



Lithium Stocks Plunged Last Week.: Should Investors Change Their Growth Expectations on These 2 Juniors?

Description

Global lithium stocks faced a general decline on January 18 after the world's second-largest lithium producer **Sociedad Quimica y Minera de Chile** ([NYSE:SQM](#)) announced a breakthrough in its talks with the Chilean state investment promotion agency Corfo, allowing the mining giant to triple its lithium production quota.

There are fears that SQM, the world's lowest-cost lithium producer, could significantly ramp up production and dampen the general rise in lithium prices in the global market.

Lithium is a critical component in battery technology, and planned increases in electrical vehicle production from almost all major vehicle manufacturers across the world may keep supporting rising lithium prices in the near future, but the latest SQM news pokes some holes in the thesis.

That said, should investors throw in the towel after the recent sector-wide equity valuation declines?

The development somehow threatens my [lithium growth play](#) previously discussed in December last year, warranting an update to the theme; **Nemaska Lithium Inc.** (TSX:NMX) lost 6.8% in its equity valuation, and investors in **Lithium Americas Corp.** ([TSX:LAC](#)) lost a significant 14.9% on the day.

Could the SQM deal dampen price growth?

Market sentiment is that SQM could easily flood the fledgling battery manufacturing market with high-quality but cheaper product from its rich Chilean deposit, as it increases its production of lithium.

Long-term global lithium supply may be higher than what analysts previously modeled, resulting in lower equilibrium prices and negatively affecting mining project net present values and probably complicating project financing activities.

That said, SQM will not flood the lithium supply market overnight. The company will need some time to implement production expansion plans, yet the growing lithium demand is estimated to outstrip supply as early as this year.

Furthermore, SQM, being the low-cost leader, is likely to become a price leader in the lithium market that will interface with most buyers. The company may decide to maintain current contract pricing to avoid price wars, thus benefiting profitability for the whole industry.

There are similar developments in the uranium market right now, where market leaders **Cameco Corp.** and its Kazakhstan counterpart are curtailing supply growth to support uranium price recoveries.

It is therefore safe to assume that SQM may strive to maintain current market pricing for its lithium output. Lithium market prices reached US\$24,041 per tonne in mid-November 2017.

Nemaska Lithium Inc. update

Nemaska released its 2018 feasibility studies on January 9, showing that it will be very profitable selling lithium hydroxide at US\$14,000 per tonne, and lithium carbonate at US\$9,500 per tonne for the first five years and at US\$12,000 per tonne thereafter over the remaining life of the mine. The mine's expected life was increased by 37% to 33 years.

These may be conservative estimates for the miner's viability and operations will remain highly cash flow positive, even if lithium price growth stagnates in the future.

The miner successfully delivered its second shipment of battery-grade lithium hydroxide solution from its Whabouchi spodumene concentrate this January.

The product quality compared very well to that of its industry peers and competitively met the specifications of cathode producers globally, earning the company a \$4.6 million milestone instalment payment from Sustainable Development Technology Canada for having achieved the second milestone in the development of its phase one lithium hydroxide plant.

Nemaska remains a promising lithium growth play, and its uptake deal with **FMC Corp.** provides financing and technical know-how critical for project success.

Lithium Americas Corp. update

The junior miner is still at project phase, is yet to produce any battery-grade lithium, and viability hasn't been proven, hence the deeper 15% plunge after the SQM news.

That said, the stock still holds huge promise as a profitable lithium growth play sitting on a high-grade resource, and its 50/50 joint venture deal with lithium giant SQM in Argentina is likely to be successful.

Investor takeaway

The latest SQM deal put a small dent on the lithium growth theme, but bullish investors may have been afforded an opportunity to buy the dips in Lithium Americas and Nemaska Lithium.

However, there is risk that SQM could take away significant market share from emerging new lithium

miners.

CATEGORY

1. Investing
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2. TSX:LAC (Lithium Americas Corp.)

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