

AM Insight: Viewing global lithium resources change from Rockwood acquiring Talison

BEIJING (Asian Metal) 29 Aug 12 - Talison Lithium Limited announced on August 23 2012 that it has entered into a definitive Scheme Implementation Agreement with Rockwood Holdings, Inc. or a wholly-owned entity of Rockwood, will acquire 100% of the ordinary shares in the capital of Talison by way of a Scheme of Arrangement under the Australian Corporations Act 2001 for cash consideration of C\$6.50 per share. This values the equity of Talison at approximately C\$724 million on a fully diluted basis.

It is a merger between one of the three lithium chemical products giants and the biggest lithium concentrates producer, so the piece of news drew much attention once it was released. Many market insiders are shocked by the explosive news. We know that Talison just finished its expansion of lithium concentrates in early June with this expansion can produce 700,000 tonnes of lithium concentrates per year, which is double in 2012 compared to 2011. Talison is continuing to advance its plan to develop a plant to convert lithium concentrate into lithium carbonate. They have a location selected in the Kwinana industrial Area. The planned capacity for stage one is production of 20,000t per annum lithium carbonate. They are targeting production of lithium carbonate from stage one to commence in 2015.

Asian Metal learned that output of lithium products was 45,000t, 22,000t and 20,000t of SQM, Rockwood and FMC respectively in 2011 and that total lithium output was 40,000t in China in 2011 based on statistics from Asian Metal. SQM, Rockwood and FMC are three giants in the industry, accounting for about 70% of lithium products output globally. Asian Metal estimates that Rockwood and Talison will take nearly 50% of global market shares through this merger.

Product of SQM and Chemetall strengthens in high lithium density and quick evaporation

rate as well as available solar energy during production process with their production sites located in Salar de Atacama, Chile. In addition, Chemetall produces lithium through bittern in Silver Peak, Nevada.

FMC produces lithium from the reservation of bittern through filter process that is faster but expansive than other processes in Salar de Hombre Muerto, Argentina .

Market insiders reported that it is difficult for Rockwood to expand production significantly due to restriction of salt lake acreage. Spodumene capacity expansion and plan of producing lithium carbonate of Talison will lay a root for Rockwood to produce downstream products while Rockwood can provide financial support for Talison to establish lithium carbonate plants, which will benefit the two parties in the long run.

Although there exists spodumene and lepidolite in Sichuan and Jiangxi, and salt lakes is exploited in Qinghai and Tibet, the output of lithium concentrates is less than 100,000t in China in 2011 and output of lithium products extracted from brine is low too. SQM, Rockwood and FMC all abstract lithium from salt lakes. The acquisition enables Rockwood to set foot in abstraction from ores. Doubtlessly, lithium market resources will be more concentrated and the three giants will have more pricing rights in the industry after the acquisition. Chinese producers like Tianqi and General Lithium, abstracting lithium from ores mainly purchase lithium concentrates from Talison. Does it mean that lithium price will hike in the near future?

Asian Metal learns that SQM is expanding its capacity with an aim to produce 48,000t and 55,000t of lithium products in 2012 and 2013 respectively. Meanwhile, Tianqi is also expanding capacity by increasing its capacity of battery grade lithium carbonate by another 5,000t from current 5,000t. New capacity will be put into production in October.

In addition, Galaxy can produce 17,000t of lithium carbonate per year and the company is producing technical grade lithium carbonate with an output of 200t per month for the time being. Ganfeng also has a plan to expand output.

At present, global consumption of lithium carbonate was 125,000t in 2011 and it is estimated to increase by 20% with optimistic estimate in 2012 due to the current economic slowdown.

Moreover, spodumene capacity has been doubled in Talison and it is foreseen that the company will continue to increase output of lithium concentrates before lithium carbonate capacity is put into operation, guaranteeing steady supply for Chinese market. Therefore, capacity exceeds demand in lithium market in the short run. Asian Metal believes that the acquisition will not impact lithium market significantly in the short term and the market will remain under oligopoly with stable price. In the long run, the market is full of variable.