Investing in Cobalt: Should You Join the Cobalt Profit Party?

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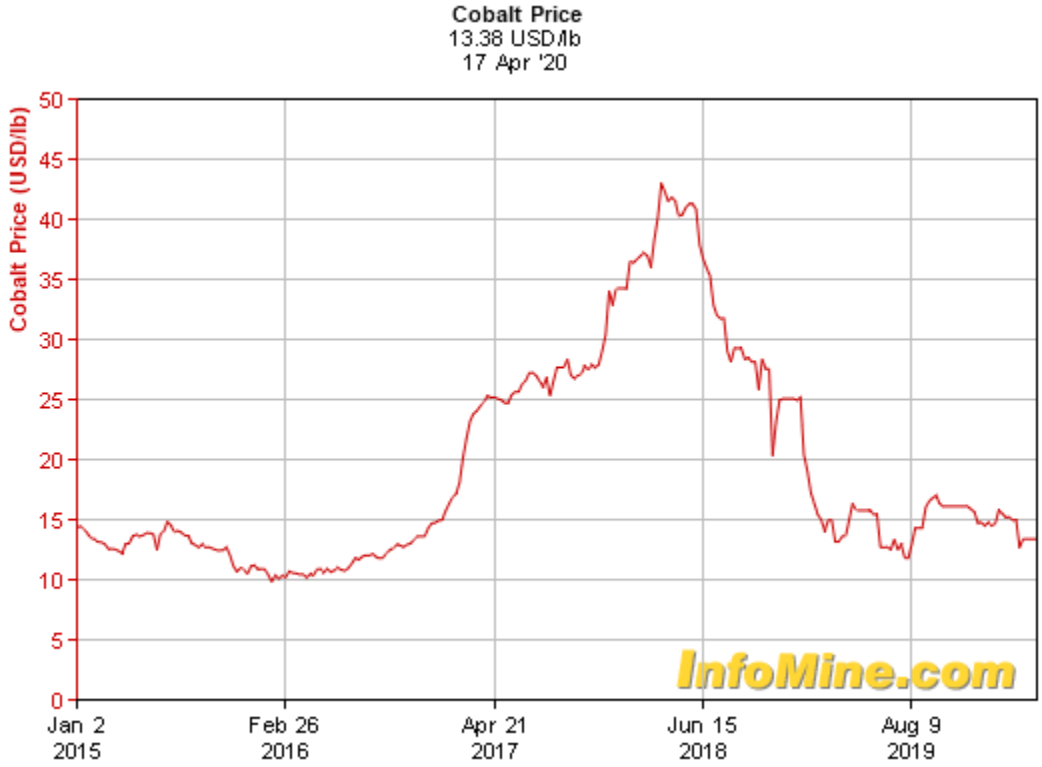
Much like its cousin lithium, the cobalt metal market is in the midst of a financial mania. It wasn't long ago that leading analysts projected that cobalt prices would hit $16 per pound by 2020. Fast forward to 2018, and the price of cobalt soared over 200%, from about $11 per pound to $35 per pound. Now it's 2020, and the price of cobalt has gone down significantly, back to $13.38 per pound.



Investors who were savvy enough to buy cobalt-linked investments four years ago were sitting at a nice profit before the prices went down so much.

The question today is whether late comers to the cobalt party can replicate the success that early investors enjoyed and whether or not cobalt's price will go up so high again.

So What Is Cobalt Anyway?

The word "cobalt" comes from "kobold" — the German word for goblin. Kobolds were spirits that supposedly haunted the depths of mine shafts and often caused deadly respiratory problems for miners.

Today, cobalt is a metal that is used in a diverse range of commercial, industrial and military applications. Most relevantly for investors, the principal use of cobalt shifted to making up the electrodes in rechargeable batteries.

Cobalt is the red-headed step-child of metals mining, as a mere 6% of cobalt comes from mines that are focused on mining cobalt. The remaining 94% is the byproduct of nickel and copper mining.

That's why cobalt production is linked closely to the mining of these major metals. No mine in the world would increase nickel or copper production just to obtain cobalt.

Why Demand for Cobalt is Exploding

Lithium batteries are used in electronic devices, electric vehicles and energy storage. With today's level of technology, 75% of lithium batteries use cobalt.

Although lithium has grabbed the headlines, cobalt is actually a tougher challenge for battery suppliers.

