



## Don't Buy Tesla Inc (NYSE:TSLA) Stock Before Considering Lithium Americas Corp (TSX:LAC)

### Description

**Tesla** ([NASDAQ:TSLA](#)) has enamoured stock market investors since it went public in 2010. While it still has some skeptics, its 1,000% rise in under a decade has quieted many critics.

Still, massive concerns remain, largely related to its ability to scale production faster than any other auto manufacturer in history. Plus, there are no assurances that it can do this while generating an adequate rate of profit.

What if you could take advantage of Tesla's rise without the execution risks? Meet **Lithium Americas** ([TSX:LAC](#))([NYSE:LAC](#)).

### Geographically ideal locations

Lithium Americas operates two world-class lithium mines, one in Nevada and another in Argentina. Its Argentina project should come online in 2020, providing the internal cash flows necessary to develop its Nevada site in full.

Having locations in both the U.S. and abroad will help the company meet growing global demand for electric vehicles, including Teslas.

One of the most expensive parts of the commodity lifecycle involves processing and transportation. When mining companies can take advantage of cheaper forms of transportation, like rail and sea, their output becomes much more competitive. Additionally, the fewer miles the resource needs to travel, the less expensive it will be for the company to bring its output to market.

As mentioned, Lithium America fully owns an early-stage lithium mine in Nevada. It's only 200 miles away from Tesla's Gigafactory. If Lithium America can execute this mine's development, it would become the cheapest and fastest way for Tesla to source lithium.

Management estimates that it will take \$1 billion to develop its Nevada project with breakeven lithium

prices of \$2,500 per tonne. Assuming an 8% discount rate, this mine alone could be worth \$2.6 billion — several times the company's current market value.

While this mine will have an expected life of 46 years, it won't come online until at least 2022. In the meantime, the stock will be driven by the health of its Argentina operation.

## The flip to free cash flow is near

The management teams of mining companies are notoriously optimistic, forecasting large amounts of free cash flow years before they actually occur — if free cash flow materializes at all. These risks are mitigated with Lithium Americas.

Over the past decade, the company has worked to fully develop its Argentina mine, putting all of the necessary infrastructure in place while completing the required paperwork and regulatory hurdles. With production expected next year, free cash flow is now in sight.

The company anticipates breakeven production levels of \$2,500 per tonne, the same level as its Nevada mine. Battery-grade lithium currently fetches \$12,000 per tonne, so Lithium Americas could generate free cash flow in its first year of operation.

Once that free cash flow hits, expect the stock's valuation to re-rate quickly.

## A multi-year story

Investing in Lithium Americas should be a long-term commitment. The first big catalyst, free cash flow, should hit in 2020 or 2021. The biggest story, however, will be its Nevada mine, which can directly service Tesla's lithium needs.

Resource investing is volatile, but Lithium Americas looks ready to deliver on its multi-year potential.

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