



## **Iluka snares loan for rare earth refinery; Critical minerals**

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### **Body**

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Labor has cleared the path to the country's first rare earths refinery after agreeing to lend its developer an additional \$400 million, breaking a long impasse about who should cover a major cost blowout at the project.

But shares in the developer, ASX-listed **Iluka**, crashed almost 11 per cent to a four-year low on Friday after it agreed to cover a portion of the cost blowout on the Eneabba project in Western Australia, which was originally expected to cost around \$1.2 billion when it was approved in April 2022. The refinery will make separated rare earth oxides and is a key plank in the Albanese government's plan to break China's stranglehold on critical minerals by processing minerals locally.

Discussion over how to fund the cost blowouts took more than a year, but was resolved on Friday when the government's Export Finance Australia agency agreed to lend the extra \$400 million towards the project.

The new financing is in addition to the original \$1.25 billion loan facility offered by EFA in the final weeks of the Morrison government in 2022.

**Iluka** will contribute an extra \$214 million of cash to cover its share of the blowouts. The company's accounts show it had cash of just over \$154 million on June 30, down from almost \$343 million a year earlier.

But investors are concerned that the miner may have difficulties funding its share of the refinery blowouts and fear **Iluka** may struggle to make a profit from the Eneabba refinery once it is completed and operating.

**Iluka** managing director Tom O'Leary said the company was unlikely to sell its 19.99 per cent stake in Deterra Royalties to raise the funds. The stake in Deterra was worth about \$400 million on Friday. Friday's slump means **Iluka**'s value slipped below that of Deterra, which it spun off in 2020.

While EFA's original \$1.25 billion loan did not come with any conditions around offtake, yesterday's deal was contingent on **Iluka** striking agreements to sell the refinery's product only to customers deemed "satisfactory" to the federal government.

Mr O'Leary said offtake agreements would likely be struck closer to completion of construction at Eneabba.

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The government is likely to want Iluka's customers to be from "like-minded" nations such as South Korea, Japan, the US and Britain, given the rationale for the taxpayer-funded investment was to break China's stranglehold on processing of rare earths such as neodymium, praseodymium, terbium and dysprosium.

Global demand for those four elements was about 78,000 tonnes in 2024, but Iluka predicts demand will rise to at least 113,000 tonnes by 2034 and could be as high as 209,000 tonnes.

Prices for neodymium and praseodymium were weak around \$US48 a kilogram in the three months to September; a price at which many analysts believe the Eneabba project will struggle to be profitable.

JPMorgan analyst Al Harvey told his clients last month that he expected Eneabba would deliver negative returns if neodymium and praseodymium prices averaged \$US80 per kilogram long term, adding that Iluka shares would benefit if the entire processing project was abandoned.

But Iluka believes China has used its market power to depress rare earths prices on the Asian Metal Index, and Mr O'Leary said customers would eventually pay much higher prices for Eneabba's product to ensure a supply chain that avoids China, which has a stranglehold on much of the product.

Iluka cited forecasts by Adamas Intelligence which suggests neodymium and praseodymium would fetch closer to \$US160 per kilogram by 2034.

"This is a strategic infrastructure asset that puts Iluka and Australia at the forefront of global electrification, the creation of new and resilient critical minerals supply chains and the establishment of a rare earths industry that is genuinely independent," said Mr O'Leary.

The Eneabba refinery was originally supposed to deliver first production in 2025, but Iluka delayed the schedule to 2026 when it disclosed the blowouts in December last year. The company revealed another slip in the schedule on Friday when it said commissioning of the refinery was expected in 2027.

The refinery would run for nine years if it processed only the monazite stockpile at Eneabba and ore from Iluka's mine at Balranald in NSW.

But Iluka plans to supplement those feedstocks with additional sources of ore from third parties such as explorer Northern Minerals and from its own proposed mine in Victoria's Wimmera.

Rare earths are used to make the industrial magnets inside EVs, and in technology used in defence and the transition to clean energy.

"Not only are critical minerals and rare earths key to the energy transition, they are essential to the defence industry and our national security," Resources Minister Madeleine King said. "We stand at an important moment in time where the world wants what we have and we just happen to have the most advanced mining sector in the world."

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