Iluka Resources Limited (ILKAF) Q2 2024 Earnings Call Transcript

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Body

Iluka ***Resources*** Limited (ILKAF)

Q2 2024 Earnings Conference Call

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Company Participants

Tom O'Leary - Managing Director and Chief Executive Officer

Adele Stratton - Chief Financial Officer and Head of Development

Matthew Blackwell - Head of Major Projects and Marketing

Conference Call Participants

Rahul Anand - Morgan Stanley

Paul Young - Goldman Sachs

Chen Jing - Bank of America

Al Harvey - JPMorgan

Paul McTaggart - Citigroup

Austin Yun - Macquarie

Glyn Lawcock - Barrenjoey

Presentation

Operator

Good day, and thank you for standing by. Welcome to the ***Iluka*** ***Resources*** 2024 Half-Year Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Tom O'Leary, CEO and Managing Director. Please go ahead.

Tom O'Leary

Good morning, and with me are Adele Stratton, Matt Blackwell and Luke Woodgate. Thank you for joining us. The results released this morning reflect the information we provided in the June quarterly. That said, I'm mindful our results do not include a substantive update on the company's rare earths business. I know shareholders are awaiting an update, so I think it's appropriate that I commence with our status there, noting I remain limited in the information I can share at this stage.

We will provide a comprehensive update, including on capital structure, as soon as we can, but in any event, before the year end. The Eneabba refinery will be a critical piece of infrastructure for both national security and the energy transition. It's an archetypal project for the delivery of Western and like-minded policy initiatives in these areas. ***Iluka*** has a critical building block in the 1 million ton stockpile ready and waiting to be processed at Eneabba, and this will see operations through to the early 2030s with no new FEED sources required. It is a unique offering globally.

I've noted many times before, the risks and opportunities that this investment presents. I've also been clear that ***Iluka*** requires an appropriate risk-sharing partnership with the Australian government in order to continue the refinery development. I'm acutely aware of shareholder antipathy toward the uncertainty created by the delay and toward significant further spend in the context of that uncertainty.

Discussions with the government are very well advanced, but I don't propose to provide a commentary beyond that. To do so would be inappropriate in the context of the confidentiality of those discussions. I will say, though, that the Australian government, our strategic partner, understands ***Iluka***'s position regarding risk-sharing and also understands the merits of the Eneabba refinery, which is central to its critical minerals policy objectives.

As I've said before, I know shareholders' patience is limited and we are doing all in our power to deliver certainty. While I remain positive on the prospects of an appropriate risk-sharing funding arrangement with the Australian government being reached, I acknowledge these things are not done until they'***re*** done. We look forward to being in a position to say much more in due course. And finally, shareholders have rightly sought guidance as to our rare earth plans in the absence of a Commonwealth funding arrangement. Should it be required, that's a matter I'll leave entirely for the coming update.

Turning to our mineral sands markets, global economic uncertainty has continued to weigh on sentiment and activity affecting sales volumes. Zircon sand sales in the first-half were 108,000 tons, with an additional 25,000 tons of concentrate sold. While ***Iluka*** has reduced its exposure to the Chinese ceramic sector, the subdued real estate market is a general headwind. Sales to industrial applications are more stable, including in the U.S. and Europe where energy prices have eased.

Iluka, and pleasingly, the industry more broadly, has maintained discipline and prices for ***Iluka***'s zircon products are relatively strong and stable. In the context of a demand environment that is generally subdued, that's not an insignificant outcome. ***Iluka*** has a higher degree of revenue certainty for our high grade titanium feedstock sales with the 200,000 tons per annum of take-or-pay contracts we have in place for synthetic rutile.

We have provided some additional information both in our June quarterly and in our results today on recent developments in the titanium pigment market that have the potential to substantially impact industry dynamics, including closure of some high-cost facilities, further consolidation and increased protection of markets behind tariff barriers. Many of you would have seen the announcement in June by the European Commission imposing provisional antidumping duties on titanium pigment from China in the range of 14% to 40%. For what until recently has been a highly cyclical industry, these protections, coupled with existing U.S. tariffs and ongoing investigations in other jurisdictions, have the potential to further improve the financial health of the industry through economic cycles.

