

Battery metal miners trying to tap electric car boom want Elon Musk to stop killing their buzz

The Tesla titan isn't helping Canadian juniors win investment, so maybe the government should, says industry

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Tesla Inc CEO Elon Musk walks next to a screen showing an image of Tesla Model 3 car earlier this year in Shanghai, China. Musk has promised to cut cobalt out of batteries, something analysts say is likely to happen soon. PHOTO BY REUTERS/ALY SONG/FILE PHOTO

As investor anticipation mounted for Tesla Inc.'s much-hyped, self-proclaimed Battery Day on Wednesday, Trent Mell was upset just thinking about it.

Mell, chief executive of Toronto-based First Cobalt Corp., has spent three years trying to secure a ground floor seat in the burgeoning electric vehicle industry. In 2017, his company bought a long-forgotten refinery in small-town northern Ontario that could, if everything goes right, produce five per cent of the world's battery grade cobalt, about 25,000 tons, by 2021. It would be the first, and only, refinery in North America producing battery-grade cobalt.

Before that can happen though, First Cobalt needs to raise \$60 million, and Musk isn't making it any easier.



First Cobalt Corp. hopes to turn a long-forgotten refinery in the northern Ontario of Cobalt into the first, and only, refinery in North America producing battery-grade cobalt. PHOTO BY COLE BURSTON/BLOOMBERG

With his bold promises to cut cobalt out of Tesla's car's batteries — a technological feat still considered impossible — or secure Tesla's own supply of lithium from a barren patch of Nevada desert, Musk has wowed investors with his bravado, built one of the most valuable companies in the world and made himself a billionaire many times over. But his brusque talk has sometimes deterred investors from looking at First Cobalt Corp. and other upstream companies that are trying to build a North American supply chain for the very cars Tesla makes.

"It drives me nuts," Mell said, about Musk's braggadocio. "My wild ride is the comment: 'they're going to take cobalt out of batteries'. It's ultimately self-defeating. You're not there yet."

A look at First Cobalt's share price explains why. Between Tuesday and Thursday, the stock dropped 10 per cent. It wasn't much of a drop, just 1.5 cents from 15 cents per share to 13.5 cents, but he couldn't hide his frustration with Musk.

"Elon Musk has a history of making statements that never come to fruition," Mell wrote in an email to the Financial Post, and then sent out a press release with a point-by-point refutation of Musk's promises over the years, including an analyst's comment that a cobalt-free battery looks unlikely anytime soon.

Musk's fearless, loose-cannon leadership style initially helped him build an electric vehicle company when no one else dared to try it, and boosted the prospects for battery metals such as lithium and cobalt. But his repeated plans to move away from cobalt continues to create challenges for companies such as First Cobalt aiming to lay the foundation of a North American supply chain for the nascent industry.

In the next 10 years, the auto industry will undergo a profound transformation

GOLDMAN SACHS

First Cobalt was not the only battery metal sector company feeling the pain this week. Across the sector, companies such as Lithium Americas Corp., which is developing a lithium project in Argentina, dropped around 32.6 per cent in the first four days of the week to \$9.60 per share.

Investors also shaved off 19.3 per cent of Tesla's share price between Tuesday and Thursday morning, billions of dollars in market capitalization, as reports rolled in that Tesla would not come through on some of Musk's biggest promises such as a cobalt-free battery or a million-mile battery.

Overvaluation clouds hangs over Tesla, which posted US\$104 million in net income in the second quarter of 2020 and carries a US\$374 billion market cap, yet investors love the company because the electric vehicle market is poised for exponential growth in the immediate future.

"In the next 10 years, the auto industry will undergo a profound transformation," The Goldman Sachs Group, Inc. analysts wrote, predicting that by 2025, electric vehicles will account for 25 per cent of the market, up from five per cent today.



A man walks past electric cars and tricycles on a sidewalk in Beijing. PHOTO BY GREG BAKER/AFP/GETTY IMAGES

Part of that growth will be driven by government regulations around the world designed to rein in CO₂ emissions, especially around the transportation sector which is responsible for 22 per cent of global greenhouse gases, according to Goldman.

Electric vehicles are also predicted to cost less, and require less maintenance than cars that run on fossil fuels, both of which are expected to tip consumer sentiment and turbo charge the burgeoning industry.

That change would require a near-total invention of the world's auto industry from the metals that need to be mined, including cobalt, lithium, graphite and more nickel and copper, to the factories that need to be built, all of which will require hundreds of billions of dollars of investment. New markets will sprout in countries such as India and China, which Goldman Sachs predicts will account for 35 per cent of the overall auto market by 2025.

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FIRST COBALT CEO TRENT MELL

Tesla's rapid rise shows that investors are fixed on the sector's growth prospects, but Mell's experience at First Cobalt also shows that their exuberance doesn't necessarily reach upstream companies.

"It's tough getting money from the capital markets for this," said Mell. "We're not gold, it doesn't have the same appeal with retail investors."

His company hasn't traded above a dollar since 2018. That year, the price of cobalt reached a peak above US\$32 per pound and his company's stock price reached hit \$1.19.

