



New Decade @LithiumIonBull  
Issue 53 – Part One

Hindsight is January 2020

Lithium 2.0



Penny Lane



ASX West Australia Non-Integrated Spodumene Producers

Crazy Horse – Rust Never Sleeps



&

TSX Year of the Pig



ChristinArgentina

Russian Wealth

2020 Hindsight: Lithium has commodity-like volatility. Not so special

- High-cost secured debt (NMX, A40, AJM, PLS) kills equity – but the lenders make a killing.
- 100% reliance on China kills equity.
- Project execution matters. Off-taker credit quality matters. Spodumene mineralogy matters.
- Emerging Market Sovereign Risk matters.
- Brines – in particular in Argentina - are Hard; and take a very long time to test, permit, finance, construct, ramp, qualify, scale and cash flow – ORE & LAC 10+ years project development.



### The "Big 4" - Battery Quality Hydroxide

### Casualties of Trade War Big Growth Investments Straining Cash Flows

US

#### Southern Accents Carolina in my Mind



#### Philadelphia Freedom 1976 Rocky



&

THEM

#### Panda Bear The People's Republic of Tianqi



#### China Girl Ganfeng 1772 Let's Dance



MONEY

&

Pinocchio

### Price War in Low Quality Chinarbonate



The Dark Side of SQM



Javier Martinez, Morgan Stanley  
Adam Jonas, Morgan Stanley



*Glass Houses: You May Be Right*

### Morgan Stanley was Right

- SQM's DNA is to be aggressive. Not undisciplined - ruthlessly disciplined. Tolerate short-term pain for long-term gain. "Last hurrah" as (low quality) "price setter"?
- SQM used Lithium Americas JV as part of CORFO lease extension/royalty negotiation
- Lithium trades like a commodity. Price and sentiment will go Up, Down, Up, Down. Cyclical. Low multiple?
- (Certain) Lithium prices will fall to \$7,000 – two years sooner than forecast

### Morgan Stanley is Wrong

- Air Supply SQM – 2019 sales likely down on 2018 again below 50kt not 70kt as guided
- SQM is the "best company" – SQM is hardly a player in the most important, fastest growing high spec battery quality lithium hydroxide. **Ganfeng, ALB & Tianqi, Livent** are leaders to watch here.

### Morgan Stanley May be Crazy

- Outlier low 650kt 2025 LCE forecast, considering Tesla & "Autos & Shared Mobility" bull
- SQM to increase from 50 to 180kt - 4X - its Atacama production by 2021

*but it just might be a lunatic we're looking for  
It's too late to fight, it's too late to change me.  
You may be wrong for all I know, you may be right*



### Foresight 2030

Lithium is both a commodity and specialty chemical – a specialty commodity Spinning Song – *What goes up, must come down*. After two years of Blood Sweat and Tears **the probability is quite high that lithium prices and lithium equities, will have another boom within the next 1-3 years**. Will that boom be the 4-7-year super-cycle some – like me -- expected was underway in 2016-17?

### The Roaring 20's



Or will it bust again quickly just like the last two years. Time will tell. It takes discipline to be long-term greedy. Some professional stock and company traders can effectively time markets and do well over short-time frames. Congratulations again “Old Man” **Brian Paes-Praga** who took a look at Giustra & Matysek’s eyes and said “I’m a lot like you” rewarding all **LIX** shareholders with \$265M cash - selling out to China just as the **Year of the Dog** began.

Most traders fail and would be better off holding 5-7 of the largest cap lithium names or \$LIT ETF and check in every six months or so. My experience with iron ore gives me some perspective in thinking about lithium equities. 10-year holders of greenfield development success **Fortescue Metals Group** have been rewarded and paid 4-6% dividend along the way - it’s hard to know when and for how long booms or busts will last. Lithium will spawn several more long-term \$FMG, \$MIN, \$KDR-like successes in my opinion, on the ASX and elsewhere.



One Supply Disruption in Brazil = \$1B in additional free cashflow



FMG Circa 2015?



