

Lithium sector melting down as off-takers become an issue

Time to get real on battery input stocks

Over the last few years we have seen speculators move into stocks that have been specialising in graphite, lithium, cobalt, vanadium and to a minor extent, rare earths. They can be loosely described as battery input materials. Of these the lithium businesses have had the most tangible early success with a number of new mines coming on stream. However, that hasn't translated into profitability for operators. In fact, we are starting to see the flip side of the coin. The news flow over recent days should be worrying those still holding lithium stocks.

An undisputed bear market in lithium stocks has been in play for many months. Have a look at the share price performances of some of the key players in the table below. Yet, we still see heavy promotion of new lithium stories as if the bull market hasn't ended.

Company	Peak Price	Latest Price	% Fall	Mkt Cap Now
Alita Resources	\$0.33	\$0.082	75%	A\$121m
Altura Mining	\$0.51	\$0.07	86%	A\$162m
Galaxy Resources	\$4.54	\$1.15	75%	A\$472m
Oreobre	\$7.44	\$2.450	67%	A\$641m
Pilbara Minerals	\$1.25	\$0.35	72%	A\$648m

Graphite stocks have suffered a similar fate with the carnage in that sector over the past year or two being ubiquitous. Only one major new mine has made it to production and that mine is having trouble selling its output at acceptable prices. Just like with lithium, promoters are still peddling new graphite stories as if the real world doesn't count. It is time for these guys to wake up.

Company	Peak Price	Latest Price	% Fall	Mkt Cap Now
Bass Metals	\$0.037	\$0.009	76%	A\$25m
Battery Minerals	\$0.115	\$0.01	92%	A\$11.8m
Blackrock Mining	\$0.22	\$0.071	67%	A\$44m
Hexagon Resources	\$0.31	\$0.071	77%	A\$20m
Syrah Resources	\$6.66	\$0.67	90%	A\$279m
Talga Resources	\$0.92	\$0.420	54%	A\$93m
Triton Mining	\$0.71	\$0.043	94%	A\$39m
Volt Resources	\$0.15	\$0.013	91%	A\$21m

Cobalt and vanadium both had strong but limited surges in interest. Rapid increases in the commodity prices caused battery manufacturers to step back from plans for these inputs, thereby causing severe price falls. We must not forget that the costs of battery input materials have a big impact on economics of any particular design.

Rare earths, particularly NdPr are essential ingredients, but geopolitical events have been more influential than demand and supply for batteries so far. After a blip of speculative interest early this year it seems that interest in rare earths has waned somewhat, though it still seems likely that there will be a squeeze on NdPr down the track.

So, what does this mean for battery input materials as far as stock market speculators and investors are concerned? Can they still make short term trading profits ahead of long term strategic investments? If promoters make enough noise and brokers dance to their tunes they can usually get stocks to perform for a short while, but who really believes it for long term, enough to achieve something sustainable? Playing this game is a high risk strategy as it relies on the bigger fool theory. There needs to be more thought given to the investment thesis.

Should juniors even play in the battery business?

As far as batteries are concerned, one needs to ask whether junior Australian companies with their limited resources and abilities can really have access to groundbreaking technologies. Companies like Sony probably have 200 scientists working on new designs of batteries, spending tens of million of dollars. How likely is it that a little Aussie company will serendipitously stumble upon the magic pudding, and if they do, what stock market investors and analysts have the capacity to recognise and understand the sector? Even if they come across something brilliant, how well-placed are these companies to commercialise a breakthrough in a field where the goal posts are continually moving?

Sad to say it, but it is time to be realistic and move on from the fantasy. Ignore the rhetoric and the hyperbole hubris and think more critically. The answer may then be obvious.

Lithium bear market gets serious

The news flow out of the lithium sector last week just reinforces our opening comments. Galaxy announced a net loss after tax of US\$171m. The underlying business made a US\$4.9m profit for the half year to June, but there was a myriad of write-downs and impairments. The CEO said that the company was experiencing "difficult market conditions".

Pilbara Minerals sounds like it is in a difficult place ...

Pilbara Minerals has been unable to identify a satisfactory partner to acquire a 20-50% equity stake in its operations, forcing it to go it alone for the Stage 2, \$250m expansion to achieve 5 Mtpa. Maybe it won't even happen. Pilbara's offtake partners in China have been slow in building

chemical conversion capacity, causing the company to wind back production levels and reduce September quarter sales guidance to 20-35,000dmt from 35-48,000 dmt (35-42% reduction). Though, it did reaffirm the 65-80,000 dmt guidance for the December quarter. Is this optimistic or realistic? The shares went into a trading halt yesterday, quoting concern about media speculation. Let's see what light can be thrown on the matter.

... while Altura Mining gets queried by the ASX

Even though Altura has been forthcoming with a number of positive announcements recently, the ASX still issued a "negative" speeding ticket when the shares fell from 9.5¢ on 23/8/19, to 5.8¢ on 30/8/19, with volume of 32 million shares. In response the company said that everything was fine with its production and offtake shipments; but the market is still nervous.