More broadly, based on recent commentary from pigment producers, there is growing optimism for the outlook in 2025. Our swing production asset, SR1, is offline and expected to remain so in 2024 until demand for additional FEED stock is supported by market conditions. We have deliberately retained the capability to return this asset to operation promptly and have built ilmenite concentrate stocks to underpin its operation. Given the evolving dynamics in the pigment industry I've just mentioned, this is strategically important optionality to service our markets.

And with that, Adele, over to you to take us through the results.

Adele Stratton

Thanks, Tom, and good morning everyone. Our operations have continued to run in line with expectations, delivering production for the first six months of 229,000 tons of zircon, rutile, and synthetic rutile. This is consistent with the guidance we provided in February of 455,000 tons for the full-year.

Operating cash flow generated by the mineral sands business in H1 was AUD189 million, self-funding mineral sands capital expenditure of AUD124 million. We have extended and expanded our commercial debt facilities. These now encompass an AUD800 million limit with a renewed five year tenor. We have a net cash position of AUD305 million excluding non-recourse debt.

Reported group net cash position was AUD154 million and that includes the AUD151 million of non-recourse debt drawn from Export Finance Australia. As Tom noted, while the global outlook is uncertain at the moment, ***Iluka*** is very well placed to navigate this period. ***Iluka***'s revenue for the six months was AUD606 million. We generated a healthy EBITDA margin of 42%.

Unit cash costs of production are elevated as a result of building work in progress inventory, with mining at Cataby continuing at full rates, building the ilmenite concentrate Tom mentioned. This distorts the unit cash cost of production metric because it does not flow through to synthetic rutile finished goods in the period. I'd advise looking at the unit cost of goods sold for a more accurate reflection of the earnings impact.

In line with our dividend framework, despite the negative cash flow from our mineral sands business, the interim dividend of AUD0.04 per share passes through the profit from our 20% Deterra Royalties holdings.

And with that summary, Tom, I'll hand back to you.

Tom O'Leary

Thanks, Adele. On major projects, our Balranald development is gathering pace and we've made significant progress this half. You can see the photos on slides 19 and 20 of the pack. The site access road is under construction and earthworks for the future plant site are underway.

Offsite works continuing, including the fabrication of the wet concentrator and the manufacture of the mining rigs. Commissioning is on track for second-half '25, after which Balranald will be an important source of zircon, rutile and FEED for synthetic rutile and rare earths production.

At Eneabba, detailed engineering and procurement activity continues with the majority of long lead items awarded. With bulk earth works complete, site activity from August is focused on civil works to prepare the refinery site for piling and foundations. At our Wimmera development, we'***re*** continuing field work and the environmental assessment process. This project is strategically important to the future of the company as a potentially decades long source of both zircon and rare earths.

And with that, we'll open the line for questions.

Question-and-Answer Session

Operator

Thank you. At this time, we will conduct the question-and-answer session. [Operator Instructions] And our first question comes from the line of Rahul Anand of Morgan Stanley. Your line is now open.

Rahul Anand

Hi. Good morning, Tom, Adele, Matt. Thanks for the call. Look, I won't talk about the refinery because you've said that you'***re*** going to provide an update and you don't want to discuss it in detail today. So perhaps my first question then is on zircon. In the quarterly, you talked about how your exposure to a specific part of the market was down to 16%?

I wanted to understand on zircon specifically. Have you seen the volumes stepping into August this year? And how's your book looking? Have you been able to realign that book a bit, perhaps more towards India as opposed to China, and how you'***re*** thinking about that book going forward? So that's the first question. I'll come back with the second.

Tom O'Leary

Sure, Rahul. Look, I'll hand over to Matt to talk about how the zircon sales are evolving.

Matthew Blackwell

Thanks, Tom. Hi, Rahul. So I'd make two comments there. One, we haven't actually, and we don't talk about what our sales are in a particular month or quarter. We have flagged that the second-half will be subject to -- well, subject to some seasonal challenges, probably in Q4, Q3. And in terms of the run rate or -- sorry, in terms of targeting India. India is a market that when the sort of demand tends to be softer, is a very price-driven market and one where we've had a position, but not one where you would go and chase volume at this time of the market.

