

The cobalt sector has been hit hard over the past 6-months and Cobalt Blue is no exception, with the share price falling 73% from \$1.60 to 43.5c. The sector has de-rated materially on:

- A period of profit taking after a stellar 6-month run from Nov-17 to Apr-18 (COB rallied ~740% from 19c to \$1.60!).
- Then several developers released studies with higher than expected capex (including CLQ, COB and others).
- Then the US-China trade war kicked in hitting these stocks again when they were already down and out.

**In our view COB is materially oversold... and the stock remains our Top Pick in the ASX cobalt space... for a whole host of reasons.**

COB remains the lowest capex / tonne of cobalt project that we are aware of and the only one backed by LG. The EV thematic is also alive and well (see macro points below)... and we believe it is only a matter of time before the market starts getting bullish on cobalt stocks again. We also believe the next bull run in cobalt stocks could begin anytime in the next 3-6 months and could potentially be even more lucrative than the most recent run.

### **Strong Macro Outlook for Cobalt Remains**

If the August EV sales figures out of China are anything to go by, the mainstream adoption of EVs is actually happening faster than most commentators are predicting:

- New Electric Vehicle sales in China for the month of August were 101k, up 48% year-on-year!
- New Electric Vehicle sales in China YTD in 2018 were 584k, up 84% year-on-year!

### **Stock Specific Developments for Cobalt Blue**

- COB has ~A\$9.8m in cash.
- COB is targeting a 20 year mine life in the BFS (up from 12.8 years in the PFS) and the exploration drill programme over the next 6 months forms part of that:
  - 15,000m programme, updated resource due end Q1 2019.
  - Exploration Target: 11-27mt @ 820-900pppm. (vs. existing resource of 72mt @ 852mt). This target ignores potential from drill testing geophysical anomalies.
  - This represents potential to extend the mine life materially and add several hundred million dollars to the NPV.
- COB is also several optimisation studies which represent potential to materially improve project economics – driving lower opex and an improved IRR and NPV. The results of these optimisation studies will be progressively released over the next 6-9 months providing important stock-specific catalysts. Optimisation studies include:

- **Improved recoveries** – which would drive higher production and lower costs. Update due end Q2 2019.
- **Lower power cost & use** – 22% of opex in PFS was power. We see material upside potential on this front. Update due end Q2 2019.
- **Lower cost tailing disposal** – Tailings disposal represented a material 10% of opex in the PFS. We see clear scope for improvement. Optimisation studies due Q4 2018.

**Disclosure: Steuart McIntyre owns shares in Cobalt Blue**

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