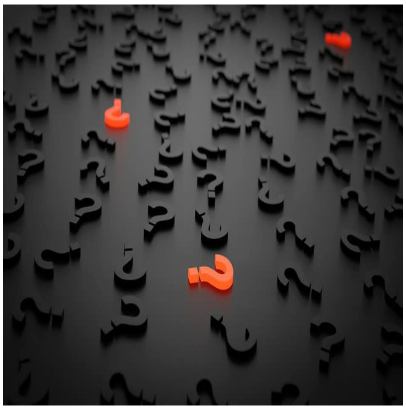

Will a Flooded Market Kill Lithium Stocks' Upside?

Description

Lithium prices have been rising steadily over the last two years, as commentators have been catching on to the idea that electric vehicles (EVs) may finally start edging out gas-fueled standard vehicles. Eyeing a sea change in the auto industry, investors have begun looking to lithium and cobalt for exposure to a potentially explosive market and a tech boom hungry for component materials.

However, with news that lithium supplies are set to expand, the pressure on the market has been reduced, and suppliers have seen their share prices fall. While this is creating a value opportunity, the real good news is that increasing demand will start to increase those share prices once actual EVs start rolling off the conveyor belts and onto the streets.

However, with new sources of lithium set to flood the market and drop prices, investors' capital gains are likely to coincide from now on with vehicle and other product releases. Let's analyze two of the best lithium stocks on the TSX and see which of them is best positioned to take advantage of a potentially turbulent EV market.

Nemaska Lithium Inc. (TSX:NMX) is looking at an expected 122% annual growth in earnings, so growth investors should take note of this stock if they're looking for precious metal commodities. While it does hold a large amount of physical assets, Nemaska Lithium's low level of debt at 1% makes for a relatively risk-free stock.

Meanwhile, **Lithium Americas Corp.** (TSX:LAC)(NYSE:LAC) continues to fall in price, more or less in line with the industry. With a 1.6 % expected annual growth in earnings, Lithium Americas might not be one for growth investors. However, the coming electric car boom is likely to re-balance this.

Lithium Americas, being one of the biggest lithium stocks on the TSX, may well find itself right in the middle of a lithium rush in years to come, though any hidden upside is likely to depend on the extent to which the market gets flooded with new supplies. Lithium Americas's level of unsolved physical assets is a lot lower than Nemaska Lithium's, and it holds less debt as well at just 0.9%, so, again, you're looking at a stable enough stock if you're willing to take a risk and capitalize on falling prices.

The bottom line

Want a deadline for when to get in and out of lithium stocks? Take **Morgan Stanley's** conservative forecast that new mines in Argentina, Chile, and Australia could flood the market with over half a million tonnes of lithium per annum by 2025. Lithium is pretty abundant on this planet, so expect share prices to be driven by the rate of worldwide conversion from gas to electric vehicles.

Also bear in mind another forecast from a few years back: that total oil reserves will last only for 53 years. The takeaway here is that if you (or your kids) are still holding lithium shares by then, you're likely to see a pretty significant leap in capital gains when those oil barrels finally run dry. Holding lithium in your portfolio seems, therefore, either a moderately short- or a very long-term play right now.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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