Liontown Resources buoyed by long-term demand for lithium

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By Anthony Barich *Market Intelligence*

Lithium hopeful Liontown Resources Ltd., which is developing its Kathleen Valley project in Western Australia, has seen its stock surge 340% year-to-date on the commodity's longer-term prospects amidst the global drive to build electric vehicles.

This comes as lithium producers, such as Galaxy Resources Ltd. and Pilbara Minerals Ltd., have been hit by bottlenecks at battery makers to which they supply, which is believed to be causing shipment delays.

Liontown's ASX share price has gone from 2.6 Australian cents per share Jan. 2 to an all-time high of 12 cents on June 17 before deflating to 9.7 cents June 27. Research firm Austex said in a June 27 note Liontown's stock had soared 340% year-to-date, while Chile-focused lithium explorer BMG Resources Ltd. had risen 71% and North America-focused Piedmont Lithium Ltd. 74%.

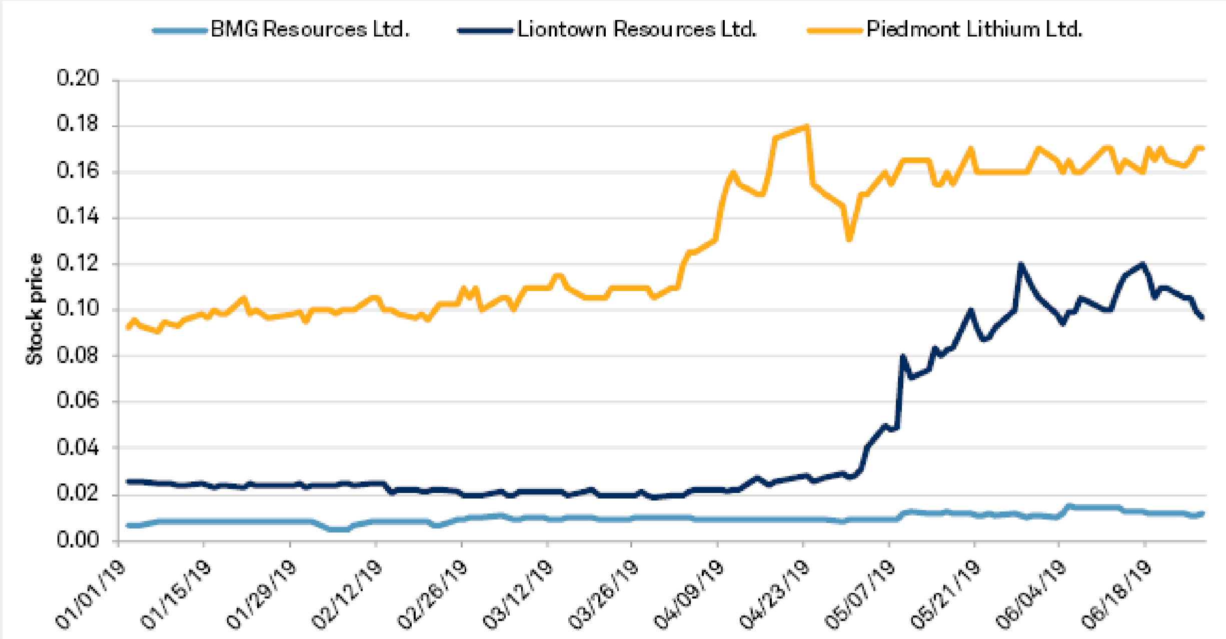
Managing Director David Richards said his company is fortunate not to be in production yet given that battery makers seem to be not ready for the spodumene currently in the market.

He also believes the high level of activity in the battery metals market, including Wesfarmers Ltd.' acquisition of Kidman Resources Ltd. and globally significant producers making bigger inroads into Western Australia, are also playing to Liontown's advantage.

Given a major South Korean battery maker told him during a recent visit it wants to increase its production from 2 gigawatts worth of batteries to 100 GW by 2025, Richards said the high lithium grades and outcropping nature of the pegmatites at Kathleen Valley, on granted mining leases, makes Liontown attractive.

Liontown also expects to double its 21 million tonne resource in an update set to be announced in a fortnight, with upside expected from expanding its exploration target to between 19 million tonnes and 31 million tonnes.

Differing trajectories of sample hopefuls (A$)
Jan. 1, 2019, through June 27, 2019



Data compiled June 28, 2019.
Source: S&P Global Market Intelligence

Broker Hartleys' head of research, Trent Barnett, said Liontown's surge shows the market has taken notice of reports earlier this year that Tesla Inc. expects a shortage of battery materials, yet he said the number of electric car sales is still "tiny" against expectations.

