Sherritt International Corp. Could Double Because of Electric Vehicles

Description

Renewable technologies, specifically electric vehicles, have been getting plenty of press lately. With the price of lithium ion batteries falling every year, most expect electric vehicles themselves to fall in price and start to gain mass adoption.

Even the International Energy Agency, known for its conservative estimates, expects electric vehicle adoption in the U.S. to rise from 180,000 vehicles in 2012 to 20 million vehicles by 2020. The pace has already quickened, with sales of electric vehicles doubling from 2012 to 2013, and rising another 25% in 2014.

The hype however has made most investment options fairly expensive. For example, manufacturer **Tesla Motors Inc.** is up roughly 1,300% in the past two years alone, and lithium miner **Rockwood Holdings, Inc.** was bought out at a healthy premium earlier this year. Fortunately, there is an overlooked Canadian company that most don't associate with electric vehicles, despite the company's potential to benefit massively if electric vehicles take off.

Sherritt International Corp. (TSX:S) has two major joint ventures that produce cobalt. While it doesn't get as much press as lithium, cobalt production and prices are primed to spike dramatically as electric vehicle sales heat up.

Major growth opportunities

Cobalt is a primary component of battery cathodes, the product of choice for applications requiring thin, flexible, and high-energy density batteries such as lithium ion batteries. According to data compiled by Navigant Research, electric vehicles have the potential to almost triple cobalt demand over the next 20 years.

Demand for rechargeable batteries in laptop computers, tablets, mobile phones, and other portable electronics has already been a major driver of global cobalt consumption over the past decade. Electric vehicles should provide the next leg of this long-term growth story.

Current prices for cobalt are about $35,000 per ton. Prices have generally moved up with demand over the past 30 years. The last time there was a major demand shock (stemming from the rise of China) cobalt prices soared 300-1,000%. The global adoption of electric vehicles should create a similar pricing environment.

Sherritt is well positioned

Sherritt has two major joint ventures that produce cobalt as a by-product of nickel mining. Both ventures own significant nickel operations in places such as Madagascar.

While less than 20% of revenues currently come from cobalt, demand is expected to almost triple over the next 20 years, with electric vehicles supplying ~50% of demand by 2035 from a nearly 0% base. If prices readjust to reflect this demand shift (as cobalt prices have historically done), the additional earnings power would be exceptionally meaningful for Sherritt.

It's happened before

Over the last period of rapidly rising cobalt prices (2002-2007), Sherritt's share price rose ~400%. Given that the electric vehicle story should be less volatile than fluctuating Chinese demand, this impending growth driver for cobalt could provide a more stable demand floor with similar price action upside.

Get in before it's too late

While it may take time for the cobalt story to fully play out, Sherritt shares have the potential for massive upside. With the stock nearing a 52-week low and virtually no analysts connecting it with the oft-discussed electric vehicle market, investors would be wise to take a closer look.

CATEGORY

1. Energy Stocks
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1. TSX:S (Sherritt International Corporation)

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