

Start of Transcript

Tom O'Leary - Iluka Resources Limited - MD & CEO

Good morning, and thank you for joining the call. With me on the line are Adele Stratton, Melissa Roberts and Christian Barbier. As you will have seen, business conditions in the first quarter were dominated by COVID-19. The Quarterly Review published today essentially outlines the initial impact of the pandemic on Iluka and some of the measures we've taken to manage them. Much of this information was foreshadowed at our AGM earlier this month, so I'll open up to questions in a moment.

But before I do, I'll just give a brief recap and offer some commentary on what we're observing in our key markets. The largest specific impact Iluka encountered during the quarter was on zircon sales, which were down more than 60% on the corresponding period last year. With the shutdowns that occurred in China in February and through to March, ceramic tile demand was very soft, much lower than normal in what is traditionally a seasonally low period.

I said at the AGM that the pace at which factory capacity utilisation rates in China normalise will be an important influence on the company's zircon sales for the remainder of the year. In very recent times, we've seen utilisation climb to around 50% to 60% as Chinese demand continues to ramp up progressively. And as noted in the Quarterly, Italy and Spain have restarted, albeit at low utilisation rates.

The prevailing global uncertainty has not surprisingly led to high levels of caution being exercised with most purchasing on the part of our zircon customers strictly to meet immediate requirements. On the supply side, while there have been interruptions to South African producers with the lockdowns there, which are in the process of being eased, zircon supply into key markets hasn't been materially interrupted at this stage. And we saw in Indonesia, artisanal exports remaining flat or slightly decreasing over the quarter. Iluka will continue to focus on its key loyal customers during these uncertain times.

Turning to titanium dioxide, we have a much greater degree of revenue certainty on this side of our business as a result of the take-or-pay contracts we've entered into over the past few years. Pigment demand was high in the first quarter, with strong demand in Europe and North America. There is also some caution though among customers in the titanium dioxide market, both as a result of global sentiment and supply considerations. We've noted in the Quarterly, the approach of pigment producers ranges from looking to limit inventory feedstock, to those looking to shore up supply to protect themselves against the disruptions experienced by mineral sands producers in South Africa, which have already added to ilmenite mining and processing interruptions experienced in China during the first quarter. Iluka has maintained operational continuity, and consistent with past practice, we've adjusted production settings in line with market conditions. As you will have seen, the Nangulu mineral separation plant has moved to batch-treating concentrate from Jacinth-Ambrosia and Cataby, independent of one another instead of at the same time. This will reduce zircon production from current levels and save costs but will still allow us to respond quickly to higher demand for our products such that we could increase zircon production again quickly when required.

We continue to consider a range of forward-looking scenarios to ensure we maintain the best possible position to respond to market circumstances as they develop. Given the lockdowns and border closures across West Africa, our operations in Sierra Leone have presented their own particular set of challenges. We're obviously disappointed that the pandemic has, for the time being, slowed the encouraging production momentum we achieved in the second half of 2019. On a positive note, last week, Sierra Rutile received some welcome supplies of spare parts, averting a potential supply chain risk.

The company's project portfolio has encountered delays as a result of COVID-19. These were covered at the AGM and, again, in today's release. The shining light in this part of the business is at Eneabba Phase 1, where we commenced production of our monazite-zircon concentrate on 8 April, ahead of schedule. Finished goods are now being transported to Geraldton prior to shipment with first sales scheduled for the third quarter.

Finally, I am pleased to report that our overall financial position remains strong, with no net debt as at March 31, 2020, and \$548 million of facilities available. I'll pause there to take your questions.

Operator

(Operator Instructions) Our first question comes from Paul Young from Goldman Sachs.

