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BUSINESS

Driven by Electric-Vehicle Demand, Firms Focus on Cobalt

The once-obscure material is valued for its ability to withstand the heat generated by lithium-ion batteries

Cobalt is stored in a warehouse in Rotterdam, Netherlands. **PHOTO:** HERMAN VAN HEUSDEN FOR THE WALL STREET JOURNAL

By Scott Patterson

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Booming demand for cellphone and electric-vehicle batteries has created a once-unthinkable metals-industry player: the pure cobalt company.

Cobalt prices have risen 270% on the London Metal Exchange to about $80,000 a metric ton since early 2016, creating an opening for companies to specialize in a metal once seen as a waste product. Cobalt is now valued for its ability to withstand the intense heat generated by lithium-ion batteries.

Exhibit A is Cobalt 27 Capital Corp. KBLT -4.10% ▼ , which currently does nothing but buy and hold cobalt. It keeps 3,000 tons of cobalt—one of the world's largest stockpiles of the metal—distributed in warehouses in Antwerp, Belgium; Baltimore; and Rotterdam, Netherlands.

Cobalt 27's shares have quadrupled since it went public in Toronto in June, giving it a market value of about $370 million.

Anthony Milewski, the chief executive of Cobalt 27 Capital. **PHOTO:** HERMAN VAN HEUSDEN FOR THE WALL STREET JOURNAL

"We are entirely, solely focused on cobalt," says Anthony Milewski, chief executive of Cobalt 27. The number in the name derives from the metal's atomic number.

Cobalt 27 is among a vanguard of companies trying to take advantage of a surge in cobalt demand largely fueled by auto makers trying to lock down supplies of an essential ingredient for their coming electric-vehicle fleets. London commodities researcher CRU Group predicts that by 2030, annual demand for cobalt for lithium-ion batteries will be triple the roughly 100,000 metric tons a year produced globally today.

Some of the companies are established mining giants such as Glencore PLC, which has a dominant position in the Democratic Republic of Congo, where over 60% of the world's cobalt lies. Others are newcomers, such as First Cobalt Corp. , a Toronto-listed cobalt-exploration company whose shares are up more than 90% in the past 12 months.

First Cobalt is exploring a 110-year-old silver-mining site in Canada that also produced cobalt. Since cobalt wasn't in high demand when the silver was mined, much of it was either left in the ground or discarded into waste piles.

Now, with prices skyrocketing, there is a big incentive to go after the left-behind metal.

People inspected a drum during a Jan. 22 tour of a warehouse in Rotterdam where Cobalt 27 stores the metal. PHOTO: HERMAN VAN HEUSDEN FOR THE WALL STREET JOURNAL

"It's not that there's no more cobalt out there, it's that we've never been paid [enough] to go find cobalt," says First Cobalt Chief Executive Trent Mell.

Glencore Chief Executive Ivan Glasenberg says he believes there will ultimately be a shortage of cobalt as electric vehicles become more widely adopted unless a significant new supply is discovered. The world's biggest car makers are plowing cash into EVs. Ford Motor Co. recently said it plans to spend $11 billion on EVs by 2022. General Motors Co. , Toyota Motor Co. and Volkswagen AG , among others, are aggressively ramping up their spending on EVs.

"Our cobalt trader is very much in demand right now," Mr. Glasenberg told reporters in December.

To be sure, electric vehicles currently make up a tiny portion of global automobile sales, accounting for less than 2% of overall volume. But the pace of EV sales is expected to accelerate in the coming years, reaching 10% of global sales in 2025 and 30% in 2030, according to CRU.

Other risks include mining companies finding big new supplies of cobalt, or that developers create a battery for electric vehicles that doesn't require the metal or requires much less of it. As cobalt prices surge, car and battery makers have a heightened incentive to do just that.

"The battery manufacturer will use less and less cobalt in each unit because they have to" as prices rise, says John Meyer, an analyst at London commodities brokerage SP Angel.

Bankers visited Cobalt 27's warehouse in Rotterdam last week, digging their hands into barrels full of small chips full of cobalt. They were conducting due diligence ahead of debt financing for the company, which says it is in talks to purchase more cobalt from mining companies around the world.

One of the firm’s selling points: None of the cobalt it owns comes from Congo, where independent mining, often including children, has skyrocketed in recent years as demand for the metal has surged.

Mr. Milewski, 37 years old, says the idea of building a cobalt company first came to him about three years ago in the midst of the collapse of a decadelong China-fueled “supercycle” in commodities. He and a small team of other traders at the firm were searching for the next trend that would drive demand for natural resources.

Cobalt quickly caught his eye. Unlike lithium, another commodity experiencing sharp demand for batteries, cobalt is very scarce.

Mr. Milewski says the company’s stockpile is a steppingstone toward other deals, because he can use it as collateral for loans for other cobalt investments. He also says Cobalt 27 could become an acquisition target for a car maker or battery company that covets the metal.

“Ultimately someone is going to have interest in that position,” he says.

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