So, consistent with our value over volume approach, we'***re*** not aggressively trying to chase share in that particular market. What we did see in Q2 was, Q1 and Q2, as trade flows shifted a bit and India consumed a bit more premium, that created an opportunity in China. China has then taken some of that premium out of other markets. So there may well be an opportunity there in India going forward. But as I said, we'***re*** nothing minded to aggressively pursue that market at this particular juncture.

Rahul Anand

Okay. So the idea is to keep the exposure to China. But then just coming back to that seasonally challenged comment, Matt, typically, it's pretty hard to make a call in terms of zircon sales trajectories from a seasonality perspective. But if I had to generalize it, I would say the end of year volumes are typically slightly better than the third quarter. Is that what you'***re*** hinting there, or is there any sort of other seasonality that we need to be thinking about?

Matthew Blackwell

No, sorry, what I was talking about is, and we've highlighted in our commentary that Q4 is normally the -- it's seasonally softer in terms of zircon demand. And just to clarify, maybe to be clear, we have an exposure to China. We'***re*** more geographically balanced than we were, say, in 2018 or '19. And our exposure to the ceramics industry in China, which is more linked to your tiles and people then might make the link to housing completions and all those sort of things is about 50% of what it was at that time a number of years ago. So much more focused now on the other sectors in China, such as fused zirconia, refractory, foundry, et cetera.

Rahul Anand

Okay, got it. Look, I might take my follow-up on the zircon side offline, perhaps because I was looking at last four years of sales and the last quarter seems to be better than the third in zircon, typically barring '22, which was flattish, or 2021, which was flattish. So maybe I'll take that one offline.

Matt Blackwell

Sure.

Rahul Anand

Look, Matt, the second one was also for you. If I look at SR1 sales at the moment, and obviously there are some trends emerging in terms of tariffs and whatnot, but the sales volumes are down to levels similar to sort of 2020 levels. And from what I remember, 2020 was also a year where you had some issues with defaults on your take-or-pay contracts, which followed legal proceedings.

So I guess one for yourself and Tom. I mean, did you make any changes to your contracts at that point when you had that dispute and your take-or-pay contract party did not take their offtake volumes or is the contract still unchanged? Thanks.

Matthew Blackwell

Rahul, just to clarify, the legal proceedings followed the default and we were very clear that we would defend our position or reserve our rights under those contracts and they have preserved. There have been no changes to those contracts as a result of those discussions at that time. And we'***re*** working very closely with all of our customers in a very collaborative manner to ensure that we all continue to take. And so there's no changes and we'***re*** very confident in those contracts.

Tom O'Leary

Yes. Just to add to that, perhaps, Rahul, the provisions of the contracts haven't been amended. They stood up to intense scrutiny and there's no need to.

Adele Stratton

Yes. And Rahul…

Rahul Anand

Okay, perfect.

Adele Stratton

Rahul, just to add in terms of, we'***re*** quite clear in the commentary that we expect our synthetic rutile sales to be second-half weighted. So, as reiterated throughout, there are 200,000 tons of SR1 sales to be sold in 2024 under those contracts.

Rahul Anand

No, understand that. Thanks for that, Adele, and rest of the team. I'll pass it on.

Operator

Thank you. And our next question comes from the line of Paul Young from Goldman Sachs. Your line is now open.

Paul Young

Hi, Tom, Adele, Matt, I hope you'***re*** all well. Tom, I know you've said that there's no major update on the rare earths refinery today, but we'***re*** still obviously waiting. It's been nine months now, but it does feel like it's in the final stages, because I think your words are that it's in your concluding discussions and also noticing that you stated earthworks will start in August and long lead engineering packages have been awarded.

So if I look at this project, by all means, it's going ahead from everything I can see and look at. So I'm just wondering if you can just expand on the high level points of the discussions. Is it around the percentage sharing of the funding gap or is it more an issue over, say, for example, whether the heavy rare earth circuit should go ahead or not?