Paul Young - Goldman Sachs Group Inc., Research Division - Equity Analyst

Morning Tom, Adele and Melissa. Thanks for the conference call. First question, Tom, is around your new production guidance for zircon of 170,000 tonnes. Can you explain how you actually came up with that number? And also two further parts, is this indicative of where you see the market playing out this year? And should we be reading into that potentially could be your sales volume for the year? And another part to that is just trying to understand the change and, I guess, the product mix and the percentage of zircon-in-concentrate sales, which were, I think, around 25% of your sales in the fourth quarter of 2019. Has that sort of percentage continued into the first quarter?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Well, thanks for your questions, Paul. The first you asked is around what you described as the new production guidance. Just to be clear, we haven't given new production guidance. What we've said is that if those settings remain in place for the remainder of the year, then the 170,000-tonne is what would be produced. So it's not new production guidance. It's simply that the changes to the production settings reduce what would have been produced if we'd maintained guidance, reducing from the 280,000 down to 170,000. But as you know, we withdrew it back at the AGM. So it's an indication of what current settings will generate. You also asked, is it indicative of our expectations of sales this year? Again, we didn't give guidance at the beginning of the year around sales. We were quite purposeful about that at the February results. And we don't propose to give any guidance around sales volumes now. As you would expect, Paul, it's very uncertain times and not the time to be adventurous around providing such guidance.

In terms of the change to product mix, the ZIC we had originally proposed to produce remains available to supply into the market as and when that's required.

Paul Young - Goldman Sachs Group Inc., Research Division - Equity Analyst

Okay thanks Tom. And can I just ask one further question, which is on the TiO₂ markets? You commented that the welding market has shown some softness, but pigment has been quite resilient. We've seen a dramatic drop-off in auto demand in the U.S., which is a big consumer of coatings and pigment. Have you seen any recent switch or trends from pigment producers as far as switching their feed mix is concerned, i.e., trying to reduce costs and maybe looking to actually use more lower grade feedstock versus higher grade?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Look, I'll hand over to Christian about the mix there. But there has been sort of a mix in market conditions and market reactions and different sectors performing differently. I mean there's some talk earlier about the DIY market being quite buoyant in the confinement period. One of the paint producers came out yesterday and pointed to more subdued conditions and expectations going forward. The auto market, it probably consumes less than 10% of pigment. But clearly, it has an impact as well. But Christian, any comments to make around switching of feed there?

Christian Barbier - Iluka Resources Limited - Head of Marketing

Yes. So yes, about the automotive market, definitely, the coatings producers have seen a slump in their demand. But as Tom mentioned, Paul, it's a pretty small segment in the overall TiO₂ pigments market. Now in terms of split between sulfate and chloride production, at this stage, we haven't seen any major change. But should conditions continue to deteriorate and demand drop, it's possible that some sulfate plants in the world might have to shut down temporarily or permanently. This would not affect us because, as you know, we're supplying chloride.

Operator

Our next question comes from Rahul Anand from Morgan Stanley.

Rahul Anand - Morgan Stanley, Research Division - Equity Analyst

Hi Tom and team, thanks for the opportunity. If I can please start with Sierra Rutile. So given travel restrictions have now been in place for some time, I just wanted to understand how many expats have you been able to retain at sites given the current production settings. And should travel disruptions continue to, let's say, September quarter, in that situation, are we then struggling to produce to current plans? That's the first question. I will come back with follow-ups.

Tom O'Leary - Iluka Resources Limited - MD & CEO

Okay. Yes. Thanks, Rahul. We currently have 37 expats on site which is just under half of the total expats. We would normally have on site around 50, so we have less than typical. And as you point out, the restrictions are in place around travel. And so people can't go on R&R. They're there for the duration. And so they are not enjoying the normal roster that they would typically work to, whereby they would normally work pretty continuously whilst on site and then have an R&R break. So whilst those people are going to be on site for an extended period, we're obviously going to have to adopt a different approach to their roster whilst on site. So whilst we have 37 people there at the moment, I'd say we're probably only at about 63% or thereabouts of our normal expat cover. So that is a significant diminution from the normal levels of cover. But your question was if the restrictions continue until September, look, it's difficult to predict Rahul. It's difficult times. People are coming together very effectively in Sierra Leone. They were led by our CEO there, Rob Hattingh. And they are taking all steps appropriate to ensure their own sustainability in difficult circumstances.

Rahul Anand - Morgan Stanley, Research Division - Equity Analyst

Okay. So if I'm right, it would seem that the risk is more through disruption of supply than actually having the expat community available on site.

