

Philequity Corner (November 22, 2010)

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What is Nickel?

Today, Nickel Asia Corporation (PSE Code: NIKL) is listing its shares in the Philippine Stock Exchange. The company is the largest nickel mining company in the country and ranks sixth in the world. The domestic demand for the company's shares was so high such that the offered shares were several times oversubscribed. Nevertheless, it remains to be seen how it will perform today in its debut.

As part of our ongoing effort to educate the investing public, we shall highlight the merits of investing in nickel. In the simplest way possible, we shall give an overview of the dynamics surrounding an investment in nickel.

Nickel Basics

Nickel is a silvery white metal with a high melting point relative to other metals. Because of its hardness and resistance to corrosion, nickel is principally used as an alloy in the manufacture of stainless steel. As most of us are aware, the use of stainless steel is very common. From the wrist watches we wear and the cook wares in our homes to structural buildings and automobiles, stainless steel has diverse applications.

There are generally two types of nickel ore: sulphide and laterite. As the resources of sulphide ores are fast depleting, there is a growing trend to exploit laterite ores for the production of pure nickel. Fortunately, the Philippines is one of the major sources of laterite deposits in the world. With an estimate of 900 million tonnes, the Philippines accounts for a substantial portion of the world's total nickel reserve. With such an abundant supply base in the country, the opportunities for nickel mining are very promising.

Supply and Demand

The Philippines competes with Indonesia to supply nickel ore and concentrates to China and Japan. Combined, Indonesia and the Philippines account for 95% of the world's nickel exports. On the receiving end, China and Japan corner 90% of the world's nickel imports. Our proximity to these two industrial stalwarts makes us competitive.

Top Buyers and Sellers of Laterite Nickel (2009)

Top Importers of Nickel ('000 WMT)		
China	16,576	73.9%
Japan	3,586	16.0%
South Korea	1,232	5.5%
Rest of world	1,047	4.7%
	22,441	100%

Top Exporters of Nickel ('000 WMT)		
Indonesia	10,437	51.8%
Philippines	8,665	43.0%
Australia	397	2.0%
Rest of world	643	3.2%
	20,142	100%

Sensitivity to World Prices

The price at which nickel revenues are based and transacted is determined by the London Metal Exchange (LME). It is an exchange much like the PSE, but instead of stocks, it is a marketplace for metals. And similar to the share price movement in the PSE, metal prices, being sensitive to world events, move variably from day to day. Dramatic change in prices may mean a lot to a mining company. If the price is in an upward trend, it means a surge in profitability for mining companies. A trend reversal, on the other hand, may mean heavy losses or even a closure of their mining operations.

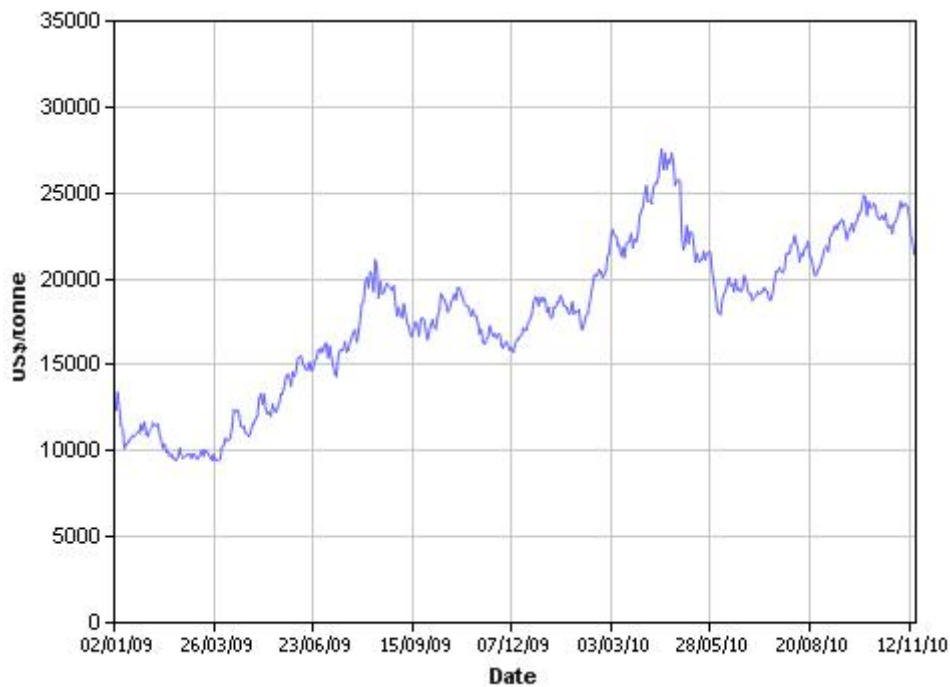
Positive Outlook

As it continues to grow at a pace faster than most economies in the world, China's increasing population and rapid urbanization mean a sustainable demand for more structural developments. As a result, the demand for industrial metals such as nickel and copper continue to exert an upward pressure on the prices of industrial metals. The table below shows how the prices of metals behaved since the start of the year.

Base Metal Prices			
<i>in US\$/MT</i>	Jan 1, 2010	Latest	Return
Aluminum	1,990	2,210	+11.1%
Copper	7,504	8,360	+11.4%
Lead	2,485	2,335	-6.0%
Nickel	18,975	21,550	+13.6%
Tin	17,550	25,400	+44.7%
Zinc	2,608	2,165	-17.0%

Aside from the continued demand from China, base metals such as nickel stand to benefit from the further weakening of the US dollar. The second round of quantitative easing (or QE2) in the US essentially means that the Federal Reserve will print more money, thereby resulting to the inflation of commodities prices. Nickel, along with other metals, stands to benefit from this scenario.

LME Nickel Price



New Dimension

The listing of Nickel Asia adds another dimension for investors to engage in a different base metal stock. Most of the mining companies listed in the PSE are in their exploration stage, which means that the gestation period may take several years before commercial operations begin. Nickel Asia is one of the few listed nickel mining company in production and is presently earning profits. Unlike other domestic nickel miners that rely on direct shipping, Nickel Asia is the only nickel mining company complemented by a downstream processing facility, the world-class Coral Bay plant in Palawan, which purchases all of its ore requirements from Nickel Asia's Rio Tuba mine. By 2013, the company's second downstream processing plant will be completed and will purchase its ore requirements from another one of Nickel Asia's mines, the Taganito mine in Surigao del Norte. At a project cost of US\$1.3 billion, this second plant, which will be 22.5% owned by Nickel Asia, will represent the single largest investment in the Philippine minerals sector to date.

In a subsequent article, we will feature copper and gold to complete the series on metal mining companies.

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