



Could a Lithium Growth Play Deliver Positive Returns in 2019?

Description

As the lithium growth play continues to shape up over time, **Lithium Americas** ([TSX:LAC](#))([NYSE:LAC](#)) and its more advanced counterpart **Nemaska Lithium** are two very promising pure-play lithium stocks on the TSX that have gone through severe pain during the past year. Could a lithium growth play deliver better returns in 2019?

Forecasted growth in lithium demand driven mainly by future electrical vehicle battery production is the main driver of strong investor interest in lithium mining stocks, as the mineral comprises a very small but critical component in an electric vehicle battery unit and its demand is expected to be relatively inelastic, even in the long term, providing support for higher market prices.

I had recommended entering the lithium growth play [earlier](#). Unfortunately, surprise news from Chile, where the lowest-cost producer and world-leading supplier of the mineral **Sociedad Quimica Y Minera de Chile** (SQM) got granted a licence to significantly increase mining production weakened investor enthusiasm due to fears of a near-term supply glut that could dampen price growth for battery grade lithium.

Lithium juniors [got crushed due to bearish capital market sentiment](#), but there could be some hope for rebounds in the medium term.

What's fueling new hopes?

Although electric vehicle demand remains tepid in the short term, global car makers are showing some serious plans for growing this segment right now.

Automakers are pouring billions into electric vehicle and hybrid technologies, with several new models set to hit the market in the next two years. As it starts mass production of electric vehicles, Daimler AG, the parent company to super brand Mercedes Benz, released plans to buy about US\$23 billion worth of battery cells by 2030.

Competitors Volkswagen (VW) and BMW are making massive investments in this vehicle line too, and

innovations that strongly support the lithium growth play are still coming out, with an ultra-fast electric vehicle charging station getting tested in Germany in December last year as BMW and Porsche unveiled a 400 kw charging station through a consortium including Siemens AG and battery charging specialists Allego GmbH and Phoenix Contact E-Mobility GmbH.

Fast-charging networks that rival **Tesla's** are being built along major highways in Europe, and we could see lithium, cobalt, and nickel demand from battery manufacturers rising faster than previously anticipated.

Most noteworthy, increased lithium mining production does not automatically translate to increased battery grade lithium supply, as investments in converter capacity are likely to lag mining production growth over the next three or more years.

The rise in production of electric vehicles remains a compelling thesis supporting a growth in lithium prices, and this could mean rising earnings potential for small and upcoming lithium mining stocks like Lithium Americas.

Lithium Americas

Lithium Americas (LAC) is a development-stage lithium miner that boasts of two world-class, low-cost lithium mining assets: the Cauchari-Olaroz project in Argentina and the Thacker Pass, the largest known lithium deposit in the United States.

The company recently completed some transactions with a new partner Jiangxi Ganfeng Lithium Co. Ltd (Ganfeng), a fast-rising Chinese lithium mining giant that is on a serious mission to build massive controlling stakes in world lithium production assets.

The duo bought out SQM's 50% stake in the Cauchari-Olaroz lithium project, resulting in LAC owning 62.5% of the assets and Ganfeng holding the remainder. The transaction provided LAC with a new technical partner who availed a US\$100 million credit facility to the project. LAC has a much better funded position to successfully finance project development activities, with construction targeted to be complete in 2020.

I like LAC's strong portfolio of production offtake agreements with partners Ganfeng and Bangchak, where product will be supplied at ruling market prices. Ganfeng will buy 40%, and Bangchak contracted for 10% of stage one production, while Ganfeng has an additional 34% offtake agreement. The company is well poised for success once production commences next year.

Investor takeaway

A lithium growth play remains a reasonably viable investment theme for long-term investors, and the junior miners offer significant upside potential, even in 2019.

That said, development stage miners have elevated investment risks, and the potential for shareholder dilution will remain high until the company becomes cash flow positive.

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