2 Lithium Stocks to Charge Your Portfolio

Description

Over the past few years, lithium stocks could do no wrong. As the demand for electric vehicles has soared, so too has the demand for lithium-ion batteries. The metal rode strong future demand and expected short supply to new highs. Over the past two years, lithium prices more than doubled, and lithium stocks benefited. However, 2018 has been a different story.

Incoming supply

Although demand is still strong, the market is expected to be flooded with new supply. In early January, a long-running dispute between the Chilean development agency Corfo and major lithium supplier **Sociedad Quimica y Minera de Chile** (NYSE:SQM) came to end. As a result, SQM is able to expand lithium production by almost 350,000 tonnes through 2030.

Morgan Stanley came out with a research note in which it pointed to oversupply. It estimates that new supply from South American could reach 500,000 tonnes a year by 2025. To put that into perspective, current annual production is approximately 215,000 tonnes annually.

Fears overblown

However, not all are in agreement with the analysts at Morgan Stanley. Critics believe they are discounting additional uses for lithium-powered batteries. Likewise, despite there being an oversupply of mined lithium, refined products are still in tight supply. There is no shortage of lithium stocks, such as **Orocobre Ltd.** (TSX:ORL) and **Nemaska Lithium Inc.** (TSX:NMX), that have seen their prices crater in 2018.

Early stage development company

Orocobre has lost approximately 32% over the past few months. The company's flagship property Olaroz is one of the largest lithium mines in Argentina. It also happens to be a low-cost, high-margin mine. The company has received a boost of confidence from Toyota Tsusho (TTC), the strategic trading arm of **Toyota Motors**. TTC has taken a 15% stake in the company.

Orocobre has two exciting and major growth projects which are fully funded. The Olaroz expansion and the new 10,000 tpa lithium hydroxide plant to be built in Japan are expected to be completed in 2019.

Advanced-stage exploration company

Nemaska has also had a tough start to 2018. Over the past three months, its share price has lost approximately 38% of its value. The company's current share price of $1.28 is approximately 97% below its one-year target price of $2.52. Nemaska's primary focus is building its flagship mine, the Whabouchi mine in Quebec. The property is North America's richest and one of the largest reserves of lithium spodumene in the world.

Despite its downtrend, the company got a shot in the arm in early April, as Softbank agreed to take a 9.9% stake in the company and invest as much as $100 million through a private placement. Nemaska is also backed by the Quebec and Canadian governments. Approximately 40% of its planned production capacity is already backed by offtake agreements. Likewise, the company is in talks with U.S. private equity firm Orion Mine Finance Group on a lithium streaming deal.

From fear stems opportunity

The recent price weakness is due in large part to supply catching up with demand. However, there is no broad consensus as to when this will happen. In the meantime, lithium stocks have consolidated and are not ripe for the picking.

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