

# Why have lithium miner stock prices fallen when lithium prices have surged higher?

Investing in the stockmarket is part science and part art. The science part refers to the fundamental analysis and the art refers more to the instinct/understanding and timing of investments. What truly sets great investors apart from the average are two things – Spotting a winning trend early and investing when there is a market disconnect caused by negative sentiment.

Today's article is about just that. The winning trend is the EV and lithium boom, and the disconnect is the recent lithium price gains while the lithium miners stock prices fell. Did you know that in the past 3 months lithium carbonate spot prices in China have more than doubled (up ~125%), yet lithium miners stocks have fallen in many cases by 25% or more in the same time period?

**China lithium spot prices are up ~125% in the past 3 months and 10x the past 14 months**

Lithium Carbonate (CNY/T) 447500.00



Source: Trading Economics

The chart below shows the stock price falls of several lithium producers and one highly promising junior. In the past 3 months (as lithium prices more than doubled) Albemarle Corporation (NYSE: ALB) has fallen 32.40%, Livent Corporation (NYSE: LTHM) has fallen 28.43%, SQM (NYSE: SQM) is down 6.20%, Ganfeng Lithium (HK: 1772) is down 9.53%, and Lithium South Development Corp. (TSXV: LIS) is down 35.35%.

**Leading lithium miners' stock prices the past 3 months have fallen significantly**



Source: Yahoo Finance

## **Why have lithium miner stock prices fallen when lithium prices have surged higher?**

The answer as to why is as follows:

- Several lithium miners sell their lithium on contract prices which are yet to properly reflect the market spot price for lithium. As these contracts expire they will be replaced with much higher contract prices or spot prices.
- Macro events and market sentiment – The general market has been selling off with the S&P500 down about 10% from its peak due to U.S. interest rates soon to rise and more recently the Russia-Ukraine crisis. Of course, this will pass and has almost zero impact on EV sales and/or lithium prices. In fact, current very high oil prices are helping EV sales. In my situation my new electric car costs me \$17 to drive 420kms compared to \$75 for my old gasoline car, that's about 4.5x less. Servicing costs are almost zero, with the main cost being tire replacements.

The recent disconnect between the more than doubling of lithium prices and lithium miners stock prices falling would only make sense if the sector was in trouble, yet EV sales are setting new records, up 108% in 2021, and look set to grow well above 50% each year this decade. Lithium demand is forecast to grow 11x this decade with most analysts forecasting growing lithium deficits. So we have a winning trend and a huge disconnect caused by macro factors (Russia-Ukraine conflict, rising US interest rates). Great investors can see this huge disconnect and will move now to profit from it.

Two popular ETFs that track the stocks of EVs, batteries, lithium and EV metal companies also tell a similar story,

having both fallen the past 3 months. The Global X Lithium & Battery Tech ETF (LIT) is now trading on a PE of just 26 and the Amplify Lithium & Battery Technology ETF (BATT) trades on a PE of only 21. Considering the sector's growth rate of well above 50%pa, this is plain crazy.

A final example could be Tesla (NASDAQ: TSLA). The stock is down 26% over the past 3 months despite reporting its best ever results in Q4, 2021 and smashing the competition. Tesla had an outstanding 2021 growing revenues 71% YoY and GAAP earnings by 665% YoY. Total vehicle production grew 83% YoY. 2022 looks to be even better for Tesla with 2 new gigafactories set to open and production likely to grow from ~936,000 electric cars in 2021 to somewhere near 1.7 million in 2022. One more key factor highlighting global EV demand, Tesla has an estimated 1.3 million pre-orders for their Cybertruck. In total Tesla's pre-orders are so high that they don't even accept orders for Model Y in many countries as they cannot meet demand for some years.

**Tesla's electric cars have huge waiting lists and well over 1.5 million pre-orders**



## Closing remarks

All forms of lithium prices (spodumene, Li hydroxide, Li carbonate) have been surging higher the past 14 months. In particular, the China lithium carbonate price has surged **125% higher** the past 3 months, while leading lithium miners and others fell between 6% and 35%. Albemarle, the leading lithium miner, has **fallen 32%** in the past 3 months. This is a huge disconnect, and frankly what great investors dream of. I will be topping up my positions in the EV companies and lithium

miners as the EV and lithium boom has only just begun and current macro events have opened up a huge buying opportunity for investors. The last time I saw this happen was in the March 2020 Covid-19 low, with many lithium stocks surging higher once market sentiment improved.

My view is that the lithium miners are currently like a tightly sprung coil. As soon as the market sentiment and macro issues improve that coil should spring open propelling lithium miners stock prices higher and closing the current huge disconnect.

Don't miss this opportunity to buy into 'white gold' as lithium becomes the most critical element of the modern era.

*Disclosure: The author is long all the stocks and ETFs mentioned in this article.*