### In China Zodiac We Trust

#### Lithium 2.0 with 2020 Hindsight

2016 Year of the Monkey

2017 Year of the Rooster

2018 Year of the Dog

2019 Year of the Pig

#### Lithium 3.0 with 2020 Foresight

2020 Year of the Rat

2021 Year of the Ox



2022 Year of the Tiger FOMO

2023 Year of the Rabbit: FOMO

2024 (US Election) Year of the Dragon

2025 Year of the Snake

Or, if you prefer, **In Sir John Templeton We Trust**. Bull markets...

2020 – Born on Pessimism

2021 – Grow on Skepticism

2022/23 – Mature on Optimism

2024/25 – Die on Euphoria

Like Bush 43's (convincing and uncontested) re-election in 2004 – followed by 3 euphoric risk-on market years before the global financial crisis - there is a more than 50% chance in my view that the 2020 US election will have a similar outcome for Trump. No value judgment here, just reflecting my amateur political instincts. 2021, 2022, 2023 melt-up, then 2024 another Armageddon GFC every gold bug dreams about?

Mr. Market US equities & US GDP have been voting positively for what it sees evolving in Washington DC. "Risk on" sentiment entering 2020 is high. Phase One Trade Truce. Teflon Don Impeachment.

Mike Bloomberg is investing hundreds of millions on the thesis that there's more than a 50% probability that none of the front-runner boomer progressives can beat Trump. I think he's right and believe we could have a brokered convention in the summer, which would be interesting, but unlikely market negative. Should he emerge as the Democratic nominee and 2020 become the New York, New York "Chairman of the Board" Frank Sinatra Presidential Election, Mr. Stock Market is highly likely to approve going into November. Brooklyn Bernie vs. Archie Bunker King Donald of Queens? Mr. Market will likely optimistically assess, as I do, that the American values (deplorable and virtuous) that will swing the handful of Electoral College states are not voting Socialist in Trump's 2020 MAGA economy.



## Bloomberg LLP vs. The Trump Organization

Bloomberg New Energy Finance  
Bloomberg New Energy President  
(Yang could make a good VP choice)

By Q2, post China Lunar New Year, bulls like me see the Chairman Xi's next "5-year plan" to have stimulative GDP & EV impact. Realists, like my podcast partner Rodney Hooper, ponder what if China surprises the market to the downside and removes all EV subsidies.

Bulls like me are also optimistic that Tesla's success in China and globally will continue to be revered as demonstrating the greatest attributes of American leadership, innovation and capitalism. And perhaps catch on at home, politically – teaming up with Cryin' Chuck's "Clean Cars for America" proposal.

And bulls hope that Volkswagen and BMW and the entire German & European auto industry can thrive making profitable EVs their customers love.

**Sidebar:** Tesla's a good example of the US (Obama) adopting some China and EU-style industrial policy allocating federal funds in its early years and putting in place consumer subsidies for its adoption.

**Sidebar2:** China **LOVES** Tesla/Musk. In a great geopolitical irony, state Chinese banks are lending Tesla \$1.5B for 5-years at a 10% **DISCOUNT** to 1-year risk-free China benchmark rates.  
**#UnLevelPlayingField?!**



Howard Klein @LithiumIonBull · Dec 5  
\*PREDICTION\*

Spot On Javier @MorganStanley to call bottom around 2nd anniversary of Jan '18 short #lithium call as:

1. Auto team BULLISH DEMAND 🏹 higher LCE forecast
2. \$SQM DNA hit \$7K China (Sweet) Spot 2019 not 2021

#2020Vision @LithiumIonBull  
\$GM #LGChem \$2B #USA  
DYOR 🏹

Morgan Stanley | RESEARCH  
December 5, 2019 02:43 PM GMT  
General Motors Company | North America  
GM and LG Chem \$2bn Battery Plant

IC Stock Rating	Industry View	Price Target
Overweight	Cautious	\$45.00

GM and LG Chem have announced a \$2bn JV to produce EV batteries near Lordstown, Ohio.

