Catching the cobalt ride

In the space of a year, the price of cobalt has almost tripled, but the value of shares in eCobalt Solutions Inc. (TSX: ECS | OTCQB: ECSIF) ("eCobalt") have climbed from just ten cents to an impressive C$1.43 as the company confidently marches towards production of a metal that is increasingly necessary for our most basic of modern conveniences. Those investors who paid attention to our forecasts and bought into eCobalt last year are certainly reaping the most benefit, but is the buy window closed? The short answer is "nope".

The thing is, since cobalt has always been produced as a byproduct of nickel and copper mining, investors have been largely unable to gain direct exposure to the metal, but since cobalt is essential in the manufacture of a wide range of battery technologies, it has become somewhat of a hot commodity. On the back of near-unanimous forecasts that have consistently promised a serious bull run on all battery materials, eCobalt are one of a handful of companies that identified the need for a pure cobalt play in North America.

The Idaho Cobalt Project (ICP) is the 100% owned by eCobalt, and remains the only advanced stage, near term, environmentally permitted, primary cobalt deposit in the United States. In fact, construction is expected to commence early next year, and the company are currently in the final stages of a full feasibility study, the results of which should be available within the next few weeks. All of this feeds into why I believe the company remains undervalued; operations have yet to commence at both the ICP and the Gigafactory, and once the latter achieves full capacity, the true scale of the cobalt supply deficit will become clear.

It will be at this point, sometime before 2020, when the tech metals markets reach fever pitch and the people who chose to pursue these valuable modern commodities will be in such high demand that this year’s price action will look considerably more sluggish than it does today. Furthermore, cobalt stands to be a particularly dramatic story since, while other battery materials are expecting a surge in demand, both the supply and demand sides of cobalt are undergoing substantial changes.

Historically, the majority of cobalt has been produced from the copper belt which runs through the Democratic Republic of the Congo, Central African Republic and Zambia, but once again, this is tied to primary copper production and is unlikely to be able to meet the needs of the new-look markets. Moreover, production and offtake from these regions have been severely reduced of late as a result of the revelation that illicit mining practices and human rights abuses were rife. Add this to the frequent conflict that occurs in the region and one can see why North-America stands to benefit.

Normally, institutional investors are wary of small cap stocks, but right now these are, by and large, the only option for direct access to cobalt securities. To this end, eCobalt have received substantial support from Australia’s Tribeca Global Natural Resources; the fund focuses on large liquid opportunities in equities, credit and commodities and has been ranked the number one performing hedge fund in all strategies globally in the 2017 Preqin Global Hedge Fund report.