Tom O'Leary - Iluka Resources Limited - MD & CEO

Well, possibly. I mean there are a number of risks, obviously. The pandemic has made its way to Sierra Leone. You'll no doubt be able to track its spread from the usual sources yourself. But at the moment, it remains confined largely to Freetown and parts to the north of Freetown rather than our site, which, as you know, is several hundred kilometers south of Freetown. So it may be that the pandemic does not make its way to site. You'll recall that when Ebola struck Sierra Leone back in 2014 to '16, it never made its way to site. It's the benefit of the remoteness of our Sierra Rutile site. So there are a number of potential threats to the operation, but we'll just monitor those and plan for a range of scenarios.

Rahul Anand - Morgan Stanley, Research Division - Equity Analyst

Okay. Perfect. And then the next question, Tom, is largely on your sales contracts that you signed for rutile, and they were predominantly for the higher-grade product coming out of Sierra Rutile. In the event of disruptions, I mean, is the preferred path then to declare force majeure? Or is there other things you can do within the contracts, i.e., supply from Australian operations or be able to supply a different mix of products perhaps?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Well, what's coming from Sierra Rutile, obviously, is the very high grade rutile. We don't have an awful lot of substitute products. It would really be from our Cataby mine. So that could be substituted. But there are force majeure provisions, as you've identified. And we would, at the appropriate time, take the most appropriate course for our customers.

Rahul Anand - Morgan Stanley, Research Division - Equity Analyst

Okay. So look, those were my two questions. I had 1 follow-up to Paul's questions. Can I ask that now? Or should I queue up again?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes, go for it.

Rahul Anand - Morgan Stanley, Research Division - Equity Analyst

Yes. So just that question relating to the 170,000-tonne per annum zircon run rate. I just wanted to understand, is it fair to assume that that's potentially the minimal or the minimum amount of zircon that you can produce economically or within scale for this year, and hence, that's probably the worst outcome in terms of a production setting, and lower than that, you need to completely shut off zircon? Or how should I view that number?

Tom O'Leary - Iluka Resources Limited - MD & CEO

No, I don't think it's a minimum. As you've identified, we could idle the operation and produce less quite obviously, but that's not being contemplated at the moment. Whether we could produce less, economically, I think, is the nub of your question, and I expect we could. But that's not what we are setting our sails for, if you like. As I said, we're not giving guidance. But if we maintain those settings, then that's the number we'd produce.

Operator

Our next question comes from the line of Jack Gabb from Bank of America.

Jack Gabb - BofA Merrill Lynch, Research Division - Associate

First question, sticking to zircon. Just to be clear, are you going to adjust or have you already adjusted mining rates to match that temporary 170,000-tonne run rate. And I guess linked to that, I saw JA grades were a lot lower in the first quarter. Is that the new norm? Or will grades be higher for the rest of this year?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Look, Jack, I'll hand over to Melissa to talk about your second question in a moment about grades. But no, we haven't adjusted mining rates at this stage. We're currently in Ambrosia, mining there, and that mining and concentrating continues at this stage. It's really only the separation arrangements at Narngulu that we've adjusted at the moment. But Mel, do you want to talk about that?

Melissa Roberts - Iluka Resources Limited - General Manager of IR & Commercial Mineral Sands Operations

Yes. Jack, you might remember we mentioned earlier in the year that we were preferentially treating lower-assemblage zircon from Narngulu, from stockpiles at Jacinth-Ambrosia to help constrain the production at Narngulu. So what you're seeing there is just reflective of that.

Jack Gabb - BofA Merrill Lynch, Research Division - Associate

And then just one more. Just can you give us a sense of what you're doing on - in terms of cost and capital reductions just to mitigate the existing weakness? I know you've obviously announced a number of kind of project delays. But can you put any numbers to the savings just given your original CapEx guidance of 135?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Look, I think, Jack, we're taking all appropriate opportunities to limit discretionary spend, as you'd expect. But I won't be providing any further guidance on that specific aspect today. In terms of capital, you'll have noted that a number of our projects have been interrupted. And so I'd expect capital is going to be significantly less than the amount originally guided, but I don't have specific guidance on that today.

Jack Gabb - BofA Merrill Lynch, Research Division - Associate

Okay. No problem. And then just lastly, has there been any more community disruption in Sierra Leone?

