Forget Tesla (NYSE:TSLA): Lithium Stocks Are a Better EV Bet

Description

There's no doubt **Tesla Motors** has been a key catalyst for the recent rise in electric vehicles (EVs). However, the Californian technology company and its famous chief executive officer have generated enough of excitement about the sector to push its valuation to record levels.

Tesla stock now trades at a market value double its annual sales per share. The company's market capitalization is larger than most incumbent auto companies. Meanwhile, it burns billions in cash flow every year, has an immense debt burden, and operates at a negative cash flow margin.

A better bet may be the underlying battery technology that's pivotal for the global EV industry. Traditional lithium-ion batteries (the sort used in most smartphones and laptops) contribute nearly 40% of the build cost of most EVs. Mass adoption of EVs could push the demand for these batteries and, in turn, the lithium used in them to record highs.

The price of the precious silver-white metal has nearly doubled since 2016, reaching a peak in early 2018. This boom in market price has had a direct impact on lithium miners like Vancouver-based **Lithium Americas** (TSX:LAC)(NYSE:LAC) and Brisbane, Australia-based **Orocobre** (TSX:ORL).

Lithium Americas's stock price skyrocketed from $1.50 in early 2016 to $13.3 in late 2017, conveniently tracking the spike in lithium prices. Since then, the market has hit a rough patch and the stock is down to $4.90. The company's debt-to-equity ratio is a mere 22.5% and it has $41.6 million in cash on its book. It's well placed to survive this downturn.

Meanwhile, Orocobre's stock galloped from $2.50 in January 2016 to $7.08 in January 2018. Since then, the stock is back down to $3.22. The company is in a better financial position than Lithium Americas. Debt is a mere 8% of equity, there's $1.09 in cash for every share, and revenue exceeded $18 million over the past 12 months. Orocobre trades at 1.6 times its book value, which seems like a fair price considering the market downturn.

Lithium Americas recently partnered with China's largest Lithium producer **Ganfeng Lithium**. Together, the two companies manage a large production facility in northern Argentina that could generate $233 million a year in earnings before interest, tax, depreciation, and amortization.

Orocobre operates in the same Olaroz region as Lithium Americas. The production facility has access to 6.4 metric tonnes of lithium carbonate equivalent (LCE) — enough to keep operations going for over 40 years. Along with this production facility, the company owns a 33% stake in Vancouver-based **Advantage Lithium**.

Bottom line

The shift to EVs is probably one of the biggest macroeconomic trends of this century. Over time, most experts believe battery technology and car manufacturing systems will advance enough to make EVs as economic as traditional internal combustion engines.

The key catalyst for this shift is Tesla, which is an impressive company trading at a ludicrous valuation. Investors may find a better entry through the Lithium miners mentioned here. Lithium Americas and Orocobre operate in the same region and seek the same material. The market price of lithium has a direct correlation with the stock price of both companies.

Both stocks offer convenient exposure to the rising demand for EVs. However, based on its larger scale, robust partnerships, lower debt, and reasonable valuation, Orocobre seems like a better bet.

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Author
vraisinghani