Cobalt 27 Capital: a different kind of cobalt company

by Peter Kennedy

It is becoming accepted wisdom that the increasing adoption of electric vehicles will have a major impact on demand for battery metals such as lithium, nickel and cobalt. That is why **Cobalt 27 Capital Corp.** [KBLT-TSXV, 270-FSE] is setting itself up as an investment proxy on the electric vehicle revolution by offering investors pure play exposure to cobalt.

In a telephone interview from London, England, Cobalt 27 Chairman and CEO, Anthony Milewski, said he decided to focus on cobalt because it is mainly produced as a by-product of other metals, such as copper and nickel. Therefore, supply cannot easily be increased to support the expected rising demand due to electric vehicles and their batteries.

"If you are looking for a proxy for the adoption of the electric vehicle, the one that would have the best correlation is cobalt because of inelasticity of supply," Milewski said. "You can't crank it out like you are going to be able to do for lithium."

But rather than mine cobalt directly out of the ground, Milewski and his partners decided to take a different approach. In addition to owning 2,982 tonnes of physical cobalt, the company has opted to invest in a cobalt-focused portfolio of streams, royalties and direct interests in mineral properties containing cobalt.

It is a strategy that has already proven successful for precious metal sector companies such as **Franco-Nevada Corp.** [FNV-TSX, NYSE] and **Wheaton Precious Metals Corp.** [WPM-TSX, NYSE].

"In a way, we are creating a mining company with an excel spread sheet, not a shovel," Milewski said. "It is a different risk profile and it allows you to spread and diversify across a number of projects and assets in a way that investing directly in a mining company doesn't allow you to."

In a March 15, 2018 report, Canaccord Genuity said it expects electric vehicles to account for 14% of global sales by 2025. That would be up from 1.6% in 2017. It said optimism in the sector is driven in part by government policies in China aimed at encouraging electric vehicle producers to manufacture vehicles with longer driving ranges (in excess of 400 km) and battery energy densities of over 160 watts/kilogram.

"Achieving this is likely to require increased adoption of ternary cathode chemistry (ie Cobalt rich) in electric vehicle batteries," Canaccord said.

In a bid to capitalize on this trend, Cobalt 27 has acquired seven net smelter return royalties on exploration-stage properties containing cobalt. They include four properties in Ontario, two in the Canadian Yukon and one in British Columbia.

One of them, located in the Yukon, is **Golden Ridge Resources Ltd.**'s [GLDN-TSXV] North Canol Project, where a re-evaluation of the project potential in 2017 identified highly anomalous cobalt values of up to 906 ppm in reconnaissance stream sediment samples which were taken across the property in 2011.

Cobalt 27 recently acquired a 1.75% net smelter royalty on all future production of all metals from the Dumont nickel-cobalt project in the Abitibi region of Québec. Held by **RNC Minerals** [RNX-TSX], the Dumont Project contains the world's largest undeveloped, permitted and construction-ready reserves of nickel and cobalt. Production is expected to commence in 2020.

Cobalt 27 is positioned to add to the portfolio after raising $200 million from a strategic private placement of 17.5 million shares at $11.40 a share. On March 16, 2018, Cobalt 27 shares were trading at $12.98 on the TSX Venture Exchange. The consensus among 10 investment firms who follow the company is that the stock will rise to $15.77.

Canaccord estimates that overall cobalt demand grew by 8% in 2017. Lithium ion batteries accounted for about half of overall demand for cobalt production in 2017. "We estimate that mined supply of cobalt was flat at around 110,000 tonnes over 2017," Canaccord said. It said the two largest operations in the Democratic Republic of Congo (which accounts for 54% of global production) were largely unresponsive to increased pricing.

"It is actually very challenging to invest in the electric vehicle [revolution]," Milewski said. He said it is difficult to predict who among auto manufacturers such as **Tesla Motors Ltd.** [TSLA-NASDAQ], **Ford Motor Co.** [F-NYSE], and Chevrolet will emerge as the front runner in the race to supply electric vehicles. "What I know is that the basic materials that comprise the electric vehicle are all going to be winners, and in particular, cobalt is going to be a winner." ■

Anthony Milewski, Chairman and CEO of Cobalt 27 Capital, at the company's cobalt warehouse in Rotterdam, the Netherlands. Photo courtesy Cobalt 27 Capital Corp.