Tom O'Leary

No, there's certainly no discussions of whether parts of the circuit might go ahead or not. The heavy rare earths are a critical part of the functionality of the refinery and a key part of the attraction to this proposition for the Australian government and like minders. But, Paul, I would love to be able to share with you some detail about the discussions, but it would really be inappropriate to do so at the moment. So I'm afraid, I'm going to have to pass on that and save it for the broader update.

Paul Young

Yes. Okay. Maybe then a second question, Tom, around the -- just high level around the risk around the project, and for perspective of, first of all, if you look at the CapEx number on this project, potentially on Wimmera, you'll be spending more than your market cap. I know it's non-recourse, but you don't see many companies spending more than their market cap on a greenfields project.

So I guess the first point of observation as well is the CapEx estimate of AUD1.8 billion. When you benchmark it, it does seem to me like a very high number. So I'm hoping that is a high watermark for a perspective that it's been done at the high part of the CapEx cycle, so to speak. And I know that it's a different chemistry route from, say, the likes of Lynas and MP?

But I guess the question I'm getting to, though, is that it's a big CapEx number. It's a big project. Have you considered, and will you consider the need for a JV partner to spread the risk and reduce the risk?

Tom O'Leary

Thanks, Paul. I appreciate the estimate of AUD1.7 billion to AUD1.8 billion is a very large number in absolute terms, in relative terms to our market cap and so on. But that is precisely why we have the strategic partnership with the Commonwealth of Australia to share the risk, which I've been through before on many occasions, that this project and the rare earths business will encounter around market and so on. So to your question about a joint venture partner, we have a strategic partner in the Commonwealth and we'***re*** pretty comfortable with that arrangement and we are not pursuing alternate paths. Yes, that's it.

Paul Young

Okay. All right. That's clear. Thanks, Tom. Just the last one on the offtake. I know you've said that, well, potential offtake, I mean, a little bit cart before the horse. You'***re*** not producing till back in '26, selling probably first-half '27. And I think you've said previously that this is more discussion to bed down in 2025. But just curious around, you've been around the world of various conferences and meeting offtake partners with potential offtake partners in the past six months?

Do you think, just with your work that you've done on this industry, which is evolving very rapidly and is mostly private, it's difficult for investors to really get a deep sort of understanding on the magnet market and how that chain is building out because it's happening rapidly. But do you think there's a deep enough magnet market ex-Japan and also maybe in Japan, considering Lynas has sort of appears to have tied that market up?

Tom O'Leary

Yes. Look, I agree with your comments about it evolving rapidly, but the key point is that it is building. And so I am confident that by '27, as you point out, there is going to be sufficient magnet production in the west. I think there is also interest from both magnet producers, but probably more importantly from end users, particularly in the automotive sector around the offering. The security of supply from western sources is something that is intensely interesting for that EV sector and that gives us some confidence around placing product in time.

Paul Young

Okay, thanks, Tom. Just the last one from me just on Balranald. I know you spent AUD60 million or so in the first-half. I think you guided us to AUD300 million for the year. Just curious around that implies AUD240 million spend in the second-half. I mean, is that possible? Maybe it's a question for Matt just around that project execution and the timing around that spend.

Matthew Blackwell

Yes. Paul, look, we'll spend just a little bit less than AUD300 million a bit -- I mean, this over the course of the year, but we'***re*** on track. We'***re*** making commitments as we need to. Project remains on schedule for that commissioning in the second-half of '25 and works proceeding. So there's lots going on the Balranald project at the moment.

Paul Young

Okay, great. Okay, thanks, Matt. Thanks, Tom. Appreciate it.

Tom O'Leary

Thank you, Paul.

Operator

And our next question comes from the line of Chen Jing from Bank of America. Your line is now open.

Chen Jing

Good morning, Tom and Adele. Just one question from me, please. Just looking at the inventory movement, it seems like you have another six months of positive inventory movement added on top of your EBITDA, which reduce your total cost of goods sold. I remember for FY '23, you also had a AUD173 million of positive inventory added on top of EBITDA. And also on slide 17, you provided inventory level. So appreciate that.

But I'm wondering, you had more sales than production this half. Why the inventory movement is still positive? Should we be expecting the inventory movement to be reversed as negative and when that will happen? Thank you.

