

Tesla Inc

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Whither lithium?

Lithium bulls have had a tough time getting a hearing of late, and with good reason. The bullish sounds they were making 24 months ago have come to naught, and in fact the lithium price has declined markedly.

Over the past two years the battery grade lithium carbonate price has dropped from US\$25,000 per tonne to a current level of around US\$7,000 per tonne. Technical grade lithium carbonate, though always priced slightly lower, has followed a similar pattern, dropping from around US\$23,000 to just over US\$5,000 per tonne. Spodumene concentrate has fallen by a smaller amount in percentage terms, but remains weak priced at some way under US\$5,000.

It's a far cry from the optimism of a few years ago, when the plethora of new lithium companies on the market was a bright shining beacon in an otherwise moribund mining sector. Back then it was thought the metal's meteoric rise from relative obscurity on the commodities market would be followed either by further price strength or at least a period of sustained consolidation.

Naysayers pointed out that lithium is abundant in the earth's crust and not that hard to find. They were ignored. And, as it turns out, perhaps with good reason.

Because it isn't oversupply that's scuppered the lithium price over the past two years or so, but rather a failure of actual demand to match up to expectations. Yes, the headlines are full of the latest electric vehicle production targets from the European carmakers, and feelgood stories about battery-powered aircraft on the west coast of North America, show a direction of travel that may one day make lithium demand reach for the sky.

But as yet, the picture is a little different. Demand in China, one of the major markets for electric vehicles, plummeted after the government cut its subsidy regime. In the brave new green and pleasant world, that sort of ruthlessness isn't supposed to happen.

But the effect was clear enough: sales of electric vehicles in China fell from 1.3m in 2018 to 1.2m in 2019, where most analysts had previously been expecting a rise. China has to some extent acknowledged the effect of this, and undertook earlier on this month not to cut subsidies further.

China wants more electric vehicles, and has provided other incentives to electric vehicle drivers, such as allowing full access to roads when other vehicles are restricted. But with negative perceptions around range and ease of charging still knocking around, how easy a sell it will be for the electric vehicle companies remains to be seen. A crucial litmus test will be the success of Tesla's new Shanghai operations, where production is just beginning to ramp up.

In the meantime, though, the lithium companies are cutting back. The world's leading lithium company SQM has just delayed a development decision for its Mount Holland project in Australia. Galaxy Resources has said it plans to scale back production from its Mount Cattlin mine in Western Australia. And other companies are finding it harder to finance what a couple of years ago looked like eminently bankable projects.

Price: 820.23

Market Cap: \$152.05 billion

1 Year Share Price Graph



Share Information

Code: TSLA

Listing: NASDAQ

52 week	High	Low
	968.88	177

Sector: Manufacturing & engineering

Website: www.tesla.com

Company Synopsis:

Tesla Inc. was founded in 2003 by a group of Silicon Valley engineers who set out to develop a new electric vehicle company. Tesla Inc. uses proprietary technology, world-class design and state-of-the-art manufacturing processes to create a new generation of highway capable electric vehicles. We utilize an innovative distribution model based on company-owned sales and service centers.

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So what does this mean for the investor?

Well, while those that are already in the market are suffering, now may very well be a good point of entry for those who have yet to come in. A famous analysis done last year showed that to electrify the UK's fleet of over 31mln cars by the end of the next decade - as is the government's target - will require the consumption of more than twice the world's current cobalt production, more than 70% of its lithium production and around 50% of its copper production. And that's just the UK. Extrapolate those numbers out to the rest of the world, and you can see why the bulls are still making their case. They may just have a point. And at these prices it may just be worth getting in on the action.

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