Today, the price of cobalt is about US\$15.65 per pound, and First Cobalt hasn't traded above 18 cents per share in the past year.



Core samples sit on trays for processing at the First Cobalt Corp. facility outside of Cobalt, Ontario. PHOTO BY COLE BURSTON/BLOOMBERG

Similarly, the price of lithium has been on a consistent decline, with Morgan Stanley predicting the downward trend will continue until 2025 because of an oversupply.

Caspar Rawles, an analyst at Benchmark Intelligence in London, said that neither lithium nor cobalt could be considered a bulk commodity, like iron ore or copper, which are produced all over the world and are well-understood markets.

In contrast, even finding out what the price of cobalt is, requires a paid subscription to Benchmark, and knowing which of several chemical varieties of cobalt is pertinent to the battery industry.

“Oil or gold, you can just google it and that price will come up quite easily,” said Rawles. “That same data doesn’t really exist for these markets at the moment.”

The lack of transparency in the market has made it challenging for North American companies to raise money on the capital markets to explore for critical metals, or refurbish refineries.

To be sure, some North American companies have managed to benefit from investors exuberance for all things-related to Tesla.

In the run-up to Battery Day, [Reuters](#) published a story on Sept. 11 that cited three anonymous sources who said Tesla was in discussions with Canadian junior miner Giga Metals Corp. “about helping to develop” its nickel mine in British Columbia. The mine carries an estimated \$1 billion price tag, and still requires permits and additional studies that often take years to complete.

Initially, the company’s president neither confirmed nor denied the Reuters’ report, but the company eventually issued a press release stating that no material news was forthcoming.

Nonetheless, according to Yahoo! Finance, the company’s share price opened at 89 cents and spiked up to a peak of \$2.44 over the next several days, before ultimately sliding down to 67 cents.

Anthony Milewski, non-executive chairman of Giga, sold more than 3 million shares over two days, collecting more than \$6.29 million, according to The System for Electronic Disclosure by Insiders, or SEDI. Records show he held on to at least 500,000 shares. Milewski declined to comment.

But if Giga is one of many small cap companies struggling to build a battery metal project in Canada, there is an advanced supply chain, including many battery factories and refineries in Asia.

“This is really a China story,” said Benchmark’s Rawles.

He estimated, that government incentives in China have contributed to 1.3 million electric vehicle sales in 2019. The strong market for EVs there has helped lay a foundation for the supply chain, and there are numerous battery factories, including a Tesla plant outside Shanghai.



Elon Musk, chief executive officer of Tesla Inc., center, with Shanghai officials during an event at the site of the company's factory there in 2019. PHOTO BY QILAI SHEN/BLOOMBERG

Similarly, Rawles said, in Germany and France, governments have created consumer rebates to augment electric vehicle sales this year, and across Europe, automakers are shifting to greater electric vehicle production to avoid government penalties related to CO2 emissions.

"The European supply chain is definitely being built out now," he said, describing it as "self-perpetuating."

In Canada, there are signs that both provincial and federal governments are interested in investing to help secure a piece of the electric vehicle market. In the throne speech on Wednesday, the Liberal government pledged to make zero-emission vehicles more affordable, and emphasized the importance of cutting CO2 emissions.

Perhaps more concretely, earlier this week, the federal government and Ontario pledged to contribute \$500 million to help Ford Motor Co. upgrade an existing auto plant in Oakville to work on electric vehicles.

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FIRST COBALT CEO TRENT MELL

In 2019, Nemaska Lithium sought creditor protection in a Quebec court so it could restructure, after cost overruns derailed the construction on a lithium mine and electrochemical plant in that province. In August, Investissement Québec, which had already been an investor, has tentatively proposed teaming up with two other investors to spend \$600 million and take control of the company's assets though it still requires court approval.

Guy LeBlanc, chief executive officer of IQ, in a press release translated from French, called it "a crucial milestone in the development of the strategic sector of battery materials for electric vehicles and the establishment of a complete lithium value chain in Quebec."

With the federal government pinning part of an economic recovery from the pandemic on investment into a green economy, upstream producers are starting to talk about the role of government policy and investment.

"Fundamentally, what we've seen around the world," said Mell, "is if you want to succeed it starts with government policy."



Downtown Cobalt, Ontario: First Cobalt wants to bring mining back to life in this town but first it needs to raise \$60 million to refurbish the old refinery. PHOTO BY COLE BURSTON/BLOOMBERG

His company completed a feasibility study in May 2020, using a \$5 million loan from the multinational mining and trading conglomerate, Glencore Plc. Under a deal with Glencore, First Cobalt would process cobalt from Glencore's mine in the Democratic Republic of Congo for five years.

But first it needs to raise \$60 million to refurbish the old refinery — just a corrugated metal building located at the end of a road in a small town, outside Cobalt, Ontario.

Because it's an existing refinery, it already has a permit, a tailings facility and is connected to hydroelectric power, according to Mell.

"It doesn't look like much from the outside," he said. "But you consider everything from the road to the power lines to the tailings facilities, we could be in production two or three years faster than anyone else."

Mell added, "I'd like to be producing next year, but it's going to be contingent on hurrying up and getting the financing in place."