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Australia's Key EV Potential Beyond Elon Musk and Tesla

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Battery metals investors around the world continue to talk about the news, plans and ideas discussed at Tesla's (NASDAQ:TSLA) Battery Day in September.

The California-based automaker led by Elon Musk unveiled plans to reduce battery cell and pack costs with one main goal in mind: building a US\$25,000 electric vehicle (EV).

Musk announced on stage that Tesla will be building a cathode facility in Texas, and will be sourcing its raw materials from North America. He also said the company has rights to lithium-rich clay operations in Nevada, which it could potentially use to secure supply of that raw material.

Putting Tesla's North American plans into perspective, Paola Rojas, managing director of Synergy Resource Capital, told the Investing News Network (INN) that geopolitical tensions between the US and China have been increasing in recent times, and COVID-19 has exacerbated this.

"Elon Musk has shown a commitment to bringing production capacity and leading tech back to the US — from Tesla to SpaceX and Boring — and these realities have only, in our view, deepened this stance, so it was long time coming," she commented.

China dominates the lithium-ion battery supply chain, from mid-chemical refining at about an 80 percent share, along with 66 percent of cathode and anode production and 73 percent of battery cell output, as per Benchmark Mineral Intelligence. However, the Asian country only has control over 23 percent of lithium mining as many other countries, including Australia and Chile, are top lithium producers.

"So strategically, in a 'lithium chess game,' if you will, it makes perfect sense to target that weaker bucket, to then tackle their entrenched strengths," Rojas said.

"To achieve this lofty goal, even if all the announcements and plans pan out, in the beginning they will need to rely on companies such as Piedmont Lithium (ASX:PLL), already in place to ease their journey. This aligns seamlessly in Tesla's quest to create truly American-made batteries."

Despite announcing to the world that it is going to find a way to extract lithium from clay, shortly after Battery Day, Tesla signed a binding agreement with ASX-listed Piedmont Lithium, which will supply spodumene from its operations in North Carolina.

Commenting on the deal, Reg Spencer of Canaccord Genuity said that the key takeaway is the importance of supply chain localisation and integration in an effort to reduce battery costs and render EVs more affordable compared to conventional autos.

"While we didn't explicitly expect Tesla to enter into such an arrangement with Piedmont, we had our doubts around the ability of clay-hosted resources to supply the volumes required," he said.

Overall, Canaccord believes Tesla's ambitious targets for battery production capacity (set at 3TWh) and EV production (set at 20 million units annually) are a major positive for long-term demand expectations.

"On that basis, (we) did see a need for Tesla to adopt alternative approaches to lithium chemical supply," Spencer explained to INN.

Rojas thinks it is likely that other ASX-listed companies could benefit from Tesla's plans — and not only those with operations in the US. "I believe Australian and South American producers can be a significant part of their strategy, at least in the beginning until they ramp up locally, say five to 10 years," she added.

For Spencer, broadly speaking, the sheer scale of lithium required for Tesla to achieve its goals, notwithstanding demand from other OEMs and battery makers, means that most other lithium producers are likely to benefit from significantly higher demand.

“Looking more locally, Tesla’s comments around supply chain localisation and the role this plays in helping to reduce overall battery costs will likely benefit those companies with projects/operations in proximity to Tesla operations,” Spencer said. “In the US, this could see Loneer’s (ASX:INR) Rhyolite Ridge as a possible beneficiary.”

Australia’s role in the EV story

Australia is well known for its hard rock, pegmatite-hosted lithium resources, which are mainly shipped to China for processing. Last year, the country retained its spot as the number one lithium producer in the world, with output reaching 42,000 tonnes.

Canaccord expects Australia to play a major role in the supply of raw materials needed for long-term EV production goals, which in addition to lithium will include nickel and rare earths.

“Australia is well endowed with large, high-quality resources, has significant infrastructure and a highly skilled workforce, and is considered among the top mining jurisdictions globally,” he said.

Speaking about Tesla’s plans and Australia’s resources, Rojas agreed with many other analysts who believe Tesla will likely rely on spodumene from the country for at least the next five to 10 years, eventually moving to US-based producers.

“Many reasons support this thesis, geopolitics included. The friendly relationship between the US and Australia surely protects this opportunity,” she said. “I think Australia has a very prominent role in this market already, and this will not disappear any time soon. Our miners are diligent and supported by both institutional and plenty of retail investors.”

