.

"I am eagerly anticipating the commencement of operations at the (facility) and being able to supply our customers with product later this year," he said.

Given the time delay in shipping the stockpiled material from Lynas' Mt Weld mine in Western Australia, that means the permit must be issued tout de suite if that time frame is to be met.

Our "spec buy" call on Hastings at 35c in March last year looks a bit sickly, but true believers should hold for a rare treat.