Equity Markets: Lithium equities

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According to USGS (United States Geological Survey) in 2016, repartition of World Lithium's resources breakdown is as follows: Chili (34%), Australia (41%), China (6%), Argentina (16%) (outside the US which data are not public). Even if the biggest resources are in these countries, the 4 biggest Lithium companies are the Americans Albemarle and FMC, the Chilean SQM (Sociedad Quimica y Minerale) and the Chinese Tianqi.

The increase in Lithium's price has attracted attention but this element is still unknown for many people. The question is whether this increase in price is beneficial for the big companies quoted above. According to a Citigroup research, 16 new mines to extract Lithium have been launched which could lead mechanically to a potential upside in supply in the close future. More moderate pricing growth could be even more beneficial in the long term for the first mover companies as new projects would have a smaller NPV and will discourage new entrants. However, volume growth potential in the case of new entrants should be the main criteria because high price doesn't mean profitability at any cost. The high-grade Lithium, required in lithium-ion battery applications, is costly to extract and produce. The increase in price will indeed be attractive but the first movers will have a significant competitive advantage due to economies of scales. For example, Albemarle's EBITDA Margin was 17.75% in 2014 and around 28% as of the end of March. For Tianqi, the EBITDA Margin was 31% in 2014 and 70% in 2016 with an increase in annual Revenues from 1,420.7 to 4,163.7. SQM had also published strong results in the first quarter of 2017.

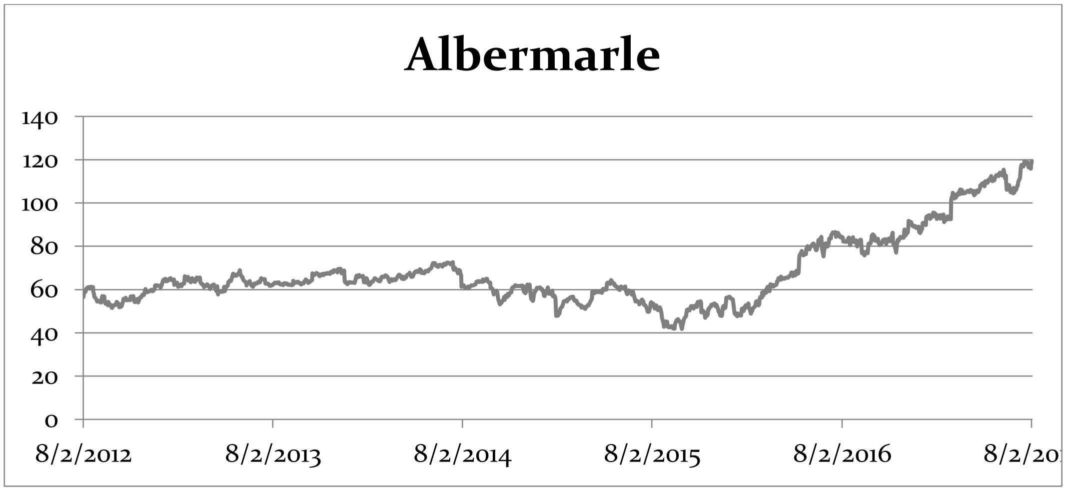
If the market anticipates a higher increase in pace for supply relatively to demand, the Lithium price will decrease and new projects will fail while first movers will stay profitable. Since May 2015, Albemarle has published 9 quarterly reports which were 9 positive surprises compared to consensus estimates with a high positive surprise of 30% in 2016. The analysts are 50% Buy and 50% hold in the share, rare times where there is not a single analyst who is in sell. Moreover, the biggest Australian mine is controlled by Tianqi with 51% stake and Albemarle who increased its stakes to 49% thanks to the acquisition of Rockwood Lithium. These big companies have strong resources to battle against new entrants and their past results have proven their quality.

