



Is Tungsten the next hot rock?

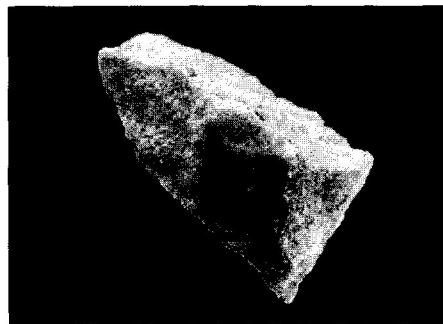
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With demand for the metal on the rise, are investors like Berkshire Hathaway starting a "tungsten rush?"

By **Alex Konrad**, reporter

FORTUNE -- Tungsten, one of the hardest metals in the world and used for everything from drill bits to light bulbs to touch screens, is suddenly hot. Much of the increased demand is coming from China, which just happens to hold the world's biggest reserves. The country is hoarding mineral resources by reducing exports, according to mining strategist Christopher Ecclestone of Hallgarten & Company, as it produces more of its own precision tools using the metal. "China wants to keep more of the good stuff for itself," he says.

With the Chinese tightening their grip and a general uptick in demand, prices have soared to about \$20 a pound, double from a few years ago. That has the relatively small number of tungsten miners, such as Malaga and Woulfe Mining, ramping up activity. Malaga is currently sending one container, which is about 28,000 pounds, of tungsten per week from its Pasto Bueno mine in Peru, according to CEO Pierre Monet. To meet the pressure for more material, he says the mine would have to up its production to five containers per day.



A chunk of ore with tungsten

Other mining companies such as Woulfe are capitalizing upon mines that shut down in past years when prices were a lot lower. In 2009, Woulfe acquired a one-time leading tungsten producer, South Korea's Sangdong mine, years after it had closed in 1992. Now the company is in a race to bring Sangdong back online while prices stay high. Woulfe hopes to have the mine in production by the first quarter of next year, says CEO Brian Wesson. But the company, like the rest of its sector, has been in a fight to get the capital it needs to fund the project.

Though tungsten use is spread across a wide range of industries, the quantities involved are still relatively small. There's been little historical interest in the U.S., and few mining analysts cover the material. (Malaga and Woulfe are both based in Canada.) According to Ecclestone at Hallgarten, the long lag time with mines from investment to production has kept investment interest in them relatively muted and their valuations low.

But that could change if executives are right in predicting that tungsten prices stay at high levels for the long haul. The U.S. is paying more attention to strategic metals and recently sued the Chinese government for its export restrictions of **"rare earth" minerals**. And now Warren Buffett is getting in on the act.

IMC Group, a subsidiary of Buffett's Berkshire Hathaway (**BRKA**) that holds a diverse portfolio of metalworking companies, recently invested \$70 million in Woulfe's South Korean tungsten operations. Half that money goes to the mine itself, with the rest helping to finance a nearby plant for processing the raw material, Woulfe CEO Wesson says. The processed tungsten will then be used by units within IMC.

Mining for a partner

The historical model has been for a mining company to have one project in a given rare metal, with diversification coming from other mines of different minerals. Woulfe, for example, also owns a gold mine, the Maguk project, in South Korea. But Ecclestone says he would not be surprised to see consolidation among tungsten producers. "There are 15 players in the space each with one project, and there should be seven with two projects each." Malaga CEO Monet also notes that there is a limited pool of experienced mining experts capable of starting a new mine from scratch.

Any merger and acquisition activity, however, returns to the question of capital, and the industry can only hope that Berkshire Hathaway proves ahead of the curve in opening up funding. The success of the venture, however, will ultimately depend on the price of tungsten in the months after Sangdong goes operational. Ecclestone says his analysis shows little reason to believe prices will "go bad" anytime soon. But China poses potential headaches for Woulfe and IMC if it tries to manipulate the price.

"As a competitor to China, you're in the cage with the 800-pound gorilla," Ecclestone warns. But it's a cage match that Berkshire Hathaway has bet it can win. Tungsten futures, anyone?

A shorter version of this story appeared in the April 9, 2012 issue of Fortune.

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