



## Why Nemaska Lithium's (TSX:NMX) Stock Price Fell 13.6% in August

### Description

Upcoming battery metals junior miner **Nemaska Lithium's** (TSX:NMX) stock price fell 13.6% during the month of August 2019 as the market digested the company's latest technical report regarding updated expected project returns profile and execution strategy.

Nemaska shares currently trade nearly 88% lower than their January 2018 valuation, and the stock is down 57.35% on a year-to-date basis this September, as it remains heavily beaten down after devastating news of a potential massive supply growth from Chile hit the industry in January last year to trigger massive sell-offs. Small and unproven development-stage juniors were the worst hit.

Although there were no company-specific news in August, shares had rallied 70% in two trading days from July 19 to July 22, triggered by the bullish news release that the company had found a new strategic investor, The Pallinghurst Group, in a \$600 million commitment that could make the discovered \$375 million [February project financing deficit go away](#).

Profit taking by short-term traders after such a long-awaited fine rally could have been a factor in the August weakness, but there was a critical news piece on month-end July that could have added to the decline.

### The updated technical report

The company announced on July 31 the filing of an updated technical report on project financial feasibility and economic profile, which showed that the "project's economics remain very robust after a thorough review" of expected capital investments and overall operating costs.

After facing a significant construction delay, development works are expected to re-start in November this year, and the new technical report moves project timelines by a several months out.

Mine production is now expected to commence a year later around June 2020 instead of during the second half of 2019 as previously anticipated, and the processing plant is now expected to go live in November 2021 instead of during the second half of 2020 as earlier believed.

Another important take away from that month-end news release was that the company will now focus on lithium hydroxide production at its plant but will have capacity to add lithium carbonate into the mix should market demand justify.

Global demand growth for the hydroxide variant is expected to outpace that for its carbonate sister, but the latter still commands a significant share of total demand and seems likely to retain that position over the next three to five years, yet there are several hydroxide supply projects coming on stream in the near term.

It's therefore not a far-fetched idea to anticipate lithium hydroxide prices to become weaker than the carbonate variant of the battery metal. Diversification among the two products could have been a lower-risk option, and some investors could be more concerned.

That said, capital resources are finite. It's therefore prudent for management to focus on one metal where it anticipates the best competitive advantages. After all, the company has already contracted over 90% of its production over the next five years, and customers need the company to deliver lots of the chosen hydroxide variant of the battery mineral.

Maybe there isn't so much diversification risk to cause any concern here.

## **Foolish bottom line**

Nemaska could be a beaten-down development-stage play, but it isn't a value trap yet. The company's has delivered product samples that met client specifications, it has an updated project timeline and budget, and a new institutional investor that has sprung up with some \$600 million that could fully fund mining development and processing operations.

The roadmap to production has become clearer (though after an agonizing delay), the required financing could close soon to significantly de-risk the junior battery metal supplier, yet the stock still trades at a near 56% discount to book value.

That said, now that the electric vehicle-induced lithium growth hype is largely muted, it may still take time for this junior's share price to significantly recover.

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