

Electric-Car Metals Let Down Investors

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FULL TEXT

Investors who piled into electric-car metals can't seem to catch a break.

Markets from stocks to crude oil have staged a comeback in 2019 after a tumultuous stretch at the end of last year. But cobalt and lithium – metals that are key to making the rechargeable batteries used in electric vehicles and smartphones – are missing out on the rebound across risky assets.

Cobalt prices have fallen more than 30% in 2019 to their lowest level in two years, according to figures from commodity-price provider Fastmarkets through Feb. 6. Meanwhile, a lithium price index published by Benchmark Mineral Intelligence dropped for the 10th consecutive month in January to a multiyear low.

The descent in both markets is a reversal from 2017, when investors sent prices soaring as they anticipated a wave of demand would lead to supply shortages. The slump is the latest sign that once-hot trades can quickly change as major players in a sector shift their behavior in ways investors can't predict.

Miner companies rushed to take advantage of the excitement in battery metals, leading to steady production of the commodities, which caused prices to tumble in 2018. Slowing growth in China and uncertainty about the country's subsidy policies for electric vehicles further hurt sentiment. China is the dominant player in the supply chain for electric-car batteries.

Battery-metals prices have fallen even as global sales of electric vehicles jumped 64% in 2018 from a year earlier, albeit from a low base, according to data tracker EV-Volumes. Both the U.S. and China logged nearly 80% increases in sales growth, although electric vehicles accounted for just 2% and 4% of their markets, respectively. Anxiety about the future rates of adoption and unknowns surrounding battery technology continue to loom over the sector. "Investors want certainty," said Chris Berry, founder of House Mountain Partners LLC, a New York-based adviser to battery-metals companies and investors. "It's just going to take some time for that to come about."

The tumble in cobalt prices in particular caught investors on the wrong foot. With lithium, some investors expected oversupply to cool the metal's rally because it is relatively abundant in South America and Australia.

But market watchers had projected supply challenges in the Democratic Republic of Congo to support cobalt prices. The country accounts for about 70% of global supply, and geopolitical uncertainty there was a factor some bet would lead to a supply shortfall.

Instead, cobalt output from companies such as Glencore PLC and China Molybdenum Co. was robust. Meanwhile, production from small mining firms also ramped up, with some of their workers using their bare hands to extract the metal without proper safety equipment, according to previous reporting by The Wall Street Journal. Citigroup projects refined cobalt production will exceed demand this year and annually through 2022.

"There's just so much extra supply coming from all the project expansions in the DRC," said George Heppel, an analyst at commodity research firm CRU. "It's been a bit of a roller coaster the last few months."

Shares of several small publicly traded cobalt- and lithium-exploration companies and producers are down 50% or more in the past year. First Cobalt Corp. has tumbled 83%, while Lithium Americas Corp. has dropped 57%.

The challenges facing less established players were illustrated last week when Nemaska Lithium Inc., a small Quebec-based producer that secured a nearly \$80 million investment from SoftBank Group Corp. last year, said it needs an extra \$283 million to finish its mine and meet the conditions of agreements with a private-equity firm and

its lenders. Those agreements were used to generate funds for the roughly \$830 million project. In a sign of how quickly money rushed into the sector, Nemaska Chief Executive Guy Bourassa said in an interview with the Journal last year that he had never heard of SoftBank before the Japanese conglomerate invested in Nemaska.

Since the company announced SoftBank's investment, Nemaska shares have fallen more than 75% to about 25 cents each. Nemaska couldn't be reached for comment.

Credit: By Amrith Ramkumar

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