Adele Stratton

Yes. No, thanks, Chen. So there's two components to your inventory. So, firstly your work in progress, and then there's your finished goods. And as you rightly say, finished goods have actually come down. So if you look at the total sales compared to the total production in H1, they'***re*** actually down by about 14,000 tons for those valuable zircon rutile and synthetic rutile. But what we've drawn out, Chen, is that the work in progress, so that build of heavy mineral concentrate, particularly at Cataby, has increased in the first-half. So that will go into that positive movement and inventory that you can see.

And what that enables is the build of inventory to around the two synthetic rutile kilns. So we'***re*** building ilmenite concentrate for that synthetic rutile kiln number one. And that's what's really driven the inventory movement in H1. But as you rightly know, as you draw down finished goods and that intermediary product, then that will flow through into the P&L in time.

Chen Jing

Sure. Thanks for that color, Adele. So, just to follow up, you just mentioned the reversal, which will be negative inventory movement from your EBITDA will only happen when you start drawing down the heavy metals concentrate, which is the ilmenite to restart your SR1. Is my understanding, correct?

Adele Stratton

So it will only come through the P&L when you draw down both your finished goods and your HMC for both of them. So if you look on the chart, as you mentioned, it looks like we've built about 200,000 tons of that heavy mineral concentrate in the six months. You can see that on the chart. And as I say, the finished goods is pretty flat really from an inventory level.

Chen Jing

Yes. So even though you have more zircon and rutile sales than you produced, that's not sufficient to reverse the inventory movement. And we have to say, you start to producing or restart to produce SR1, the synthetic rutile, then the inventory movement will be reversed. Is my understanding correct?

Adele Stratton

Yes. So just to be clear, in that heavy mineral concentrate, there's also rutile and zircon. It's a combination of all those products that are built in that intermediary, and we do that, Chen, in order to really focus on the unit cost. We like to run our operations at full capacity from a mine perspective, in order to try and optimize your unit costs. But, yet, as you draw down those inventory levels, then you'll see that come through the P&L. So think of it as really a build which will be generating cash in the future when you start to draw down those stocks.

Chen Jing

Yes, sure. Thanks for the color, Adele. Thank you very much. I'll pass it on.

Operator

Thank you. And our next question comes from the line of Al Harvey of JPMorgan. Your line is now open.

Al Harvey

Good morning, team. Just another one on the rare earths refinery. I guess that comment you've got in there, that the project is contingent on risk sharing with the government. I guess I just want to get a sense of how you'***re*** thinking, what ***Iluka*** thinks about adequate risk sharing terms, I suppose, outside of the CapEx escalation, have your views on risk sharing change since that initial funding arrangement was first penned?

Tom O'Leary

Al, no, I don't think so. I think the context for the original discussions with government is not dissimilar. The project or the business that we'***re*** building here will still be exposed to those market risks I touched on earlier. And we are, as Paul pointed out, a relatively small company to be taking on this task. So, no, I don't think our views have changed.

Al Harvey

Sure. Maybe another one. I guess, noting your comments about the Eneabba stockpile feeding the refinery till the early 2030s, obviously, you've talked previously about it being a much longer life project than that. Can you just refresh my memory on timing for Wimmera? Is that likely to come at the same time as the full warehouse update sometime this half, and how we should be thinking about sequencing of that project?

Tom O'Leary

Yes. We will provide an update with the broader update, but we'***re*** continuing with the feasibility study there apace to ensure we have flexibility at the right time in terms of timing.

Al Harvey

Sure. Thanks, Tom.

Tom O'Leary

Thank you, Al.

Operator

And our next question comes from the line of Paul McTaggart of Citigroup. Your line is now open.

Paul McTaggart

Good morning. So I just wanted to circle back to, sadly, the refinery again, but around the pricing mechanism. So I'm kind of familiar with this. Haven't been around the uranium market a long time, and I'd be interested to know whether you'***re*** getting any kind of general acceptance. And the reason I say that is because uranium for ages never had a spot market. So there was kind of always a contract market or insignificant spot market?

