HD **Nickel region on edge**

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AS a lifelong resident, Kambalda's Mal Cullen has watched the fortunes of the town wax and wane in line with the price of nickel.

The residents of Kambalda, in Western Australia's Goldfields, have become accustomed to the volatility of the nickel price and the impact it can have on their lives. But just as the nickel price appeared to be starting to emerge from years in the doldrums, BHP's decision to get rid of its assets in the region has brought a new level of uncertainty to the town.

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BHP surprised the market when it opted to exclude its Nickel West division from the spin-off it announced this week, with BHP chief executive Andrew Mackenzie instead saying the group would push ahead with a long-running trade **sale** that is yet to flush out a deal. The assets were deemed to be too mature and too marginal to be lumbered into the spin-off. The failure to find a new owner so far, coupled with their exclusion from the spin-off, leaves the assets looking like the orphan that nobody wants.

For the people of Kambalda and the smaller nickel miners that feed **ore** into the Nickel West concentrator and smelter, the idea the **operations** could be shut down altogether is difficult to comprehend.

"It would be a worry because there are 1000-odd people that work at the smelter, and then you've got the concentrator in Kambalda," Cullen tells The Weekend Australian.

"It would have a pretty dramatic impact on the whole region, not just Kambalda."

The uncertainty around Nickel West's future comes on the back of what he says have been a "grim" few years for the town. Nickel miners in the region have been making big cost cuts in an effort to remain profitable. House prices have fallen by more than 30 per cent, a number of once-thriving sporting clubs have folded while others are struggling to survive.

The volatility of swinging nickel prices has become a part of life in the town.

"People do adapt to the uncertainty, and we're lucky in a way that there are some other mines in the vicinity," Cullen says.

"There's some mines north of Coolgardie that have just opened up and that's taken up a bit of the slack, but people definitely feel uncertain in a downturn. There have been quite a few people who have left the region."

Whether even more people end up leaving depends on whether BHP can finally find a buyer. So far, however, the **sale** process appears stalled.

Despite BHP's public statements about the maturity and poor profitability of the business, its price expectations for Nickel West is said to be well in excess of the offers it has received to date.

The lingering uncertainty of the sales process, coupled with fears of a nightmare scenario under which the concentrator and smelter are closed, has taken some of the shine off what should be a time of new-found optimism in the town.

Nickel prices are finally rebounding, thanks to Indonesia's decision to ban the export of cheap nickel ores. Sirius Resources' exciting Nova nickel discovery has reinforced the prospectivity of the area and inspired more exploration.

Leigh Junk lived in Kambalda from 1998 to 2006 as he and brother Ian built their successful Donegal Resources nickel mining business.

He says Kambalda has been through plenty of challenging periods and has always come out the other side, noting that WMC's own moves in the early 2000s to sell off some of its smaller mines had actually reinvigorated the region.

"When WMC exited, that was quite an uncertain time for the town. But out of that came opportunity, a lot of other companies came in and it actually breathed new life into the town," Junk says.

"Kambalda has faced real periods of uncertainty, but there's been a lot of nickel mined there and there's a lot more still to mine. It will withstand it."

The now unloved Nickel West assets have themselves been massive profit generators in the not too distant past.

It was brought into BHP through the 2005 acquisition of WMC Resources. The massive Olympic Dam copper-gold-uranium mine in South Australia was the catalyst for BHP's move on WMC, but a subsequent nickel price surge meant Nickel West suddenly became a major profit source.

In the first three years post the WMC deal, BHP's nickel division generated just under $8 billion in earnings before interest, taxation, depreciation and amortisation, all but paying for the $9.2bn WMC acquisition on their own.

For all BHP's rhetoric about the "four pillars" of its business — namely iron ore, copper, petroleum and coal — the reality in 2007 was that nickel outperformed almost all of them. Buoyed by a record high nickel price, the assets that year generated almost $US4bn in EBITDA, second only to copper as the mining giant's biggest source of income.

More recently, however, the story has been very different. Over the past two years the Nickel West assets have generated a combined pre-interest and tax loss of $US522 million.

It's those recent losses, coupled with the estimated $1.5bn in rehabilitation liabilities sitting over the business, which perhaps explain the reluctance of interested parties to make an offer that meets BHP's expectations.

One nickel executive who has been watching the sales process closely says that while the sales process is "in a fragile spot", he expects a deal will be done.

A decisive factor, he says, could be BHP's "moral conscience" given the number of smaller nickel mining companies that rely on the concentrator and smelter. Shutting down the operation would hurt those other miners and damage the company's reputation in the eyes of the state government.

There's also a practical reason for BHP to revise its price expectations rather than shut the business down. Closing and restarting smelters is a costly business.

"Once they shut it, the value diminishes terribly. It goes negative very, very quickly," the executive says. "They're better off reducing their expectations on price and getting the majors back in there."

To date, commodities trading giants Glencore and Trafigura and China's biggest nickel company, Jinchuan, have been touted as interested parties.

There's also the more remote possibility of some sort of coalition of smaller nickel miners joining forces and taking ownership of the facilities.

"The secret here is how urgently do BHP want to bail out," Cullen says. "If it's a fire sale at the right price, they might find a consortium of some sort to take it on, or you might find a Chinese producer willing to step in. You can only hope for the best."

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