STOCKS DOWN UNDER

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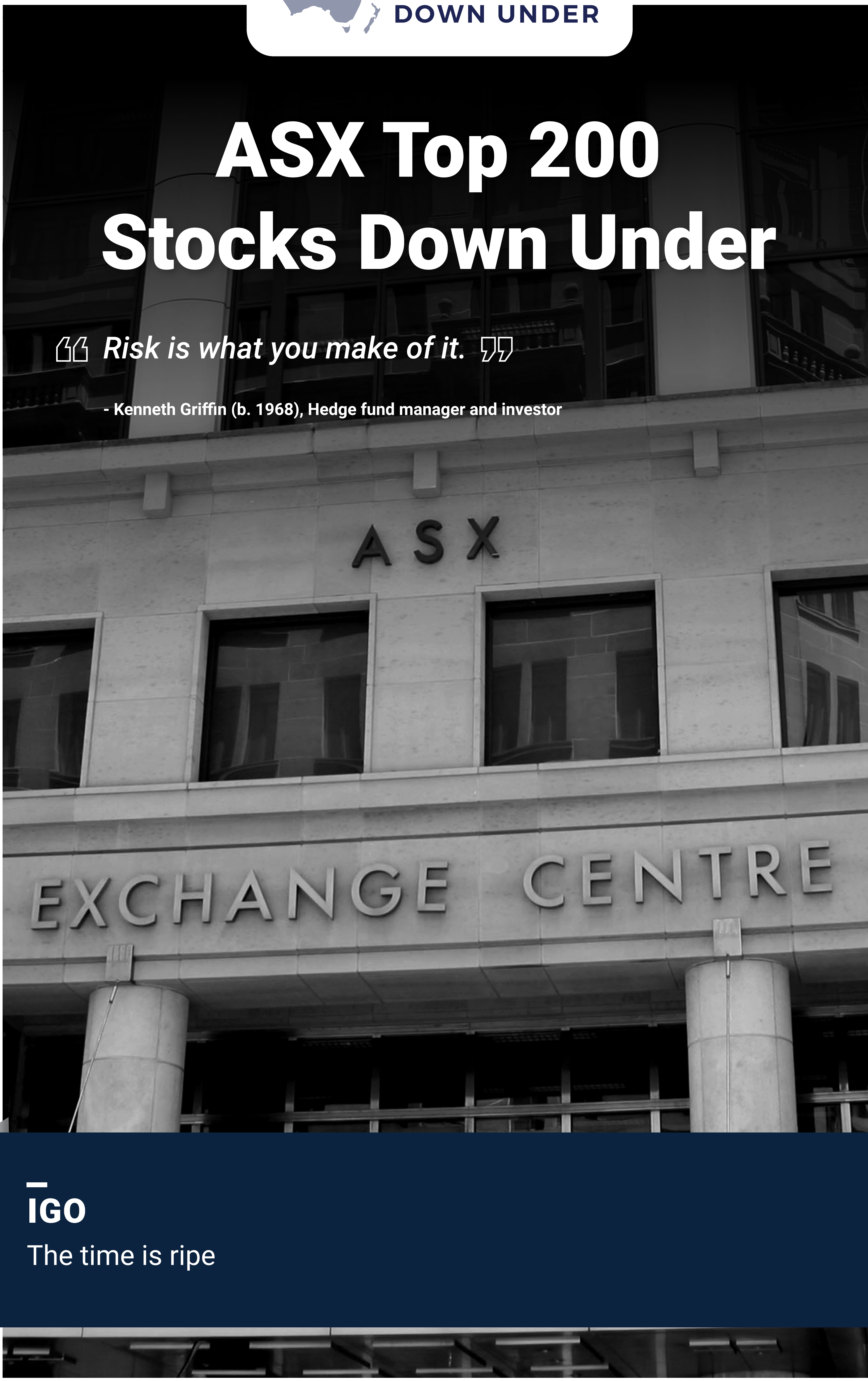
ASX Top 200 Stocks Down Under

Risk is what you make of it.

- Kenneth Griffin (b. 1968), Hedge fund manager and investor



IGO

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Stocks Down Under rating: ★★★★

ASX: IGO
Market cap: A$12BN

52-week range: A$9.23 / A$17.32
Share price: A$15.05

If you don't know about how important battery metals are going to be, you've probably been on Planet Mars for a few years. You may not know just how bad the shortfall is – you need lithium supply to go up several times in the next 10 years as EV demand grows. You may also be unaware that there aren't many ways to gain exposure on the ASX in the immediate term. Most ASX lithium companies are developing projects that they hope will come online in the next 3-5 years, by which time it could be too late. There is little choice for investors wanting a company that has immediate exposure, but IGO (ASX: IGO) is one of them.

