



Elon Musk's star power shines on Australian miners

[Anthony Fensom](#) | 30 Sep 2020

Page 1 of 1

Elon Musk had the battery metals sector on edge in the latest much-hyped Tesla "Battery Day". Yet as the industry assesses the longer-term implications, recent announcements have highlighted the Australian connection to the US electric vehicle maker amid the ongoing global battery revolution.

Tesla's showcase last week was closely watched for hints concerning the company's future plans and there were plenty to digest, albeit perhaps not what Australia's lithium miners wanted to hear.

"It's important to note that there is a massive amount of lithium on earth. Lithium is not like oil—there's a massive amount of it pretty much everywhere," Musk told his global audience.

Rubbing further salt into miners' sore wounds, Tesla manufacturing executive Drew Baglino said: "There really is enough lithium in Nevada alone to electrify the entire US fleet."

Tesla also revealed it was going upstream, with plans to extract lithium from a 10,000 acre (4,046 ha) lithium clay deposit in Nevada, near its gigafactory. It also plans to build its own cathode plant and lithium conversion facility, seeking to slash costs and bring its supply chain closer to home and build its own batteries, targeting a US\$25,000 (\$35,000) EV.

However, the comments sent the share prices of Australia's listed lithium miners tumbling. **Galaxy Resources (ASX:GXY)** dropped 11.6 per cent, **Orocobre (ASX:ORE)** lost 6.5 per cent and **Pilbara Minerals (ASX:PLS)** was down 6.8 per cent on 23 September.

Despite welcoming Tesla's announcements on battery technology, ASX-listed battery developer **Novonix (ASX:NVX)** also dropped by 10.6 per cent, after Tesla failed to unveil a "million-mile" battery as previously speculated.

There was better news for nickel miners however, with Musk saying he was seeking more supplies, along with potentially manganese and silicon. However, he also flagged plans to eliminate cobalt from Tesla batteries due to concerns over the use of child labour in the Democratic Republic of Congo, home to most of the world's cobalt supply.

Commenting on the announcements, lithium analyst Joe Lowry said the share price falls suffered by lithium miners "goes back to the average analyst not understanding lithium and Elon's star power. I don't believe Tesla will be successful in supplying a high percentage of their own lithium requirements—I think they will struggle like everybody else who enters this industry."

More positive for the battery metals sector were comments by Musk that Tesla aimed to have 3 terawatt hour (TWh) (3,000 gigawatt hour, or GWh) of battery capacity by 2030. This compares to the current lithium-ion battery market, estimated by Benchmark Mineral Intelligence (BMI) at just 210 to 220 GWh. (BMI had estimated the market would reach 2.7 TWh in 2030 for the world's 167 battery factories).

Seth Goldstein, who heads Morningstar's electric vehicle committee, said Tesla's production target equated to about nine times 2019 lithium demand, requiring increased supply regardless if Tesla proved successful with its mining plans.

As a result, Goldstein said Morningstar "continue[s] to forecast lithium prices will begin to rise in late 2021. We maintain our US\$125, US\$13 and US\$57 per share fair value estimates for **Albemarle (ALB)**, **Livent (LTHM)** and **SQM (SQM)**, respectively."

Australian link

One big winner did emerge from Tesla's Battery Day however. ASX-listed **Piedmont Lithium (ASX:PLL)** announced it had entered into a "binding sales agreement" to supply spodumene concentrate to Tesla from its North Carolina deposit, under a five year, fixed-price agreement.

CEO Keith Phillips said the agreement was the "start of the first US domestic lithium supply chain," saying it "confirms the trend toward[s] spodumene as the preferred feedstock for the lithium hydroxide required in high-nickel batteries."

The 28 September announcement (which was previously leaked) caused Piedmont's share price to nearly double, highlighting investors' confidence in the Tesla link.

Later came the news that Tesla would build its own lithium hydroxide chemical plant in Texas, described by BMI as "the first move by an automotive company into lithium chemical production."

BMI, which has forecast a lithium supply deficit emerging as early as 2023, said Tesla would need "a number of spodumene supply deals" to secure supply, amid competition from other EV and battery makers.

Australian miner **Sayona Mining (ASX:SYA)** sees "a new market quickly opening up in North America with huge growth potential, as demonstrated by Tesla," according to managing director Brett Lynch.

The miner sees its projects in Quebec, Canada as both environmentally sustainable and strategically located to supply the expanding North American market, both Canada and the US.

Canada has announced its own plans to transform its automotive sector into an EV industry, with the federal and Ontario governments partnering with Ford Motor to invest nearly C\$2 billion (\$2.1 billion) into its plants, including EV production. The Quebec government has also flagged up to C\$7 billion of investment in developing its own battery sector.

Meanwhile, Europe recently overtook China with EV sales topping half a million units in the first seven months of 2020. The European Union has placed lithium on its "critical minerals list," projecting it would need 18 times more lithium by 2030 and up to 60 times more by 2050.

"Exactly when the tipping point occurs no one knows, but with North America and also Europe coming into the market, it's unavoidable that supply cannot keep up with demand," Lynch said. "And on current trends that tipping point is coming sooner rather than later."

Another internationally focused Australian miner, **Lake Resources (ASX:LKE)**, points to the importance of a pricing incentive for the sector to spur increased capacity.

"Tesla is showing the way in moving upstream and other OEMs could start to follow. But without a price incentive—an agreement for higher future prices in an offtake arrangement—underinvestment will continue to occur and we're just setting up the market for another price spike in battery materials," said Lake's managing director Steve Promnitz.

"Tesla has also stressed the importance of sustainability and traceability in its supply chain. Cobalt has led the way and the focus has now turned to lithium, where other automakers such as Daimler and Volkswagen are also increasingly seeking sustainable supply."

For Australia's battery sector, the predicted demand uplift has raised confidence as the industry emerges from a troubled period following the global covid-19 shutdown. Significantly, much of the envisaged clean energy future could be stamped "Made in Australia'.

Disclaimer: The author holds shares in Lake Resources and Sayona Mining.

Morningstar's Global Best Ideas list is out now. Morningstar Premium subscribers can view the list [here](#).

This report appeared on www.morningstar.com.au

2020 Morningstar Australasia Pty Limited

© 2020 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. This information is to be used for personal, non-commercial purposes only. No reproduction is permitted without the prior written content of Morningstar. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892), or its Authorised Representatives, and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Please refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/s/fsg.pdf. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a licensed financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782 ("ASXO"). The article is current as at date of publication.

**Actual investors
think in decades.**



Actual Investors