Tom O'Leary - Iluka Resources Limited - MD & CEO

No, not really to speak of since the interruptions around the time of the February result. There's a lot of nervousness, as you'd expect. Given the history with Ebola, there's a high level of nervousness around the possibility of the pandemic spreading to site. But as I've noted earlier, it hasn't yet, and we enjoy a level of remoteness.

Operator

Our next question comes from Levi Spry from JPM.

Levi Spry - JP Morgan Chase & Co, Research Division - Research Analyst

Just a question on markets, so just, I guess, maybe about the supply side. So you mentioned the Indonesian market. Can you remind me what your reference price is again? So your zircon versus...

Tom O'Leary - Iluka Resources Limited - MD & CEO

You mentioned Indonesia then the zircon reference price.] Look, as we've said a lot of times before, the reference price ought not be taken as a guide to the market as to the realized price of zircon. It's a measure that we use with our customers from which we apply rebates and rewards and other marketing measures. So we haven't talked much about the reference price of late. We haven't changed it. I don't think there's much sense in changing at the moment. And we're leaving it where it is. I don't know, Christian, if you want to make any further comment on that.

Christian Barbier - Iluka Resources Limited - Head of Marketing

Yes. So Levi, yes, we said during the fourth quarter investor day, I think we explained that due to the current situation, it would be misleading to take the reference price as a predictor of revenue. So we prefer to have that conversation now with customers really with the level of discounts and the product mix now has changed. It's not a surprise. It's happened in the past, but probably over the previous period of increasing prices, the reference price was a better guide for this, but it's not very much at the moment.

Now as far as Indonesia is concerned, I think Tom mentioned in his commentary that we've observed that exports have moderately decreased over the last few months. And this is probably a measure of the slower demand in China during the first quarter. And not only because of the Chinese New Year, but obviously the COVID-19-related lockdowns and possibly as well as lower prices that may make production there a bit less profitable.

Levi Spry - JP Morgan Chase & Co, Research Division - Research Analyst

Okay. So no-one has come out so far.. So on, the operating rates. You talked to China returning to 50%, 60% in the end of April. How do we calibrate that? So what were they in the previous quarter? What are you expecting them to get to?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Christian, do you want to take that? I know you've been tracking it.

Christian Barbier - Iluka Resources Limited - Head of Marketing

Yes. Levi, are you talking about the operating rates in Indonesia or China?

Levi Spry - JP Morgan Chase & Co, Research Division - Research Analyst

No. I moved on from supply. Now I'm on demand so...

Christian Barbier - Iluka Resources Limited - Head of Marketing

Sorry, I didn't hear your question very well.

Levi Spry - JP Morgan Chase & Co, Research Division - Research Analyst

So you're mentioning that operating rates in China have returned 50% to 60% at the end of April. I'm just trying to get a sense how I calibrate that versus the March quarter and where you expect it to go to later this year.

Christian Barbier - Iluka Resources Limited - Head of Marketing

So yes, as you know, probably at the end of January, beginning of February, the Chinese industry went into lockdown. And what we saw is that during the month of March progressively, by the middle of March they restarted around 30%, 40% of what we would estimate would be normal production rates. And by the end of April, we estimate that – they're about overall 50% to 60% in some applications, it's higher. And in some others, a little bit lower. Ceramics is relatively slow. So in terms of expectation for the rest of the year, obviously, this pandemic has taken most countries by surprise. And we really are in uncharted territory. So it would be adventurous to make a forecast. But what we see is certainly China progressively ramping up its production, its production rate. However, as you know, Europe and North America have been more affected since the second half of March.

Levi Spry - JP Morgan Chase & Co, Research Division - Research Analyst

All right. And last question on SRL. So if things do return to normal later this year, can you remind me what we're expecting? So the Sembehun feasibility study, potential FID, World Bank, just remind me the steps please, Tom.

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Well, we've said that in terms of what to expect out of Sierra Rutile, we've withdrawn guidance, as we've said. So what we'll produce out of Sierra Rutile this year really would depend on the nature of the easing of restrictions and the timing of them. So won't be guiding there. In terms of Sembehun, we've said that we've had to cease work at the Sembehun site. And what we had been proposing to do was trial the new mining method there. We won't be able to do that for this year, it would seem, pretty clear. We're not, at this stage, clear on when those travel restrictions would be lifted. So it's a little uncertain when we'd be able to do that Sembehun trial. So the timing of the completion of the Sembehun feasibility study is itself uncertain.