But how do you sign people up to a new pricing mechanism, particularly when spot prices are so low? I mean, I know they want security of supply and all, but I'm just skeptical about ultimately what kind of price you might want to pay for that. And is this only possible when rare earths prices pick back up again?

Tom O'Leary

Yes, that's a really good question, Paul. When I expanded on the potential mechanism in Japan at the rare earths conference, I did engage with a number of potential customers on it. And there is certainly an acceptance that an alternative pricing mechanism needs to emerge because there is an acceptance that, as an industry in the west, we need to move away from the artifacts of the existing monopoly supplier and a key artifact is the pricing mechanism with the Asian Metal Index and we've elaborated on that at length in presentations earlier this year. So there is broad acceptance of that proposition.

Now, the mechanism that we've outlined does give a good deal of comfort, I think. But as you point out, putting in place a mechanism which delivers appropriate returns for us. So putting in floors and ceilings that deliver appropriate returns for us at a point in time when many folks are particularly in the procurement functions of organizations rather than in the executive, more strategic, CEO level functions of organizations is challenging.

Now, we've introduced this concept and have begun discussions with many potential customers now and we have a good deal of time before we have production in earnest. So, look, I can just say that there's certainly acceptance of the need to move away from the Asian Metal Index and there's an understanding that this mechanism we've outlined produces a sensible approach over time. But the challenge, obviously, as you point out, is setting those boundaries and we've got some time to work on those. It's absolutely clear to customers that those boundaries need to be well above existing levels.

Paul McTaggart

Thanks, Tom.

Tom O'Leary

Thank you, Paul.

Operator

Thank you. Our next question comes from the line of Austin Yun of Macquarie. Your line is now open.

Austin Yun

Good morning, Tom and the team. First question is on the synthetic rutile, please. Just wondering if you have any observations on the effects of tariffs on the product from China. Does that shift the supply demand balance a bit? And given that, do you see any interest from the spot market for your product outside of the current take-or-pay contract? The second part of the question is, given that, do you have any plans to continue building up your HMC inventory in the second-half of this year? Thank you.

Matthew Blackwell

Hi, Austin, it's Matt here. I guess there's two parts to the tariff question. Let me just make sure that everyone's on the same page. Since we last spoke, the EU has required importers to register from the 6th of June. That's the date sort of set for potential backdating tariffs, and they implemented the provisional duties from the 10th July on a CIF EU border basis.

You may have read those tariffs, around 35% for most importers and 39.7% for people who didn't cooperate with their investigation. There was some material brought in by Chinese companies and put in warehouses within the EU, sort of in the first four months of the year, and there's a little bit of that stock left. So that'll probably delay the uptick. But what we'***re*** seeing currently is an increase in pricing for pigment reported in the EU.

So standard paints and coatings are up almost EUR100 a ton, high end products moving moderately, plastic sector up EUR100, EUR225 a ton. So it certainly created, I guess, the desired effect for western producers, both those based in the EU and those that maybe export to the EU from whether it's the U.K. or from the U.S. Now, how will that all play out in TO2.

Well, I think more broadly, if I can just talk about TO2 for a second, you've got this almost -- and the tariffs fall into this consistent theme or global thematic of near-shoring and increased protectionism. And so despite and deliberate efforts to ensure the long term viability is very domestic industries. And so the tariffs and this comes at -- and these tailwinds come at a really interesting time for western producers and feedstock suppliers.

We've seen a decline in -- sorry, an unprecedented level of discipline, so very modest decline in pricing. People have been chasing value over volume. There's been number of disruptions in industry consolidation. So when you play all those things together, we think there's limited inventory in the supply chain today, both with pigment producers and consumers.

Prices have held up very well. It's hard to see prices dropping, given cost structures and the tariffs that have been introduced. And so there will need to be an upturn in operating rates to meet the restocking and increase and support any increase in underlying demand. And so all of that together are stronger western pigment industry.

So, in short, we expect to see what -- that pull has not come on the synthetic rutile sales today. We expect to see that. And I was with some pigment producers leadership of some of the bigger multinationals just last week, and they are very positive about the, what I'd sort of call, longer short-term to medium term future and the opportunities that present themselves.