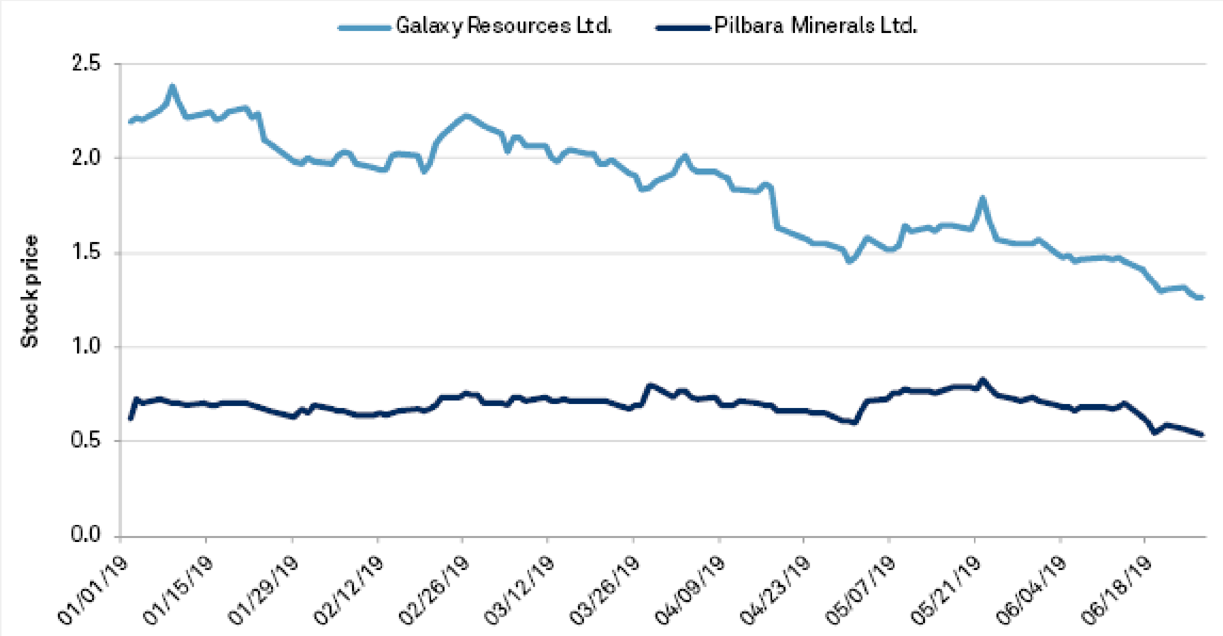
Barnett said even if all world's lithium projects went into production, it still would not be enough to feed the cumulative electric car sales of about 52 million by 2025 that major countries are targeting. This is especially the case considering many of the current projects in the global pipeline are not economic at current lithium prices, he said.

"If the electric vehicle growth rates are exponential, which people think will happen, then you could get extremely under-supplied quite quickly, which is why the industry has been looking for offtakes, there's a big build-out [of mines] and people are worried," Barnett told S&P Global Market Intelligence.

While commodity prices often focus on the short-term — as evidenced by soft lithium prices responding to the current oversupply — Hartleys' report also cautioned that "the big caveat for all forecasts" is that technology advances quickly.

Canaccord Genuity is also observing concerns in the lithium concentrates market from rising inventories and slower converter plant ramp up, as evidenced by Wodgina joint venturer Albemarle Corp. saying it would delay concentrate sales if demand was absent.

Differing trajectories of sample producers (A$)
Jan. 1, 2019, through June 27, 2019



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Producer woes

These issues appear to be impacting Galaxy Resources, which announced June 26 a shipment of 15,000 dry tonnes of product from its Mount Cattlin mine due to depart Western Australia's Esperance port inside the current quarter has been delayed until July, after completing two shipments totaling about 30,000 tonnes.

While the company did not give a reason except to say it is working with customers to finalize its shipping schedule for the third quarter, Canaccord said Galaxy may not be "immune" from the aforementioned market pressures given its second-half shipping schedule is yet to be finalized, and the firm sees some risk of guidance revisions.

Pilbara Minerals announced June 17 that while its West Australian Pilgangoora project had achieved record production of 22,375 dry tonnes of spodumene concentrate in May, representing about 85% of stage one plant capacity, its June quarter sales would be constrained.

The company cited unexpected delays over chemical conversion capacity construction, commissioning and build-out at Chinese offtakers General Lithium Corp. and Ganfeng Lithium Co. Ltd. which would result in lower shipped tonnes for Pilbara Minerals in the June quarter.

Meanwhile, Pilbara Minerals noted spodumene concentrate pricing has also continued to soften, now trading in a range of about US$600 per tonne to US$640/t CFR China.

Hartleys' June 18 note said with operating costs continuing to be higher than life-of-mine feasibility study estimates due to the lower production, the risks are increasing for Pilbara Minerals.

In its modelling, Hartleys has delayed the capital expenditure spend on Pilgangoora stage two, which superficially improves its projected balance sheet for future periods despite the firm's lower earnings estimates.

"However, remember we had assumed that expansions could be financed with more debt, prepayments and internal cash flow. Despite our lower assumed net debt position in fiscal 2020, there remains considerable balance sheet financing risk, in our view," Hartleys said.