Operator

Our next question comes from Glyn Lawcock from UBS.

Glyn Lawcock - UBS Investment Bank, Research Division - Head of the Australian Mining & Energy Team and Research Analyst

Tom, just wanted to touch a little bit more, just on zircon production and the 170,000 rate. So what is it we should be looking for? Is it just mobility returning such that you start to see rates lift in Spain and Italy? So what are you sort of watching for that'd give you some sense that you may need a lift?

And then could you talk a little bit about the alternative mining method? You've said you'd now worked out what it's going to be, but you want to run the trial, which you obviously cannot at the moment. But what is that alternative mining method? And then finally just Atacama, you've thrown in this comment that says you want to find this processing solution for the ilmenite. I'm just wondering did the economics of Atacama rely on you finding a processing solution? Or can you still move forward with Atacama at least to keep Eucla going beyond JA?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. In terms of what's important, Glyn, it's really around the market. So as Christian was alluding to a moment ago, it's not simply a matter of what rates our customers, our direct customers, can operate as a consequence of their staff and lockdowns and so on in their particular geographies. It's actually also a function of their customers' customers, what are the tile makers doing and what demand are they experiencing. So it won't be just a function of whether particular regions open up and can operate at full capacity. It's whether they have the demand to operate at full capacity. So that's what's important. It's end product demand.

And in terms of the mining technology that we had been looking to trial in Sembehun, it was hydraulic mining, which is used in other places. We haven't used it in Iluka. So we would clearly want to trial it before adopting it at Sembehun or elsewhere.

And on Atacama, we've pushed the feasibility out to 2021 there to really see if we can improve the economics by utilizing the ilmenite. I think we've previously pointed to the impurities associated with the ilmenite in the Atacama deposit, and that's led us down the path of pursuing a zircon-only solution for the development of Atacama. As a project, as a zircon-only project, at this stage, we don't regard it as particularly compelling. So what we're pointing to is pausing, to take the time to see if we can resolve the impurity issue associated with the ilmenite. And in the current environment, Glyn, a slightly later completion to the feasibility study out to 2021 I don't regard as a big price to pay if the economics can be improved. And we'll know more in a year as to the global outlook, so be better placed to make investment decisions around Atacama.

Glyn Lawcock - UBS Investment Bank, Research Division - Head of the Australian Mining & Energy Team and Research Analyst

And then, Tom, the year slip doesn't really impact on having it butt up against JA as that reserve depletes, given you're probably going to be mining a bit slower anyway given the current backdrop?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. I think that's a fair comment, yes.

Operator

Next question comes from Sam Webb from Crédit Suisse.

Sam Webb - Crédit Suisse AG, Research Division

I'd just like to ask a couple of questions on the demerger, please. Just if there's any update post the AGM in regards to the ATO draft approval. And if you haven't received, just any line of sight to get that? And are you in a position now, a few months later since making the call, to provide an update on the cost to demerge and potentially what corporate overheads would be in that new vehicle, please.

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Thanks, Sam. On the cost to demerge and the overheads within the vehicle, those -- we continue to work on those, and they'll be set out in the booklet in due course. As we've been pretty clear about, I think, we're looking to ensure that both the separation costs and the ongoing costs are very low. In the royalty vehicle, we'll be looking to outsource a lot of resource requirements so as to maintain that low overhead, as I think you'd expect. On the ATO, we don't have an update to give there. There's no change to our expectation that we will have the appropriate relief in time to provide that within the demerger booklet.

Sam Webb - Crédit Suisse AG, Research Division

Okay. Maybe just one other follow-up on that. Is there any mineral sands market backdrop that could see the demerger delay from Iluka's perspective?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Thanks, Sam. I think we've been clear about what we're currently planning. I think that that's the appropriate answer to that question. We've been clear about planning to move ahead following the publication of the half year accounts.

