Oil companies to start hunting battery minerals juniors, experts say

Wednesday, 2 May 2018 11:43 AM AWT

By Anthony Barich

Experts say oil companies will drive a new wave of mergers and acquisitions activity in about 12 months hunting battery metals juniors, where investor excitement has in part helped the value of deals more than quadruple overall in Australian mining in the March 2018 quarter.

EY Asia Pacific mining transactions leader Paul Murphy said the value of M&A transactions in Australia over the past quarter soared to US$1.8 billion from US$439 million in the previous quarter.

"With stronger balance sheets and buoyant commodity demand, acquisitive growth will drive deal activity in Australia in 2018," Murphy told S&P Global Market Intelligence.

A report by the firm released March 27 revealed that the overall value of mining-related M&A rose by 86% year-on-year to US$25 billion in the March quarter on the back of the transformational merger between giant potash producers Potash Corp. of Saskatchewan and Agrium Inc..

Yet the rest of the market appears to be in a "wait-and-see" mood, though over two-thirds of transactions by volume were still in Australia, Canada, China and South Africa.

The volume of Australian mining and metals transactions represents around a third of global deals, which Murphy said demonstrated the ongoing strength of the Australian market.

"Investors continue to target strategic investments, with activity in battery metals set to increase," he said.

That analysis was no surprise to Benjamin Bell, managing director of Australian Mines Ltd. which bought its flagship SCONI cobalt-nickel-scandium project from Metallica Minerals Ltd. in late 2017.

He said that in the space of six short months, cobalt had gone from being a "trendy bubble" in the minds of investors, including banks, to "something they can see having a long-term future of plus-10 years".

Australian Mines is understood to be the only Australian battery minerals company to have secured off-take for 100% of a commodity within a project, with Korean oil company SK Innovation securing the option to acquire 19.99% of the junior by buying 669 million shares at 12 Australian cents each.

Bell said this would presage a more concerted effort by much bigger oil companies to get involved in battery minerals companies like his own in a more concrete way.

He said he already had conversations with several oil companies who were, at this stage, merely on an "information gathering" expedition, but that should change within 12 months.

Bell likened the current battery minerals market, particularly in lithium and cobalt, as iron ore a decade or so ago when China's booming supply triggered an iron ore boom for Australia, and prices ended up soaring.

"I suspect that these [oil] companies will be more willing to pay more for a [battery minerals] company in 12 months' time at a lower risk, because if they buy now there's a risk they've picked it wrong and they've spent a lot of money backing the wrong horse," Bell said.

"In 12 months they'll pay 20% more for the same company but the project is de-risked. The M&A activity around battery minerals is at least 12 months away."

Forecasting uncertainty remains

Murphy agreed, though he said forecasts over the next five years of the percentage of uptake in electric vehicles varied wildly from 2.5% right up to 20% to 25%.

UK oil company BP acknowledged in its 2018 Energy Outlook that a "key uncertainty" surrounding the prospects for oil demand is "the speed with which sales of electric cars increase".

However, BP said that depends on government policy, technological improvements and social preferences, and their uptake is therefore "hard to predict with any certainty".

Murphy said acquiring battery mineral developers gave oil companies a growth option as "the powering of mobility shifts from fossil fuels to EVs [electric vehicles]".

"I was in Amsterdam last week, arrived at the airport and hopped into a Tesla as the airport had mandated that airport taxis be EVs, so I think the EV take-up will be sooner rather than later," he said.

London-based Arlington Group Asset Management executive director Simon Catt said the battery minerals sector had been the "dominant theme" for materials investors in the past 12 months.

"Investment in battery metals, like the Dotcom Boom, was led by retail investors watching Elon Musk on their television screens. Institutions followed," he told S&P Global Market Intelligence. "The Silicon Valley of the electric vehicle revolution is North Asia, the home of steel and battery makers and the future of the automobile industry."