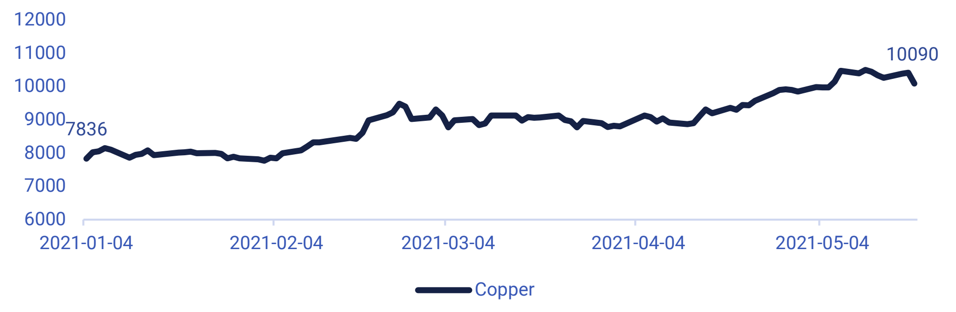
ARCTIC MINERALS AB

www.arcticminerals.se
Sector: Basic Materials
List: NASDAQ First North
Share price: 0,74 SEK (Market Cap: SEK 100 million)
Latest analysis: [March 10 2021](#) (Fair value per share: SEK 1.11)

Record high copper price implies potential

During the last 30 days the copper price set a new record at over 10 450 USD per ton. Last time the copper price reached USD 10 000 per ton was in 2011. Year to date, the copper price has risen with 28 percent.

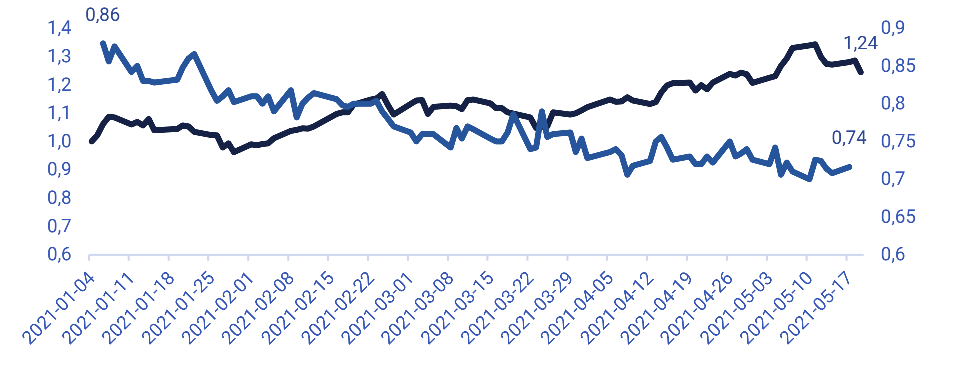
Copper price (USD per ton)



Source: Refinitiv Eikon, 2021-05-20. The last date in the graphs is 2021-05-19.

Many other minerals are also at record price levels. This is reflected in the valuation of metals and mining shares. A global index has risen with 24 percent. In contrast, the share price of Arctic Minerals has decreased with 14 percent this year. This is somewhat surprising to us. Even though we do not expect an exact correlation due to the early stage of the company, we would espect some positive correlation. Arctic Minerals intends to discover and sell mineral assets. Asset prices in theory should follow mineral prices.

Share performance relative to iSHares MSCI Global Metals & Mining indexed, YTD



Source: Refinitiv Eikon, 2021-05-20. The index is in USD while Arctic Mineral's share price is in SEK. The index is set to 1 at 2021-01-04. The USD exchange rate was 8.27 at the beginning of the period and 8.33 on 20 May. As the exchange rate has been comparatively stable during the period, we have not made any currency adjustments.

Future trends in the copper price

Arctic Minerals, and in particular its joint venture at Perähpoja whose main mineral is copper, should benefit from the the rise in the copper price in the long run. There are reasons for believing that the price will remain high in the years to come. Two major trends should lead to an increasing demand for copper: the electrification of the EU and US economies and the continuing industrialization of China.

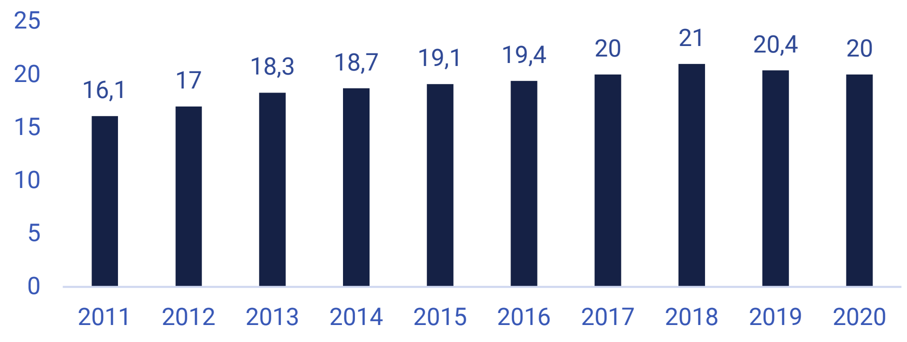
The EU and the US now both aim to be climate neutral by 2050, as US president Joe Biden recently announced that the US will return to the Paris agreement from 2015. He also set a target to reduce greenhouse gas emissions by 50 percent as of 2005 levels by 2030.

Most of the energy used in both regions today is still derived from petroleum, natural gas and coal. Energy can be used for electricity, transportation or industrial processes. In order to achieve the climate goals of the Paris agreement, construction programs of a scale never seen before will have to be undertaken. New power grids as well as green power plants will be needed. In transportation and industry, there will need to be a transition to electric propulsion, possibly complemented by hydrogen propulsion. Copper will be one the key minerals in the implementation of this transition, as it is used for electrical wiring. Demand is thus bound to increase substantially over the coming decade if the goals set out are to be even partially met.

Secondly, China is still industrializing and far from fully developed. The country imported 6.7 million tonnes of copper in 2020, equivalent to about a third of the world's mining output. Most of the increase in copper output during the last decade been absorbed by China, and the demand is set to continue increasing in the years to come.

Production has been stagnant for the last five years, which can be seen in the graph below. Chile is by far the largest producer of copper at 5.7 million tonnes in 2020, followed by Peru at 2.2 million tonnes and China at 1.7 million tonnes. World mining output was 20 million tonnes in 2020, although total copper smelting, including recycled materials, amounted to 25 million tonnes.

Copper output



Source: U.S. Geological Survey, Mineral Commodity Summaries.

Production is expected to increase substantially in the next few years, particularly in Chile, Peru, Australia, Indonesia and the United States. Production is expected to reach 24.6 million tonnes in 2024. Several major projects are underway in Chile, including the USD 5.2bn Quebrada Blanca Phase 2, which is expected to boost production by 316 000 tonnes of copper equivalent per year.[1]

Both supply and demand are set to increase. It is difficult to make predictions about prices. In the short term, as more supply comes online, prices should probably stabilize, though presumably at higher levels than historically. Longer term basic corporate finance dictates that prices will need to be high enough to support further development as marginal ore is being developed. This is the phenomenon where prices need to increase to support a continued production increase as the cheapest sources are mined out. There is a depletion problem in the copper industry. As with other raw materials, most cheap copper ores have already been mined out. Mainly lower grade ores remain. Prices should therefore increase in the long term. Copper assets with high ore grades should consequently increase in price.

[1] https://www.globaldata.com/global-copper-production-recover-5-6-2021-covid-19-hit-output-2020-says-globaldata/

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