And you may even note that one of those multinational producers is now running their plants at 99%, so -- operating rates, which -- and they'***re*** rather large consumers of synthetic rutile and rutile. So I think it's a space to watch very closely and I'm quite positive.

Adele Stratton

Yes.

Austin Yun

Thank you, Matt. And just on the commentary of HMC inventory. Thank you.

Adele Stratton

Yes. And just on the HMC inventory. So as we said, we continue to run our operation at full tilt. There was a bit of HMC filled in H1 when we didn't run the mineral separation plants for the first six weeks of the year. So obviously that's not expected to recur in H2, but there will be a bit more HMC inventory build throughout H2.

Austin Yun

Understood. Thank you. Just one last question quickly on the rare earth front, understand there is update. I just saw the comments that the company has reconfirmed the CapEx of AUD1.7 billion to AUD1.8 billion. Just wondering if any high level color you can provide. Have you done additional study over the last roughly five, six months? And what gives you the comfort on this CapEx number?

Tom O'Leary

Yes, look, not so much additional study, but more the process of procurement of key engineering packages and key equipment. And what we found in that process is that those -- that the estimate we've provided is sound and has stood up to those tests. So we'***re*** really building in confidence around the estimate.

Austin Yun

Okay. So that's just driven by the progress of your procurement process. Understood. Thank you.

Tom O'Leary

Thank you.

Austin Yun

I will pass on.

Operator

[Operator Instructions] Our next question comes from the line of Glyn Lawcock of Barrenjoey. Your line is now open.

Glyn Lawcock

Good morning, Tom. Tom, can we just keep drilling down on Eneabba a little bit? You've spent almost over 10% already of the CapEx budget. Just trying to understand, I mean, how much have you committed to? You've got -- you said your procurement process is well underway, early lead items ordered. Just curious, I mean, if we don't get the government funding, I'm hoping you'***re*** true to your word and we don't go ahead with the project. But how much will we have spent, do you think? How much -- if we don't get the support you'***re*** looking for.

Adele Stratton

Yes. So, Glyn, in terms of the money that was spent in the first-half, we've been quite clear that was AUD49 million during H1 2024. In the accounts, which I'm sure you haven't gone through just yet, we talk about some capital commitments for Eneabba of AUD137 million. But obviously capital commitments can always be cancelled with some exit costs. But that's sort of where we are at the moment.

Glyn Lawcock

And second-half, Adele, how much do you think we'll spend in the second-half then?

Adele Stratton

Yes, we haven't guided expenditure basically, Glyn.

Glyn Lawcock

Okay. And maybe just also just with the government, have you got buy-in and discussions with all sides of government because I'm just concerned if we go into an election, maybe it gets called before year-end, then you go into caretaker mode. Where do you sit with all sides of parliament?

Tom O'Leary

Glyn, I'm not going to be going -- giving a sort of a running commentary on government processes and support among various quarters. But I'd just reiterate what I've said that I remain positive on the prospects of an appropriate risk-sharing arrangement being reached, but it's not done until it's done.

Glyn Lawcock

But I assume you'***re*** engaged with all sides of parliament, not just the sitting party? Maybe just a follow-up question then, we can take that offline a bit more. Just it's a very minutia one. But you guided idle capacity charges at AUD25 million for the year, but had AUD19 million in the first-half. Does it slow down or should we expect it to repeat in the second-half and just exceed guidance? Thanks.

Adele Stratton

No, it certainly slows down. So, Glyn, you'd be aware that the major maintenance outage at SR2 was in the -- it was tail end of last year and into the first quarter of this year, which made up quite a component of those idle charges, along with the mineral separation plant being offline for six weeks at the beginning of the year. So, yes, there's no update to guidance.

Glyn Lawcock

Okay. Thanks very much.

Tom O'Leary

Thank you, Glyn.

Operator

I'm showing no further questions at this time. I would now like to turn it back over to Tom O'Leary for any closing remarks.

Tom O'Leary

Thank you, everyone. Look, I look forward to seeing you in the next few days and to providing the update I've foreshadowed as soon as we can.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

Load-Date: August 21, 2024