

# Mineral Sands Industry: Winners and Losers in the Post-AUKUS Trading Paradigm

## EXECUTIVE SUMMARY

In September 2021, **Australia released its new trilateral security pact with the U.S. and the U.K. for the Indo-Pacific region known as AUKUS**, including access to U.S. nuclear-powered submarine technology, which may sour the relationship with its biggest export country China further. The pact has been viewed by China as another piece of evidence that Australia seriously undermines regional peace and stability, intensifies arms race, and poses a growing military threat to China's interests such as the Belt and Road Initiative.

Currently, China imposes hefty tariffs and restrictions on Australian imports, including coal, lumber, wine, beef, seafood and barley. The list of goods subject to such treatments may be expanded. Therefore, **mineral sands exporting from Australia to China could be at risk** as well. This potential negative impact explains why the shares of Australian-listed, leading global mineral sands producer, Iluka Resources ("Iluka" with ticker symbol ILU AU), dropped more than 9% on 17 September 2021 alone, after the AUKUS alliance announcement the day before.

Australia appears losing its political stability hallmark, as it has been increasingly involved in geopolitical conflicts with China, its major trading partner, and suffered from economic consequences due to retaliation. In contrast, some traditional emerging markets have managed to stay away from sensitive geopolitical issues, safeguarding their stability regarding international trade and domestic economic growth.

While Australia is traditionally a major mineral sands producing and exporting country, along with South Africa, most of these **top producers** have experienced **either flattish growth or even declines** in terms of **production volume** in recent years. Conversely, **some emerging, mineral-sands-resource-rich countries are encountering significant increases in output** in the last few years. **Indonesia, in particular**, is becoming an increasingly popular destination when it comes to sourcing a stable supply of quality zircon for Chinese end users because of its **ultra-high zircon assemblage** and notable annual growth in zircon output.

This momentum shift has been reflected in price of zircon from Indonesia and Australia. In past few months, zircon price Australia has been soft versus zircon price Indonesia, with **China Zircon Sand Australian Zr(Hf) 66% in ports** reached historical high of US\$1,865/tonne in late July 2021 before **dipping 2.7% to US\$1,815/tonne currently**. Meanwhile, China Zircon Sand Indonesian Zr(Hf) 66% in CIF (cost, insurance and freight) set an all-time high of US\$2,435/tonne in early September 2021 before retreating 2.9% to US\$2,365/tonne nowadays. **During the same period** (late July 2021-20 October 2021), **zircon price Indonesia was up 13.4%**.

With the seemingly escalating trade conflicts between Australia and China and in combination with other factors such as production hurdles in South Africa, Indonesian zircon is gaining traction and more bargaining power, and fetching higher prices. **We believe zircon prices will continue the upward trajectory throughout our forecast period to US\$2,500/tonne in 2024**, a 25% increase from our 2021 projection of US\$2,000/tonne.

In our view, **PYX Resources** (NSX: PYX), the premium zircon producer with mineral sand deposits in Indonesia and has the second-largest JORC-compliant zircon resources worldwide among zircon-producing companies, **would be a winner, while Iluka will likely be less attractive to investors on a relative basis** if the bilateral ties between China and Australia do not improve.

## IMPORTANT DISCLOSURES

---

### STOCK OWNERSHIP AND CONFLICT OF INTEREST DISCLOSURE

- Cedrus Investments Ltd. (“Cedrus”) currently covers PYX Resources Limited with an Overweight rating.
- Neither Dr. Thomas Kenny, Charlie Yang nor any member of the research team or their households is an owner of PYX Resources Limited common shares.

Cedrus does and seeks to do business with companies covered in research reports distributed by Cedrus, and Cedrus may or may not be an investor of the subject company and may have investment banking relationship with the subject company. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Cedrus will identify such companies in the reports of the companies covered. Therefore, investors should consider this report as only a single factor in making their investment decision. Specifically for PYX Resources Limited, Cedrus does not own any shares directly, but holds shares on behalf of its clients in the capacity as a custodian only through Cedrus Investments – Nominees.

Cedrus will receive or has received compensation for investment banking services provided within the past 12 months from PYX Resources Limited.

Cedrus will receive or has received within the past 12 months compensation from PYX Resources Limited.

### ANALYST CERTIFICATION

Dr. Thomas Kenny and Charlie Yang hereby certify that the views expressed in this research report accurately reflect their personal views about the subject companies and their securities. They also certify that they have not been, and will not be, receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

For additional information, please send an e-mail to [information@cedrusinvestments.com](mailto:information@cedrusinvestments.com)

For private circulation only. This report is prepared by Cedrus and is for informational purposes only and is not intended to be, nor should it be construed to be, an advertisement or an offer or a solicitation of an offer to buy or sell any securities. The information herein, or upon which opinions have been based, has been obtained from sources believed to be reliable, but no representations, express or implied, or guarantees, can be made as to their accuracy, timeliness or completeness. The information and opinions in this report are current as of the date of the report. We do not endeavor to update any changes to the information and opinions in this report. Unless otherwise stated, all views expressed herein (including estimates or forecasts) are solely those of our research department and subject to change without notice.

The information provided in this research report is not provided to and may not be used by any person or entity in any jurisdiction where the provision or use thereof would be contrary to applicable laws, rules or regulations of any governmental authority or regulatory or self-regulatory organization or clearing organization or where Cedrus is not authorized to provide such information.

This report does not take into account the specific investment objectives, financial situation, and the particular needs of any specific company that may receive it. Before acting on any information in this report, readers should consider whether it is suitable for their own particular circumstances and obtain professional advice related to their own investment needs and objectives. The value of securities mentioned in this report and income from them may go up or down, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future terms are not guaranteed, and a loss of original capital may occur.

Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of Cedrus or its affiliates. The compensation for the analysts who prepare reports is determined exclusively by senior management. Analyst compensation is not based on investment banking revenues; however, compensation may relate to the revenues of Cedrus as a whole, of which investment banking, sales and trading are a part.

Cedrus does engage in investment banking. Cedrus does trade securities on a principal basis; however, Cedrus’ research analysts are prohibited from owning securities they cover through Research Reports.

---

Copyright 2021 Cedrus Investments Ltd. All rights reserved. Any unauthorized use or disclosure prohibited.