

# 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.*

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## **Argentina, the new Saudi Arabia of Lithium**

Former Chinese leader, Deng Xiao Ping, is most famous in mining circles for his oft-repeated aside from the 1980s that whereas "Saudi Arabia has oil, China has Rare Earths". It didn't grab much attention at the time because Rare Earths were largely a mystery to most listeners and, moreover, were not worth all that much and did not have many day-to-day applications then besides bringing red colors to one's cathode ray tube television. The rest is history with the final wake-up call in 2009-10 as to what Deng was actually referring to in strategic terms.

Now we can add a third leg to the mantra because Argentina has

lithium and oh, potentially, how much lithium it does have! In theory, Chile was the place to source lithium from brine lake lithium deposits (salares), but in a curious own-goal situation, Chile has squandered that advantage by trying to keep a tight control on the number of players and advantaging the two incumbents. Predictions are that Argentina will overhaul Chile in terms of lithium production by 2030. The result of the Chilean torpor at welcoming new entrants is that the surprisingly more laissez-faire attitude in Argentina has made it the go-to place for those wishing to stake positions in salares. Argentina has become something like, to paraphrase Deng, the Saudi Arabia of Lithium.

### **The Fluctuating Fortunes of Salares**

One of the paradoxes of the middle of the decade was the “talking down” of salares as being in some way “too difficult” or too “long term”. Having said that though, several of the highest-flying stories in the First Lithium Boom such as Orocobre Limited, Galaxy Resources Ltd., and Lithium Americas Corp. were salar-based. Back in that boom, and its current revival, there was/is a staking boom in the Argentine part of the Lithium Triangle of Chile, Argentina, and Bolivia that makes the California gold rush in the 1850s pale into insignificance. Explorers, quite literally, cannot get enough of Argentine lithium territory.

The caution relating to salares exploitation was powered by the mishaps that befell Orocobre and Rincon. However, in both these cases, the lessons learned meant that others will have the benefit of their difficult experiences. The argument that there is a longer lead time for salar development (due to the need to kickstart the evaporation process) does not hold much water (pardon the bad pun) due to the much longer (and more expensive) drilling and resource estimation phase at a hard rock deposit and the much higher development costs at underground mines.

The downfall firstly of Canada Lithium, after the end of the

First Lithium Boom, and then the travails of Nemaska, at the beginning of the latest recovery, have cast a pall in many investors' minds over large-cap underground spodumene mines.

### **The Road Most Taken**

Despite perennial concerns about Argentina's political direction, the metaphorical road to the Argentine salares opportunity has become more like a Los Angeles expressway in peak hour, of late. Argentina has been in the Lithium game for decades, so is no newbie, but was always perceived as playing second fiddle to Chile. With opportunities to enter and develop new projects in Chile finding constant stones in the road, several of Argentina's Andean provinces have become veritable boomtowns for the Great & Good of the global EV revolution.

The long-established Livent (formerly FMC) was joined by Orocobre and Galaxy Resources (which then merged), and then a stampede of the elephants in the Lithium space occurred with Posco, Ganfeng, Tianqi and most recently Zijin Mining Group resetting the bar higher with its stunning move on Neo Lithium Corp. (TSXV: NLC | OTCQX: NTTHF).

Then in November of 2021 TSX-listed miner Lithium Americas offered \$400 million in shares and cash for Vancouver-listed Millennial Lithium Corp., the third offer for the company this year following one by China's largest battery maker CATL and another one by Chinese lithium producer Ganfeng Lithium. A feeding frenzy has begun.

Beyond these majors, there is an array of junior players hoping to replicate the Neo Lithium success story. One of these stocks that has come to attention lately is Edison Lithium Corp. (TSXV: EDDY | OTCQB: EDDYF).





Into the Fray

In mid-June 2021, Edison Cobalt Corp. as the company was then known, announced that it had entered into a Definitive Purchase & Sale Agreement to acquire Resource Ventures S.A. (ReVe), an Argentine corporation that owns or controls the rights to over 148,000 hectares (365,708 acres) of prospective Lithium brine claims in the province of Catamarca, Argentina. The claims are principally located in the two geologic basins known as the Antofalla Salar and the Pipanaco Salar in the famed Lithium Triangle.

### **The Transaction**

To effect the purchase Edison inked an agreement to acquire ReVe and a 100% interest in its properties for a purchase price of \$1.85 million paid by the issuance of ten million common shares of the company at a deemed price of \$0.185 per share. All securities issued pursuant were subject to a hold period of four months from the date of closing.

### **The Political Scene**

For most of the last two decades, Argentina has been ruled by irregular iconoclastic governments, most recently by the dynasts of the Kirchner family and before that the Duhalde regime the country with a brief interlude of fiscal conservatism under Mauricio Macri, elected President in the last quarter of 2016.

The major bugbears of foreign miners operating in the country have been:

- Currency controls – though the devalued Peso results (in theory) in lower costs for project development
- Export taxes on concentrates
- Import restrictions on equipment

The Macri regime reverted these and this coincided with the Second Battery Metal Boom of 2017. Though that boom proved to be fleeting, it reenergized players in the Argentine space.

The Macri regime fizzled after three years and the Kirchnerites were back in power, but mining (and particularly Lithium) scarcely missed a beat with the surge of development of salares (and increasingly large copper projects) at the current time.

There is a good case to be made that the relative lack of salares moving to production pre-2019 was due to the double negatives of the low lithium price between 2011 and 2016 and the death throes of the first Kirchnerite period making Argentina an unattractive place to advance projects. Pricing has resolved itself and the Argentine government is welcoming Lithium players with open arms.

Edison Lithium's pivot from Cobalt to Lithium looks like a prescient move. While Cobalt is much sought after it is seldom found. Unicorn hunting can be a long and expensive sport. With Argentina's rapid evolution as the "Saudi Arabia of Lithium" who could fault the company moving into the territory and building up a substantial position?

It's still early days of course with exploration, resource definition (and presumably more territorial expansion) still lying ahead. However, in elephant country, one is more likely to find elephants than gerbils. The hunt is on at Edison Lithium.