Have These 2 Lithium Stocks Bottomed Out?

Description

Last summer I'd discussed the rise in interest for lithium producers, which was largely powered by the excitement for the coming electric vehicle boom. In a follow-up article in July, I'd discussed how the market could behave in the near term. With supply expected to flood the market, I'd warned investors that lithium prices had likely peaked in 2018 and were expected to fall in 2019.

This meant that investors would have to be choosy about when they decided to dip into this volatile market. Lithium price have declined steadily month by month for nearly a year now. Sales of electric vehicles rose 64% worldwide in 2018, but this was not enough to generate momentum for battery-metals prices.

As is usually the case in the mining sector, hype has led to rampant investment in exploration and production. In turn, the spectre of oversupply is now scaring away traders. How long could this process last? **Citigroup** released 2017 estimates that forecast supply to outpace demand into 2023, with the gap widening each year. Cratering prices may change this dynamic going forward.

Lithium Americas (TSX:LAC)(NYSE:LAC) is a Vancouver-based company that operates two lithium projects in Argentina and Nevada, USA. Shares have dropped 3.9% in 2019 as of close on February 15. The stock is down 54% year over year.

The company is expected to release its next batch of earnings on April 4. In the third quarter, the company reported a net loss of $7.4 million, which represented a $5 million increase from the prior year. The company also boasted $26 million in cash and cash equivalents. Price weakness is expected to have a negative impact on its Q4 and full-year report, putting investors in a jam ahead of its next earnings release.

Lithium Americas stock price is just not favourable enough to motivate a buy in these choppy conditions for the broader lithium market.

Nemaska Lithium (TSX:NXM) is a Quebec-based lithium company. Shares of Nemaska have plunged 52.9% in 2019 as of close on February 15. The stock is down 80% year over year.

Nemaska stock has been pummeled over the last week, falling over 40% as of close on February. The company was forced to disclose that it would have to revise its budget for the Whabouchi lithium mine and Shawingan electrochemical plant upward by $375 million. Nemaska received significant financing to power its project after the Japan-based SoftBank Vision Fund purchased 9.9% of Nemaska. The $1.1 billion in financing illustrates how enticing the sector looked even a short time ago.

On Monday the company announced that it had terminated a multi-year supply agreement with Livent Corporation, which will cost Nemaska $20 million to settle. Obviously, this is unwelcome news for shareholders.

Even still, Nemaska is a junior miner with a lot of cash behind it. It can survive a few hiccups, but shareholders will be punished in the near term. Nemaska stock had an RSI of 13 as of close on February 15, thereby indicating that the stock is deep into oversold territory. Investors looking to cast a bet in this volatile market should consider Nemaska stock amid this whirlwind of rough news.

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1. Investing
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