Looking at the challenges the country could face ahead, Spencer said Australia has historically struggled in efforts to capture value through downstream processing.

“At present, most raw materials produced here are exported for further processing elsewhere,” he said. “The development of downstream processing will require capital and skill sets that may need to be further developed.”

Choosing juniors and companies to watch

For investors interested in projects in Australia, the considerations when evaluating an asset are no different than in any other place.

“Resource quality (size, grade), proximity to infrastructure, economics (capital and operating costs),” Spencer explained. “Taking this a step further for EV raw materials, product quality (impurity content, grade) are also of significant importance.”

Synergy Resource Capital’s Rojas suggested holding a variety of sources — spodumene and brine, for lithium, or types of deposits in a more general picture. She also recommended diversification in extraction processes — traditional versus direct extraction, and others that may come up in the future; she believes investors should keep an eye on technology and metallurgy when appropriate. Finally jurisdiction is important in terms of diversifying geopolitical risk and supply chain restrictions.

“Additionally, include a mix of producers, developers and explorers to equalise the need for dividends and potential upside,” Rojas said.

Commenting on junior miners operating in Australia in particular, the biggest challenge remains access to capital, Spencer said.

“In the case of lithium and rare earths, high capital intensities for new projects and relatively low commodity pricing sees adequate access to low-cost capital as a major challenge, in our view,” he said.

Weakened pricing has kept miners at stressed levels for a while, with some mine closures, Rojas said.

“It is not the first time a bubble has burst ... but we remain bullish since it looks like lithium ion will remain the core platform tech for the foreseeable future,” she said. “We’re contrarian investors by conviction, so these are the times to find hidden gems and get positions.”

Furthermore, with Tesla planning to produce 3 TWh of battery capacity by 2030, the sector will need to rebalance significantly.

“If miners are not incentivised — when prices for raw materials are too low — that reduces not only production but also additional exploration, to expand resources,” she said. “So there’s a few challenges — miners need to keep costs down, optimise and improve productivity while embracing technology.”

Rojas would also like to see more EVs sold locally. “I believe this would facilitate Australia having a more significant role in terms of batteries as well, and in line more EVs and battery tech plays.”

When asked about lithium projects to keep an eye on that are in Australia or listed on the ASX, Canaccord’s Spencer pointed to lithium producers, such as Orocobre (ASX:ORE), Galaxy Resources (ASX:GXY), Pilbara Minerals (ASX:PLS) and Mineral Resources (ASX:MIN), and advanced developers such as Piedmont Lithium, Loneer and Lithium Power International (ASX:LPI).

For Rojas, there are a few locally listed worth highlighting, including Pilbara Minerals, Lake Resources (ASX:LKE), Sayona Mining (ASX:SYA), Galaxy Resources, Lithium Power International, Infinity Lithium (ASX:INF) and Jadar Resources (ASX:JDR).

“I recently came across American Pacific Borates (ASX:ABR) ... (which is) aiming to service the specialty fertiliser market, but more importantly for this conversation, new high-end technologies like EVs and space shuttles. Worth to look at,” she said. “Secondly, Lithium Australia (ASX:LIT) is working on a couple of alternative extraction methods plus cathode tech. Could also be a contender in some way.”

For other raw materials such as nickel sulphide, Spencer mentioned that producers like IGO (ASX:IGO), Western Areas (ASX:WSA), Panoramic Resources (ASX:PAN) and Mincor Resources (ASX:MCR), are worth watching, while in rare earths, Lynas (ASX:LYC), Hastings Technology Metals (ASX:HAS), Arafura Resources (ASX:ARU) and RareX (ASX:REE) are on his list of companies to watch.

“Nickel and cobalt have felt the downward pressure in pricing, and the latter huge reputational issues,” Rojas said. “But the reality is, no viable technology that can be mainstream in the short term is able to create these batteries without cobalt.”

Rojas added that providing alternate, ethical sources for cobalt aside from the Democratic Republic of Congo, which produces roughly 67 percent of global production, is important.

“Cobalt Blue (ASX:COB) and Alpha HPA (ASX:A4N) are some of the local players we’ve been watching in cobalt and Mincor in nickel,” she added.