**6 key thoughts:**

1. Add this to the increasing list of signs suggesting an **accelerated shift to BEV adoption**, which globally still stands below 2pc.
2. GM's CEO confirmed that it will **spend more Capex and R&D on EVs than ICE** technology over the next 5 years.
3. We estimate global **aggregate expenditure** to flip from ICE to BEV for autos to be in excess of **\$20 trillion through 2050**, including battery COGS, R&D, Capex, EV motors, and infrastructure spend.

Morgan Stanley | RESEARCH  
January 30, 2018 10:54 AM GMT  
SQM, ALB, Tianqi, ORE, GXY, MIN

**Significant Li price downside risk**

IC Stock Rating	Industry View
Equal-weight	In-Line

SQM, the global lowest-cost producer, yesterday got the right to increase 4-6x its annual Lithium production quota. **We expect SQM to aggressively recover market share from 2020 and see downside risk to the lithium price.** Negative for global Li equities.

Morgan Stanley | RESEARCH  
JAN 2, 2018 09:01 AM GMT  
FOUNDATION  
Global Lithium  
SQM to Define Global Li Prices



## Lithium 3.0 - WHO's Next? Bargain



Material Girl



Like A Virgin

Lithium 2.0 is ending, but it has not ended – perhaps another 3-12 months. **Rodney Hooper** wrote a [brilliant year-end note](#) with many notable – and quotable -- insights which I expect will come to be seen as prescient as was his **top pick** in January and one of my favored holdings: [Leading Indicator Ganfeng](#).

In late Q2 2019 I presented at **Fast Markets 11<sup>th</sup> Lithium & Supply conference in Santiago** on '[how to finance a lithium project](#).' I argued that in '**Lithium 3.0**,' world class integrated projects - *Material Girl(s)* - currently un-partnered - *Like a Virgin* - should have Kidman/Mount Holland and MinRes/Wodgina-like outcomes.

The only South American brine that made my list was **Lithium Power International**. I felt then – as I do now, watching Pinera positively – that strategic and financial investors will ultimately view Chile sovereign and operating risk for a high grade, near permitted greenfield like Maricunga, as far lower than any earlier stage, unfunded peer in Argentina. Time will tell. LPI's final environmental approval is expected in February. Stay tuned for new narratives interpreting **Red Hot Chile Peppers** and lithium.

**Argentina's** August winter delivered a big political surprise as an early vote showed how unlikely would be a second Macri term -- and how very possible was the almost inconceivable. September brought two further **Madonna metaphors** to mind as @LithiumIonBull got blond-sided on Twitter:



Peace.

Victory!

V- or W-Shaped Lithium Recovery?

#Namaste





As decade 2020 begins, the market for individual lithium equities could lead or lag the broader market for chemicals prices. Again, I point to **Ganfeng's** rise here which I see as the result of a combination of factors:

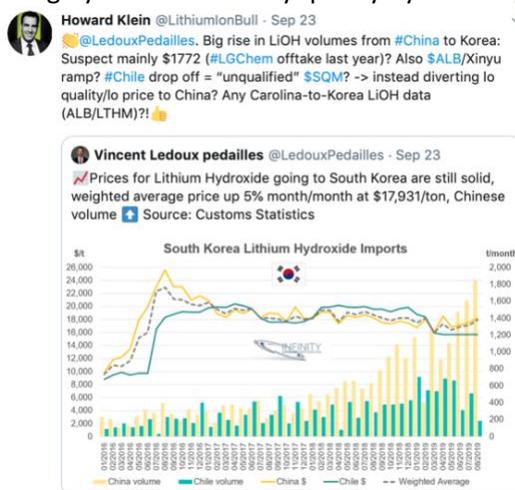
- Visibility to sustainable profitability – lower cost spodumene, higher priced LiOH Korea/Japan exports. Blue chip customers, long term relationships. BMW. VW.
- Trade Truce – “risk on” Emerging Markets/International Equities.
- Tianqi in market with rights issue – China government entities likely pushing up lithium stocks to ensure this critical equity raise to reduce debt. Positioning for next 5-year plan.

