Cobalt 27 Trading at a Significant Discount to Peers; Analysts Say Cobalt Fundamentals Remain Unchanged

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TORONTO, October 18, 2018 - New analyst reports out of National Bank of Canada, Scotiabank, TD Securities Inc. and Canaccord Genuity suggest that Cobalt 27 Capital Corp. (TSX-V: KBLT / OTCQX: CBLLF / FSE: 27O) continues to trade at a steep discount relative to other streaming and royalty sector peers. The new research reports point to negative sentiment in the commodity markets as well lower cobalt prices as underlying factors. However, numerous global developments suggest that both cobalt prices and shares of Cobalt 27 may not remain depressed for very much longer.

In fact, Cobalt 27 is one of the few publicly traded companies providing investors with pure-play access to electric metals. The Company's business strategy is to acquire physical cobalt material as well as streams, royalties and interests in mineral properties containing cobalt. The Company currently holds 2,905 metric tonnes of physical cobalt in storage (valued at C$283 million) and has acquired 12 streams and royalties, including a US$300million cobalt stream on the world-class Voisey's Bay mine extension in Canada and a nickel-cobaltstream on the producing Ramu mine in Papua New Guinea. The Ramu nickel-cobalt transaction is expected to close before year end and will provide the Company with immediate cash flow while the Voisey's Bay cobalt stream is expected to commence in early 2021.

A recent research report out of TD Securities Inc. noted that "the most significant near-term catalyst for Cobalt 27 will be closing of its Ramu streaming transaction, which would allow the company to begin paying a dividend and potentially buying back stock." TD Securities has a buy recommendation on Cobalt 27 and a 12-month price target of C$13.00.

Canaccord Genuity analyst Eric Zaunscherb says that "the ongoing share price pullback for Cobalt 27 is naturally related to the pullback in cobalt pricing and related sentiment." Zaunscherb also states that a "bull-case scenario [for Cobalt 27] suggests significant upside with a return to our price deck as well as technical tweaks to the key streams." Canaccord has a speculative buy rating on the stock and price target of C$15.50.

National Bank of Canada research analyst Rupert Merer is quick to point out that Cobalt 27 is trading at a heavily discounted implied cobalt price of just $15 per pound, based on its Voisey's Bay and Ramu battery metals streams, when spot prices for cobalt are currently trading above $33 per pound. National Bank maintains a C$15.00 price target on the stock and outperform rating.

In addition to its shares being weighed on heavily as of late due to negative sentiment and lower cobalt prices, Cobalt 27 is currently trading at steep discounts when compared to industry peers who also implement similar royalty and streaming models. For example, while Sandstrom Gold (NYSE: SAND) trades at an estimated 2019 enterprise value of 11.8x per share, Cobalt 27 is trading at just 6.9x per share. And on a price to net asset value ratio, Cobalt 27 is currently valued at just 0.4x per share while industry peer Wheaton Precious Metals (TSX: WPM) is trading at a 1.2x valuation.

Figure 1. Cobalt 27 Valuations vs. Industry Peers w/ Similar Business Models
Image:
https://www.accesswire.com/users/newswire/images/525612/4702a59f-eb1c-46d7-913f-c11266c36a6b.png

On a valuation basis alone, these factors could make the current share price of Cobalt 27 an attractive entry point for investors looking to gain exposure to electric metals such as cobalt and nickel.

Cobalt OutlookRemains Robust

The outlook for cobalt also remains positive despite recent price action. Industry experts agree that cobalt's long-term fundamentals, combined with potentially significant changes taking shape within the global supply chain, could lead to a sharp reversal in spot prices for the metal.

As TD Securities analyst Craig Hutchison points out, "demand for cobalt remains very much intact, in our view, with an estimated 5.4% y/y growth this year. Electric vehicles (EVs) represent much of the growth over the next decade as adoption rates increase in western economies and China aims to become the dominant producer of high-capacity battery cells, which require greater amounts of cobalt."

Meanwhile, the National Bank of Canada notes that the world's largest producer of cobalt globally, the Democratic Republic of Congo, is set to declare cobalt a strategic metal in the coming weeks and in doing so will raise the country's royalty tax on cobalt production to 10% from the current rate of 3.5%. If signed into law, the new royalty will likely have an immediate impact on cobalt prices worldwide.

Scotiabank analyst Michael Doumet states that "while Cobalt prices have fallen since May, with some weakness attributable to weak summer demand (as well as unwinding of speculative positions). But, in our view, underlying fundamentals are unchanged. And, while fresh off declines, cobalt volumes/pricing appear to be firming up (according to Metal Bulletin), which could translate into positive valuation implications for KBLT."

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