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Plug into the battery boom and charge ahead

The Australian, Australia

Page 1 of 2

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Critical minerals will be in high demand

CAMERON ENGLAND

The battery revolution – whether it be for electric vehicles, home or large-scale grid storage – has caused a fundamental shift in demand for commodities like lithium, and canny investors can benefit from this long term trend.

Investors wanting to get involved in the battery supply chain can look to global equities, like Tesla, the world's largest electric vehicle manufacturer and a big player in the storage market. But those looking locally will be aiming for the start of the supply chain, where minerals – most crucially lithium – are discovered, mined and sent to producers.

The share prices of some lithium companies have soared over the past year or so, with Argosy Minerals, AVZ Minerals, Core Lithium and Global Lithium Resources all up more than 300 per cent over the past 12 months, even factoring in the recent pullback in the sharemarket.

The reason for the strong interest in these stocks is that the amount of so-called critical minerals needed to build an EV is about six times higher than an internal combustion engine car, according to PwC analysis.

“Critical minerals are needed at all stages of the low-carbon energy cycle,” the consultancy says in its recent Mine 2022 report.

“They include silicon, rare earth elements and uranium for energy generation; copper, aluminium and steel for distribution networks; and ‘battery minerals’ such as nickel, lithium and cobalt

for energy storage. Demand for critical minerals is expected to grow significantly over the next three decades.

“The International Energy Agency estimates that the annual demand for critical minerals from clean energy technologies will surpass \$US400bn (\$584bn) by 2050, which is equivalent to the

annual revenues of the current coal market,” the report says.

“This might seem like a long way off, but miners are already struggling to keep up with the demand for critical minerals.”

Some governments, including Australia's, have designated certain minerals as critical to the national interest.

Renascor Resources' graphite project in South Australia has been awarded Major Project Status and received a \$185m loan for its Siviour development.

As an example of the growing demand, S&P Global Insights forecasts that global light EV sales will hit 26.8 million by 2030, up from 6.3 million in 2021, itself up more than 100 per cent.

In terms of investing in Australia-based minerals stocks, there are a few strategies.

The high-risk, high-return approach is to buy into a company

which is at the early stages of exploration, hoping to make multiples of your investment as they discover a resource and then bring it into development.

While investors in companies such as Core Lithium and Liontown Resources have done just that – Liontown shares are up from 2c in early 2019 to 99c on Monday, although this is well off its 12-month high of \$2.19 – there is no crystal ball which can tell you whether a particular company will hit the mother lode.

Companies with advanced projects are increasingly doing deals with battery manufacturers,

or as in the case of Liontown last week, directly with vehicle manufacturers. The company signed a deal with Ford for the carmaker to buy its product and supply \$300m in debt, allowing it to push ahead with its Kathleen Valley project in Western Australia.

Baker McKenzie says that demand for lithium has been strong as lithium ion batteries have been the technology of choice to date, but that could change.

“Commentators have suggested that cobalt, and graphite used in the battery anode, may see a potential range of six times all the way up to 30 times higher demand in 2040 compared to 2021, depending on the actual direction of battery chemistry evolution in that period,” the analysts say.

Minelife analyst Gavin Wendt says for exposure to battery minerals, lithium is still the standout.

Investors looking to capture good upside might consider a company that had defined a resource but still had a few steps to go to bring a project into production, he adds. “I think the best way to go about it would be to invest in a company which is looking to mine, or is on the cusp of mining a... deposit,” he says.

COMMENTARY P21

STOCKS TO WATCH

PILBARA METALS

■ Macquarie's key pick, offering 'strong near-term production growth'.

LIONTOWN RESOURCES

■ This week locked in a supply agreement with carmaker Ford and signed off on building its Kathleen Valley project in WA, sending its shares higher.



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