The latest technology is also shifting in favor of using cobalt. If nickel-cobalt-manganese and nickel-cobalt-aluminum chemistry is set to dominate for all-electric vehicles (EVs), then cobalt will become even more critical than before.

The big driver of demand for lithium batteries is, unsurprisingly, electrical vehicles.

CRU Group expects global electric car and plug-in hybrid vehicle sales to top 17 million in 2030. That compares with global sales of 1,713,957 EVs in 2018.

The World Energy Council expects that every sixth car sold in 2020 will be electric.

Volkswagen (VLKAY) believes that EVs will make up 25% of vehicles sold from its own line in 2025. Norway already has announced a ban on the sale of fossil-fuel-powered cars by the same year.

The Challenges of Supplying Cobalt

This explosion in demand explains why battery producers are facing a shortage of cobalt.

Cobalt also has an odd production profile.

On the one hand, cobalt is everywhere on Earth. On the other, its low concentrations mean that there are few primary cobalt mines.

And as bad luck would have it, most of the world's supply of cobalt comes from more than a few politically unstable African countries. In fact, 65% of the world's cobalt production

originates from the Democratic Republic of Congo (DRC) alone — one of the most challenging places on earth to do business.

Even as demand for cobalt is exploding, the major superpowers are jockeying to control the cobalt supply. The U.S. Defense Logistics Agency has started to stockpile cobalt, which it has designated "strategic and critical."

However, when compared to China, the United States' efforts have been modest.

China already is the global leader in the EV market, consuming 75% of the battery packs produced worldwide. No wonder **China Molybdenum Luoyang Co. Ltd (CMCLF) has** acquired a 100% interest in the Kisanfu project (located in the DRC) as well as a 56% controlling interest in the Kokkola Refinery in Finland (which produces 10% of the world's refined cobalt).

Following these acquisitions, China now controls 62% of refined cobalt production worldwide.

How to Invest in Cobalt

Investing in cobalt requires some research.

Unlike lithium, there is no exchange-traded fund (ETF) like the **Global X Lithium ETF (LIT)** that invests in cobalt or cobalt-related stocks.

The bigger names in the cobalt sector include mining giant **Glencore (GLCNF).** Although cobalt is a small part of its overall business, Glencore is the leading global producer of cobalt today.

I already highlighted that **China Molybdenum Luoyang Co. Ltd (CMCLF)** owns a controlling interest in the massive Tenke Fungurume copper and cobalt mine in the DRC after buying it for US$2.65 billion from **Freeport-McMoRan (FCX)** in 2016.

Finally, DRC-based **Katanga Mining (KATFF)** boasts the world's largest reserves of cobalt. It also happens to be 86.33% owned by Glencore.

Of course, as with any specialist investment theme, you can go down a rabbit hole of speculative ventures.

In cobalt's case, many companies that are pursuing the opportunity are Toronto-Stock-Exchange-listed small-cap mining stocks.

If you want to follow the smart money — often a good idea — billionaire Robert Friedland is as good as any in the mining space.

Friedland has secured a 20% stake in Australia's **Clean TeQ (CTEQF)**, which is tapping into the cobalt boom through its Syerston deposit.

The Risks of Investing in Cobalt

The price of cobalt soared from 2016 to mid-2018 thanks to a combination of demand from the lithium-ion battery sector as well as textbook speculative market psychology driven by greed. However, even though cobalt prices have fallen, some forecasts have argued that cobalt prices will rise again in the coming years.

As such, I see three risks for investors in cobalt-related stocks today.

First, the price of cobalt may have overshot itself. Much of the upside in the cobalt market is likely in the past. If you do want to invest in cobalt-related stocks, you should wait for a strong pullback.

Second, it is important to realize that the mining market can respond to increased demand for cobalt with an increased supply relatively quickly. Don't underestimate the market's ability to adjust to increased demand for any profitable metal.

Finally, many of the estimates for the future demand for cobalt assume that battery technology will shift in its favor.

That may not be the case. In fact, several new battery technologies that are under development are not planning on using cobalt at all. Once a major manufacturer such as Tesla (TSLA) adopts a new technology, you could see the bottom drop out of an overheated cobalt market overnight.

What's the bottom line?

If you invest in cobalt stocks today, realize that you may be late to the party. Also, make sure you have a strategy in place to hop off the cobalt party train when, and not "if," the current speculative market sentiment starts to move against you.

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