'Green metals' could drive a new Australian resources boom

By Perpetual Asset Management

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ASX investors are well-placed to benefit from the next potential resources boom, argues Perpetual's JAMES HOLT

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AUSTRALIA could be on the cusp of a new resources boom as the global race to decarbonisation underpins demand for base metals.

This year the International Energy Agency expects global investment in clean energy to reach $US 1.7 trillion.

Electric cars and renewables such as solar are attracting much of the attention, but the IEA is also calling for greater investment in areas such as efficiency, grids and batteries.

What can ASX investors expect?

"Every resource boom is a little bit different," says James Holt, head investment specialist with Perpetual's equities team.

"In the 70s, the resource boom was about energy and inflation, in the 1980s it was Japan and in the 2000s was about iron ore and coal for China.

"The next one is shaping to build around the "green metals" required for decarbonisation."

The transition from carbon-intensive fuels to renewable electricity relies on a global overhaul of energy consumption, which will be built with critical minerals like copper, nickel, lithium, manganese, cobalt, graphite, zinc and rare earths.

These metals are essential to produce electric vehicles and develop renewable energy technologies, says Holt.

"Making a conventional car uses about 30 to 40 kilograms of nickel and copper. But electric vehicles require much higher amounts — more than 200 kilos of nickel, copper, lithium, manganese, cobalt and rare earths and other minerals.

"In most of those commodities, Australia is the number one or number two producer in the world.

"If you need to replace a couple of billion conventional cars with a few billion electric vehicles, you have a pretty big surge in demand on your hands."

The same applies to energy production, where coal and natural gas generation are light consumers of copper and nickel, while renewables such as nuclear, solar, onshore and offshore wind are much bigger consumers of critical metals.

History repeats

History also backs expectations of another resources boom, argues Holt.

The past five decades have seen the markets alternate between resource and technology booms.

“It’s almost like you get a resource boom every second decade,” says Holt.

“The 70s was very good for resources because inflation drove the value of real assets like commodities higher. But then markets turned to other exciting industrial growth opportunities.

“Resources came back in the 80s and 90s — very much around Japanese demand — only to be replaced by the excitement of tech in the dot-com era.

“Then the dot-com bust gave way to another resource boom driven by China up until 2007.

“With the GFC ushering in a period of low interest rates investors rushed to tech again, pushing ’long-duration’ tech valuations to extreme highs.

“Now with rates rising and the push to decarbonise intense, we may be at another rotation in investment regimes.”

Why tech could underperform

Holt believes this pattern is a result of investors hyping the leading companies in any rally to the point of over-valuation, which leads to underperformance in the following years as earnings leadership rotates to different sectors.

In the early 90s, Japan’s behemoths NTT, Bank of Tokyo-Mitsubishi and Industrial Bank of Japan were the world’s largest companies before more than a decade of lagging returns. In the 2000s, it was the likes of Microsoft, Cisco and General Electric.

“Microsoft fell 75% per cent from 2000 to 2009 – then it got back to where it was in 2017. So, you had to wait seven years to make your money back.

“Cisco Systems share price has never recovered where it was in 2000.”

The current hype over technology and Artificial Intelligence already looks like giving way to underperformance as the resource sector growth takes hold, argues Holt.

Fears of China slowdown overplayed

Fears of a China slowdown derailing the Australia’s growth are being overplayed, reckons Holt.

“For many people, China’s future is either growth or collapse. They forget that economies can go sideways for a very long time and still be big consumers of commodities.

“Japan has had challenges for three decades but is still our second biggest trading partner in most commodities.

“China might have very modest growth ahead, but it will continue to be a multi-trillion economy consuming a lot of iron ore each year. That’s not a bad outcome for Australia.”

For investors, Holt believes the opportunity lies in the fact that the ASX hosts dozens of companies focused on the critical minerals boom.

About James Holt and Perpetual’s Australian equities team

James is head investment specialist with Perpetual’s equities team.

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Our Australian shares team manage a range of share strategies across the market capitalisation spectrum. We manage long only, long/short, absolute return and concentrated strategies.

Perpetual is a pioneer in Australian quality and value investing, with a heritage dating back to 1886.

We have a track record of contributing value through “active ownership” and deep research.

Find out more about Perpetual’s Australian equities capabilities

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