It is unclear how much Mr. Market has priced into **ALB** and **LTHM** share prices each CEO's recent guidance to expect a still-difficult 12+ months. I suspect quite a bit. Both stocks have been rebounding modestly, but this could just be a rise in sympathy with broader US equity/trade truce/Tesla “risk on”. Will they get hit when formal guidance EPS reductions hit the tape and algo robots hit sell?

While it is important to distinguish between the highly varied market for lithium chemicals – with much higher prices for battery quality hydroxide in Korea and Japan than commodity carbonate in China – it is unclear that Mr. Market will change its gaze to that nuance, rather than continue to focus on the weekly China spot carbonate price that hits their inbox with regularity from **Fastmarkets**, **SP Global** and **Benchmark Minerals**, among others. But it might, as [libull.com](http://libull.com), [#LithiumEquityIntelligence](https://twitter.com/LithiumEquityIntelligence) is more broadly shared and understood.

The entire lithium market seems moving to quarterly volatility for the time being – signals like MIN's \$521 Q1 SC6 price and ORE's \$5,400 carbonate market-share tat to SQM's <\$6,000 tit reflect continued headwind from the double whammy trade war/subsidy change few predicted. Lithium experienced in 2019 a period of **UNDER-DEMAND** as well as the “Tsunami” of low-quality Qinghai brine that also few predicted, as well as spodumene and low-quality ORE and SQM carbonate, which many did.

Watching SQM's quarterly pricing has proved to provide lagging/false indicators, now complicated by their low-quality China sales. Worth checking, but careful not to mis-read. Follow **Vincent Ledoux Pedailles of Infinity Lithium** for highly relevant battery quality hydroxide prices ex-China.





### Lithium 3.0: Who's Next?

2019 has been a great year of brand and business building for Rodney Hooper and me



26 Episodes

[Libull.com](http://Libull.com)

### Blue Sky in Green Fields



Lithium-ion Bull Newsletter  
by Howard Klein

in 2019

LinkedIn Articles by Rodney Hooper

in 2019

---

In which **Like a Virgin/Material Girls** do we see **Blue Sky?**

*To be continued in next issue(s) ...*



## Disclaimer

*Lithium-ion Bull (Forest Hills) is a periodic publication, written through my advisory firm RK Equity Advisors, LLC. In this and other Lithium-ion Bulls and the podcast Lithium-ion Rocks! I often share some rationale for a stock in which I have some conviction – for or against – and may own directly in my own retirement or taxable accounts. If you agree or disagree with and act on or against the rationale of anything written in this or any other Lithium-ion Bull or Lithium-ion Rocks! podcast, that is your free choice. But to be clear, the opinionated commentary you’re reading is not investment advice, nor recommendation and may not be unbiased. I am not a registered investment advisor nor broker-dealer. I may act, or may have acted in the past, as a financial advisor, or capital raiser for certain of the companies mentioned herein and may receive, or may have received, remuneration for services from those companies. I, RK Equity as well as their respective partners, directors, shareholders, and employees may make purchases and/or sales of securities mentioned here-in from time to time, subject, of course, to restricted periods in which we may possess material, non-public information. As of December 29, 2019, RK Equity or its principals own securities in Mineral Resources, Piedmont Lithium, Ganfeng Lithium, Albermarle, Livent, E3 Metals, Lithium Power International, Lithium Americas and Orocobre and have or have had over the past 48 months fee-paying advisory assignments with Western Lithium/Lithium Americas, CleanTeq, Millennial Lithium, Altura Mining, NeoMetals, Kidman Resources, Nemaska, Bacanora, Lithium Power International and Piedmont Lithium. The information contained herein is not financial advice and whether in part or in its entirety, neither constitutes an offer nor makes any recommendation to buy or sell any securities.*