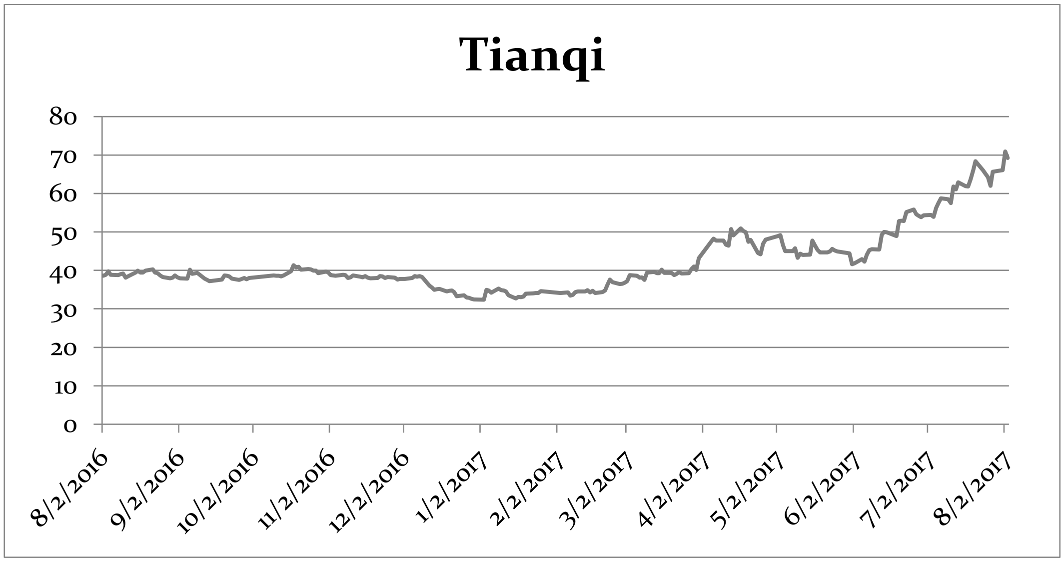
Is it likely that the Lithium price will decrease with new projects? In 2007, Meridian International research expressed doubts about the general utilization of the Lithium for Lithium-ion batteries as the reserves are too limited in the long run (even if this figure is difficult to estimate and is in constant revaluation). Another alternative highlighted could be the use of sodium-ion batteries which are significantly cheaper but at this time not performant enough. Unless we find a way to use effectively sodium-ion batteries, the supply should be less than the demand with the increasing purchase power of population leading to a purchase of many products with batteries (the most common one being the smartphone).

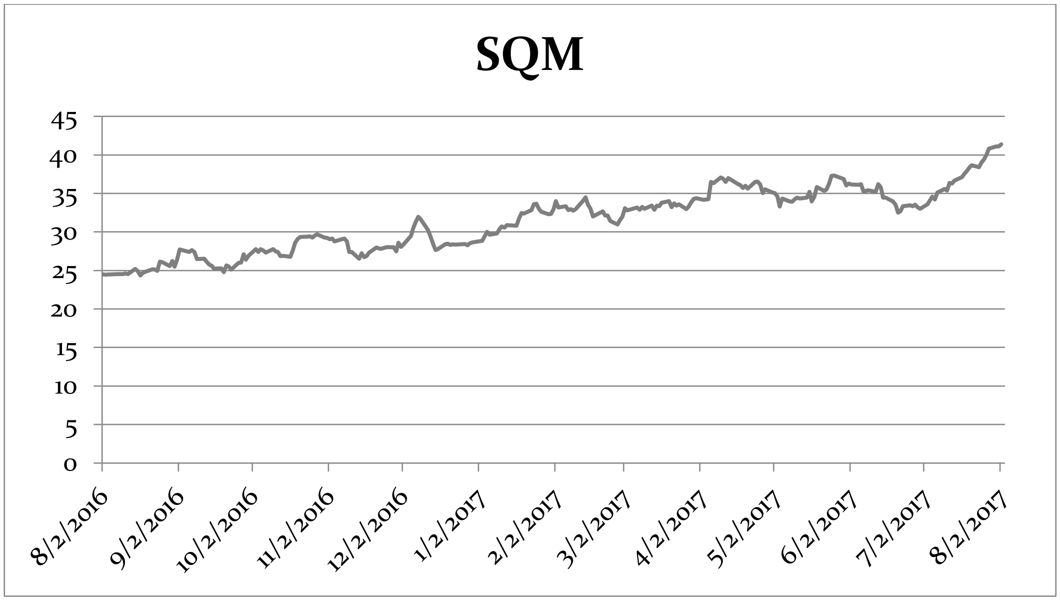
A report published recently by the World Bank in July 18th, 2017 called "The Growing Role of Minerals for a Low-Carbon Future" indicates that under some realistic circumstances, the need for electric storage batteries could lead to a huge rise in demand for the relevant metals— "aluminium, cobalt, iron, lead, lithium, manganese, and nickel"— to more than 1000 percent under what they call in the report the scenario 2DS. (electric storage batteries are also used to store eolienne and solar energy).

Furthermore, Global Footprint Network stated that August 2nd was the Earth Overshoot Day, the day where humanity has already consumed the amount of natural renewable resources that the Earth is able to produce in a year. This day is becoming earlier with the effect of fossil energies and it is urgent for the future of humankind to make a quick transition to a new kind of energy via especially Electric Vehicles.

Here again, Electric Vehicles need Lithium to work. What Elon Musk called "Salt on the salad" for Lithium is an essential component for batteries. Bloomberg New Energy Finance have stated that by 2040, Electric vehicles will count for 35% of global new car sales. It also stated that continuing reductions in battery prices will bring the total cost of EV's ownership below that for conventional-fuel vehicles by 2025 even with low oil prices. In 2016, they represented only around 1% of overall car sales and Lithium price was already in a fast-paced uptrend. Clearly, all the trends support the rise of Lithium-producer's equities and in my opinion especially of the biggest ones in the long-term. If someone bets on them, this could be just like a kind of Pascal's Wager: if he is wrong, it could not matter because he might not be here anymore to notice it…



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Global Lithium ETF
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