



Is This Beaten-Down Lithium Growth Stock a Buy After Last Week's 46% Drop?

Description

One of North America's most advanced lithium mining-development-stage plays, **Nemaska Lithium** (TSX:NMX) is heavily beaten down right now after a precipitous share price drop on February 13. Could this be the best entry point for contrarian investors, who have always harboured some affection for the stock?

Why the scary plunge?

On February 13, Nemaska Lithium stock plunged by as much as 46% in a day after it released its quarterly financial statements.

Concerning the Whabouchi project's (which includes a mine and electrochemical plant) reassessed project capital-expenditure budget, \$375 million in additional financing is required to complete the ongoing mine- and plant-development activities.

This is on top of a \$1.1 billion initial financing package announced last year, which included \$454 million in equity financing, a US\$350 million (\$454 million) callable bond facility, and a US\$150 million streaming agreement with Orion Mine Finance II LP.

The additional financing, once sourced, will cause further equity dilution, but this is not the biggest issue.

Increased project uncertainty

Nemaska Lithium may not be able to meet the critical "cost-to-complete test" on its ongoing development-stage project — a critical condition that is set in the US\$350 million secured bonds. The company needs to urgently raise new financing before it can access the bond funds, and it's uncertain whether it will be able to draw on this debt instrument.

The bonds attract interest at 11.25% annually, paid quarterly, and interest is already accruing on this

debt, yet the funds aren't accessible yet.

Further, the company has only received a US\$75 million deposit on the other facility from Orion, and the remainder is contingent on meeting some pre-set terms, which are dependent on project progress, but this project's progress is dependent on the company accessing the US\$350 million bond funds.

The company seems to be in a tight financial situation, and project-execution timelines may be pushed further if management is unable to source new financing as soon as possible, and investors are freaking out.

A potential contrarian buy?

A further cause of price weakness on Nemaska Lithium shares is the company's notice of its cancellation of a long-standing supply agreement with **Livent** (formerly FMC Corp).

Livent is going for arbitration, and Nemaska estimates that it will repay the advanced sums and cancellation fees, all amounting to US\$20 million. There could be further penalties and mounting legal costs, yet the company needs fresh capital injections right now.

Trading at around \$0.30 today, the stock is thoroughly beaten down right now. Shares last exchanged hands at these price levels back in October 2015 before the onset of a massive rally that saw the share price topping \$2.35 in January 2018.

All capital gains have since been lost, as the supply [outlook significantly changed early last year](#) when a leading world supplier of battery-grade lithium was given the green light to boost annual production in Chile, and market supply growth strengthened during 2018, leading to significant lithium price weakness.

At a price-to-book-value multiple under 0.44 times, there is a significant margin of safety on company shares. The \$335 million in unrestricted cash and cash equivalents on the company's books by February 8 may carry it through a few more quarters, as it negotiates for new capital, and there are significant chances that an existing or new investor may chip in with funding.

The company is one of the most promising development-stage lithium plays in North America today. Last year, it signed initial five-year supply agreements with LG Chemicals, a leading battery manufacturer, and with Northvolt. Including the right of first offer granted by SoftBank Group of up to 20% of production, the company had committed over 90% of its anticipated annual production.

If initial mine production commences by the end of this year as anticipated, the company will start generating stable revenues from spodumene concentrate sales to Hanwa Co, a leading Japanese trading firm, with lithium conversion being conducted at China's General Lithium Corp., before its own conversion plant comes online a year later.

Cash flow challenges could be a thing of the past in no time.

Foolish bottom line

A buy on Nemaska Lithium stock can be a rewarding contrarian play on a seemingly troubled but advanced lithium junior miner, whose mining project's lifespan is expected to extend further than three decades.

That said, the company needs a new financing package that is bigger than its current market capitalization, and there is significant investment risk on its equity offering.

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