Should You Avoid Lithium Stocks Before 2020?

## Description

Lithium stocks were red hot in late 2017 and early 2018. There was considerable enthusiasm, including from yours truly, for lithium producers in anticipation of the electric vehicle boom.

Indeed, demand for lithium batteries is set to steadily increase as most of the top automakers prepare to launch an EV model in the next decade.



The upward trend for demand is promising, but it has failed to rescue the lithium market from a dreary 2018 and 2019. This has proved true for nearly all lithium-focused equities.

The **Global X Lithium ETF** (NYSE:LIT), which seeks to track the **Solactive Global Lithium Index,** has dropped 7% in 2019 as of close on September 18. Shares of the ETF plunged 28% in 2018 after a 63% jump in 2017.

Experts and analysts have been down on lithium due to the overabundance of supply that emerged as miners began ramping up production. It also suffered after **Morgan Stanley** projected a steady price drop-off in 2018.

The investment bank forecast that supply would outpace soaring demand. Lithium prices have now nearly halved from their peak in 2017, and a prolonged slump could lead to production curtailments.

If lithium is to stage a comeback, we will need to see EV demand do the leg work in combating this glut. In the event of a rebound, these two stocks are positioned to be big winners.

# Nemaska Lithium

**Nemaska Lithium** (TSX:NMX) was one of the biggest stories in this sector in late 2017 and early 2018. Like many others in the sector, however, Nemaska has come back down to earth, and shares have plunged 55% in 2019 as of close on September 18.

The company enjoyed an early injection of cash at the peak of the lithium boom, but has struggled with setbacks in recent quarters. This month it was revealed that bondholders with $350 million in debt had decided to withdraw support after numerous delays in construction.

It has also fought to secure financing for the development of its Whabouchi lithium mine in the face of plunging spot prices.

Management remains confident that it will be able to secure the financing necessary to move forward. Nemaska stock had an RSI of 59 at the time of writing, putting it closer to technically overbought territory even as it hovers around 52-week lows.

## Lithium Americas

**Lithium Americas** (TSX:LAC)(NYSE:LAC) is a Vancouver-based lithium producer. Back in February I'd discussed whether the stock had bottomed out in 2019 as it fell below the $4 mark. Shares managed to generate some momentum into the early spring before succumbing to downward pressure.

As of close on September 18, Lithium Americas is still trading at the low end of its 52-week range. In August the company released its second quarter 2019 results. Its net loss remained most flat year-over-year. Working capital was reported at $31.7 million, which was down marginally from Q2 2018.



Shares of Lithium Americas had an RSI of 42 as of close on September 18, putting it outside of technically oversold territory.

## Are these stocks worth buying today?

Nemaska and Lithium Americas are both highly speculative buys that will be reliant on the health of lithium prices. The supply glut is expected to weigh on the sector until well into the next decade, so both should be viewed as risky long-term plays for prospective buyers.

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