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Sierra on stand by

With mineral sands prices in a trough, Sierra Rutile Holdings Ltd has chosen to bide its time, storing existing stockpiles and delaying the start of development at its Sembehun project in Sierra Leone.

In the September quarter, Sierra Rutile chose to warehouse 8,000t of standard grade rutile (SGR) from its Area 1 operations in the West African country rather than selling it at weaker market prices and is also slowing its growth options while it awaits price improvements.

Sierra Rutile finance director Martin Alciaturi said while natural rutile attracted premium pricing in strong markets, the same couldn't be said under weaker conditions.

"In a strong market, people value the efficiency of using the best possible product, there's less waste, less carbon," he told **Paydirt**. "But at the moment in the pigment market, things are soft and pricing is not as good as it could be. So, rather than accept poor pricing for large volumes, we decided to warehouse some product."

"That's why we elected not to sell the 8,000t of SGR at whatever price we could get because there's no need for us to do so. We're taking a view that prices will improve, so we'll warehouse that for a while.

"There's obviously only so long that you can produce and place it in a warehouse, but we're happy to do that for this little period, as sales volumes are expected to normalise in Q4."

Sierra Rutile is currently mining at its Area 1 operation with 27,000t of rutile produced during the third quarter. The company sold 11,000t of rutile during the period at prices of $1,268/t FOB.

Alciaturi said the weaker pigment market conditions were also a contributing factor in deciding to place its Mogbwemo tailings project on hold. However, the main trigger for pausing Mogbwemo was uncertainties regarding the Sierra Leone Government's Third Amendment Agreement on tax concessions for Area 1.

The company was planning to drain the Mogbwemo pond and mine the tailings to supplement the mineral separation plant's feed. The move was expected to deliver reduced operating costs as well as increase the mine life of Area 1.

"We are not prepared to commit significant, $US20 million, capex to that [Mogbwemo] if there's continuing uncertainty about the fiscal regime," Alciaturi said. "Obviously we hope the uncertainty is resolved very soon."

With the mine life at Area 1 coming to an end, Sierra Rutile is pinning its future hopes to its Sembehun project, just north of Area 1.

The company is in the final stages of its DFS on the project with its release expected imminently.

"We are getting right to the business end of it," Alciaturi said. "The very last bits of these things are peer reviews and write ups, so a lot of the actual substance is already well understood at a technical level.

"What we are working on now is the cost structure. At the moment, we expect the capex to be broadly in line with the PFS, which is quite unusual in today's market with widespread cost inflation."

The PFS outlined a post-tax NPV of $US318 million for Sembehun with an IRR of 24%. The mine life sits at 13 years with total pre-production capital costs estimated at $US337 million.

Unlike Area 1, which has been mined for 50 years, Alciaturi said Sembehun had never been mined.

"The remaining deposits at Area 1 are scattered while at Sembehun there is over 170mt more or less in one big block," he said.

"From a mining efficiency point of view, it's condensed much better and you've also got brand new equipment, so your downtime for maintenance is less.

"Over the next year, we will complete the DFS for Sembehun and hopefully finance Sembehun, reach an FID and commence construction, which is a 2.5-year exercise. It will be absolutely game-changing for the company."

As for the rutile market, Alciaturi said it was subject to cycles and he expected an upturn shortly.

"In the long term the future is so bright, you have to wear shades," he said.

"We currently produce about a quarter of the world's natural rutile. If we continue at our current rate and everyone else just does what they're doing or closes down, as they're expected to, one quarter will become one third very quickly."

– Yvette Ogilvie