Share price chart

Source: Tradingview

Increasing exposure to battery nickels

IGO was listed on the ASX as Independence Group in 2002 and was small cap minnow at just 20c a share in those days. Today it is an ASX100 giant having grown through the development of several major resources projects in its history. It has both discovered new assets and taken over prospective assets and taken them to the next level.

The most prominent example was the Tropicana gold mine that IGO discovered in 2005 (with AngloGold Ashanti) and sold its 30% stake to Regis Resources in April last year as it sought to focus exclusively on battery metals. Other offloaded projects include the Long nickel mine and Jaguar zinc mine.

Lithium is exciting, but don't forget about nickel

The company has two divisions, Nickel and Lithium, and it has three nickel projects in production. IGO's nickel projects include Cosmos, Nova-Bollinger and the Forrestania nickel project – all of which are in WA. Nova-Bollinger came into IGO's hands in 2015 when it bought Sirius Resources while the other two were only acquired in June 2022 after the acquisition of Western Areas.

It is easy to forget that nickel is also an important battery metal. But the company is seeing the light as it continues to produce from its existing projects. We note that Nova is the lowest cost nickel operation in Australia at A$1.95/lb. IGO has a further dozen projects it is developing with the most prominent being the Greenbushes lithium project along with the Kwinana Refinery. It is Greenbushes and Kwinana that will drive the company going forward.

IGO has a 25% stake in Greenbushes and a 49% stake in Kwinana, buying these assets at the end of 2020 from China's Tianqi Lithium Corporation. Tianqi retains a 51% stake in the plant and a 26% stake in Greenbushes, with the remaining 49% of Greenbushes owned by American battery metals giant Albemarle, which is building its own lithium plant in WA.

Greenbushes lies just 90km from the Port of Bunbury and has produced lithium since 1983. It is the world's largest and highest-grade hard rock lithium operation and is responsible for 38% of global hard rock lithium output and 22% of all lithium output (both hard rock and brine). IGO predicts that it can support another 21 years of mine life with an average of 9.5Mtpa (million tonnes per annum) with further discoveries at the project.

A solid past and short-term future awaits

In FY22, IGO made $903m in revenue (up 34%), $717m in EBITDA (up 51%, a company record for the fourth straight year) and a $331m NPAT (down 40% due to an after-tax gain on the sale of Tropicana). It paid a dividend of 10c per share, representing a <1% yield. The company's performance was due to strong nickel and lithium prices along with the maiden earnings contribution from its joint venture with Tianqi (Tianqi Lithium Energy Australia or TLEA).

Although IGO has not provided bottom line guidance, it estimates 1,350-1,450kt of spodumene concentrate (up 19-27% from FY22). It is expecting a big rise in capex from $177m to $420-$480m although cost of goods sold (excluding royalties) is expected to be stable or will only moderately increase. The company has secured offtake of 100% of concentrate production although it is worth noting that prices are reviewed twice annually, taking into account data from three price reporting agencies (Benchmark, Fastmarkets and Asian Metal).

Consensus estimates for FY23 call for $1.1bn in revenue and $1.8bn in EBITDA, up 23% and 149%. It is unusual for EBITDA to be larger than revenue – but it reflects the Western Areas acquisition. But from FY24 to FY26, revenue is expected to be flat while EBITDA is expected to slowly decline to $1bn by FY26. The company is trading at just 7.3x EV/EBITDA and 8.3x P/E.

A bright future ahead

Returning to the current fiscal year, the company's priorities for FY23 include the assessment of further nickel and lithium upside at Forrestania and Cosmos, to reduce emissions from Nova by completing a new solar farm, battery storage and to trial electric vehicles.

For Greenbushes and Kwinana, IGO plans to continue to ramp up production and construction of later stages. And, of course, the demand for battery metals will continue to rise. So, there is plenty to look forward to in the months and years ahead. And while other ASX lithium companies may have projects enter production in the medium term, we believe it will be a difficult feat to take IGO's place.

One thing to be aware of is that the company is without a permanent CEO after Peter Bradford passed away back in October. The acting CEO is Matt Dusci who served as Chief Operating Officer for nearly five years prior to stepping into the hot seat. The board is conducting a search for a permanent CEO and has promised it will consider internal and external candidates.

Investors should also be aware that even though lithium prices have skyrocketed as of late, they could correct in the medium term and this might affect IGO's share price. Finally, we remind our readers that the company recorded a very low dividend yield, so investors buying stocks for dividends should look elsewhere. But considering the quality of IGO's assets, its track record and the demand for EVs, we think this company is a four-star opportunity.

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