Sam Webb - Crédit Suisse AG, Research Division

Okay. And just can I switch to TiO₂ quickly, please, and just follow up on the earlier comments around the feedstock customers? Can you just give a bit more color on how that's playing out? To what extent are your customers actually decreasing or destocking at the moment? And are you getting any pushback on any volumes at the moment?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. We were pretty clear, I think, in the Quarterly about the range of approaches of our pigment customers and identified that some are looking to limit inventory -- while the other approach is to ensure they got cover. So we've said we have take-or-pay arrangements in place for more than 70% of what was originally (now withdrawn) guidance for the year's production. And we'll be looking to follow those contracts pretty closely.

Operator

Our next question comes from Brenton Saunders from Pental Group.

Brenton Saunders - Pental Group Limited - Portfolio Manager & Analyst

Just two things. Tom, I just wonder if you could comment on -- just from a zircon sales perspective. Some of the other producers in the market that we speak to, both big and small, seem to be of a view that they can move volume at the clearing price. And you've said in your release that you don't see the benefit of lowering price. You don't think demand volume will improve if you did that. And I'm just wondering, maybe which of these two views it is?

Tom O'Leary - Iluka Resources Limited - MD & CEO

So I don't know how the other people you're speaking to support their view. It may be that, like many who are producing zircon as a by-product, they will take any price. We respect the value of the resource and have long taken the view that it must be respected, and that the demand for our product globally is not particularly elastic to price.

Brenton Saunders - Pental Group Limited - Portfolio Manager & Analyst

Okay. Fair enough. The other thing I'm just not clear, and I might have missed something. Just in terms of your current production settings, I'm talking about zircon in this instance, specifically your reference in your release to the Narngulu settings, designed around that 170,000 tonne run rate. So the bit that I'm just trying to understand is for the underlying mining operations and HMC operations, should we expect building HMC stockpiles? Or will the mining rates be adjusted accordingly?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. As I said, we haven't adjusted mining and concentrating rates at the moment. But as you'd expect, Brenton, we continue to reflect on a range of potential scenarios that might unfold, both in terms of global demand and global supply. And we're looking to be ready to react at the appropriate time to achieve the most appropriate outcome for our shareholders over the short, medium and long term.

Operator

(Operator Instructions) Our next question comes from Paul Phillips from UniSuper.

Paul Phillips - UniSuper Limited - Manager of Equities

I think most of my questions have been answered. But just to be clear, what would it take to -- what are you looking for to change the production settings at Narngulu? Either to move or to - I'm assuming that you can't really improve throughput while you're running this batch strategy, is that correct? Is that a correct assumption? Maybe to start with. And then what are sort of some of the market signals that we should be looking for? But I think you answered that question already.

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Yes, I think I probably have, Paul. But, can we improve beyond that, the amount that we're indicating we'd produce if we kept those settings in place? And the answer is yes, we could. We've said that we could adjust those settings very, very quickly to produce a higher level. And that's why we've gone for this particular setting. It doesn't represent a massive decrease in cost profile to run Narngulu, but it does provide a high level of flexibility. So we would be able to increase production very rapidly. In terms of what signals, I think...

Paul Phillips - UniSuper Limited - Manager of Equities

Sorry, Tom. Is that just a grade, a change in grade? So like what Melissa talked about, sort of low-grade stockpiles. Is that the key driver of changing those settings? Or would it also involve an increase in throughput?

Tom O'Leary - Iluka Resources Limited - MD & CEO

No, it's not a change in grade. It previously involved processing both feeds at the same time.

Adele Stratton - Iluka Resources Limited - CFO

So yes, an increase in throughput, in essence Paul. In order to reduce the production, you need to reduce what you're putting into the plant.

Tom O'Leary - Iluka Resources Limited - MD & CEO

But in terms of the signals, I think I did answer that question, Paul, as you alluded to. We're looking to end markets, looking to global consumption.

Operator

Our next question comes from Peter O'Connor from Shaw and Partners.

Peter O'Connor - Shaw and Partners Limited, Research Division - Senior Analyst of Metals and Mining

I always enjoy your considered and very thoughtful delivery. And with that backdrop, you made a comment about zircon and the market, and you talked about your focus was on key loyal customers. Could you talk to me about loyal customers? What proportion are they of your mix? Are they the broad base? And who's not loyal? And how do you define loyal customer? And is that the same for rutile as well?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Very interesting series of questions. Look, I won't go through the list of customers that we regard as disloyal today and the like but...

Peter O'Connor - Shaw and Partners Limited, Research Division - Senior Analyst of Metals and Mining

I'll take that off-line.

Tom O'Leary - Iluka Resources Limited - MD & CEO

Okay. But I think it's fair to say that we have a number of customers that we've had long and strong relationships with over a number of years and who value the certainty of supply that we can bring in times of deficit and shortness of supply as well as the reliability and high quality product we can bring in times when there is more product in the market. And so at times, again, where there may be uncertainty of supply from some quarters, it's those customers that have been with us over the journey that we'll be looking to most strongly support.

Peter O'Connor - Shaw and Partners Limited, Research Division - Senior Analyst of Metals and Mining

Will it be fair in assuming that that's like synthetic take-or-pay customers maybe not necessarily paying a higher price but guaranteeing volume? Is that how you think about the loyalty?

Tom O'Leary - Iluka Resources Limited - MD & CEO

I think that's probably an interesting way to put it, but I'm not sure I would have put it quite like that. Take-or-pay does sound quite legalistic, whereas these are relationship-based loyalties I'm talking about. So yes, I think it's pretty accurate, Peter.

And in terms of whether it applies in rutile or not - the rutile market is quite different, as I know that you know, Peter. We've got relatively fewer, many fewer customers. And most of those are actually contracted on legally binding and enforceable take-or-pay arrangements. So yes, a very different arrangement. But again, we've enjoyed very strong and long relationships with those customers as well.

Peter O'Connor - Shaw and Partners Limited, Research Division - Senior Analyst of Metals and Mining

Can I follow up something left field? Thinking about not short term with all this COVID stuff floating around, so not 2020 and maybe not even 2021, but longer-term processing of material through your plants, your thoughts on own mined product versus third-party product that you toll or you acquire? How do you fill the processing capacity beyond what we're going through now? Just more a medium to longer-term thought.

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Well, I think we've got a plant that's idled in Victoria, in Hamilton, and that's pretty available. But Narngulu, which is a plant that we're operating at the moment and is potentially perhaps more what you were thinking about, I think we have plans for that to be used effectively for many years to come. But to the extent that there were attractive opportunities for us to earn better shareholder returns, higher shareholder returns from working with others, then I have no doubt that we'd consider that as well.

Operator

Our next question comes from Clarke Wilkins from Perpetual.

Clarke Wilkins – Perpetual Investment Management – Security Analyst

Tom, just sort of two questions. Firstly, the production setting. You said you sort of adjusted production, but it does look like -- are you low-grading at Cataby? Because the production rates do seem to be sort of below, I suppose, the early years in the mine plan, we expected to be a higher production rate. And also, just in regard to the supply disruptions we've seen in the market. So from the customers -- you sort of made a comment, I think, on the pigment side, customers are stockpiling. Are any customers on the zircon side being impacted by the supply disruptions out of South Africa? And does that have a potential impact in the second quarter?

Tom O'Leary - Iluka Resources Limited - MD & CEO

Yes. Look, I'll hand over to Mel in a moment to talk about Cataby. But in my opening comments, I think I noted that there has been some production interruptions in South Africa. I'm sure you're aware of those, Clarke, in terms of the lockdowns imposed in South Africa. But they are in the process of being eased. And to date, we haven't seen that zircon supply into the key markets has been materially interrupted. So short answer is no. So Mel, just on Cataby.

Melissa Roberts - Iluka Resources Limited - General Manager of IR & Commercial Mineral Sands Operations

Clarke, just with Cataby, the first quarter, obviously, is the first 3 months of the year. So the Cataby production to date was just in line with our plans for mining and processing in the first quarter. There's campaigning planned between Cataby and Jacinth material over the year. So it's just reflective of how the first quarter or the first 3 months have played out.

Operator

Thank you. That's all the time we have for questions, so I will pass back to Tom for closing comments.

Tom O'Leary - Iluka Resources Limited - MD & CEO

Okay. Look, we're clearly in uncertain times. And at Iluka, please rest assured that we're taking prudent and rational decisions to optimise the company's position over a range of scenarios that may unfold. Thank you for your time today.

Operator

Ladies and gentlemen, that does conclude the call. Thank you for attending. You may now disconnect.