... and Alita Resources falls flat on the canvas

Back in April 2018, Tawana Resources and Alliance Mineral Assets announced a merger with a pro-forma market capitalisation of \$446m, along with a series of fund raising initiatives. The rationale was to bring 100% of the Bald Hill lithium project, 50 km SE of Kambalda, under one entity. At the time it had just completed the commissioning of the mine, producing spodumene concentrates from a 1.2 Mtpa dense media separation plant. By the time the merger scheme booklet (a whopping 366 pages) was released in December 2018, the plant was operating at 230 tph, well above the design rate of 161 tph and the design of Stage 2 was in progress. Capex to that point had been \$51.5m and Stage 2 was expected to cost another \$30m.

Mineral Resources had been revised with a Proved and Probable Reserve of 11.3 Mt at 1.01 Li₂O₂ for 114,100 tonnes of Li₂O₂ and 4,000 lb of Ta₂O₅, using a 0.3% cut-off grade. That was sufficient for a nine year mine life.

The Ball Hill development had been underpinned by a long-term concentrate offtake agreement with Burwill Holdings Ltd, a company listed on the Stock Exchange of Hong Kong. The initial term was five years at a price of US\$880 pt on concentrates. A non-binding offtake agreement had also been signed with the HC Starck Group for tantalum concentrates.

The scheme of arrangement was implemented on 14 December 2018, with Alliance Mineral Assets (ASX:A40) acquiring 100% of Tawana's shares. Only two weeks later, on 27th December, the shares went into voluntary suspension regarding developments with the offtake agreement. On 15 January, the company announced a restructuring of the offtake agreement with Burwill, with the company stating that it was a "good outcome" even though it introduced a market-linked pricing mechanism, as it provided flexibility to sell 50% of the output to other customers (is that a good flexibility?).

At the same time it announced a 20% reduction in production for the December quarter, compared with the previous quarter. The subsequent March quarter production was 68% better with the MD saying that Bald Hill's spodumene product was being recognised by industry as a premium product owing to its coarse size, low fines and very low iron and other deleterious elements. All good, rah-rah! In April, Alliance announced a 50:50 initiative with Jiangxi Special Electric Motor Co Ltd, to develop a battery-grade lithium hydroxide business. The shares jumped to

23¢ and a \$32.5m placement was slapped out a couple of week later, at 20¢ a share. Interestingly, Galaxy Resources chipped in \$20m and in so doing became Alliance's largest shareholder. Canaccord Genuity decided to take its \$1.2m fee in shares rather than cash, which showed it to be a true believer.

On 17 July 2019, the company changed its name to Alita Resources, but only a week later there was a corporate and operations update that sort of looked good in the highlights section, but there was a disturbing point that said a strategic review had been initiated due to challenging market conditions. This was a harbinger of a disaster unfolding.

On 14 August, the shares went into suspension. On 18th August, it announced a default notice from Tribeca Investment Partners regarding its \$40m loan facility. On the 21st August, Alita announced it had agreed to a 10% discount in the previous floor price of US\$680/dmt for (FOB 6%Li₂O₂), for a 10,500dmt shipment of concentrates, along with a 14% price deferral for six months. But wait, it gets worse! On the same day Burwill announced that it had defaulted on its loan facility from Haitong International Financial Products (Singapore) Pte, causing business operations to be suspended.

Some good news came on the 27th of August, when Galaxy Resources stepped up to the plate and bought out the debt from Tribeca for US\$31.1m, but the relief lasted less than 24 hours. Alita was placed into voluntary administration by directors on the 28th August, then Galaxy upped the ante with the appointment of receivers and managers on the 29th.

What was happening to the share price in the lead up to these events? On the 7/12/18, when the merged entity started trading, the share price was 33¢ and the market capitalisation was \$217m. Over the next two months it fell to a low of 16¢ on 1/2/19. It then travelled sideways before bouncing to 21.5¢ on the 17/5/19, then it continued down the slippery slope to hit a low of 7¢ on the 6/8/19, with a market capitalisation of \$103m. Today, in receivership, its value is anybody's guess. It depends upon whether Galaxy is going to play hard ball, but there is no reason to believe it will be charitable.

Volumes of shares traded picked up dramatically upon the release of the quarterly report, on 25th July, with the share price falling 31% in two days. This was notwithstanding Alita disclosing record quarterly production, average selling prices of US\$749/dmt and cash costs of US\$545/dmt. There was \$20m cash in the kitty at 30/6/19. You needed to look at the Appendix 5B to get the real picture though. There was a cash drain of \$9.5m for the quarter, and \$25.5m for the nine months to June. The company was bleeding cash and it was only going to get worse if it couldn't find a new buyer for its (premium) product.

What is the point of all this, disclosing the first real casualty of the lithium boom? Well, once again we need to question whether continuous disclosure combined with rambunctious hyperbole really results in an informed market. In this case was there something amiss apart from the falling lithium price? Were ASX releases sufficiently sanguine? I don't know, but it is another example of the real story not being made clear to the market until it is too late. Is this the first of more train wrecks in the lithium space? Quite possibly. These event rarely occur in isolation.

Disclosure: A few years back the author was Chairman of Tawana Resources, when it was involved in African ventures but before it became involved with lithium.

Companies should manage their finances for shareholders, not for politicians

Everyone seems to be commenting on Josh Fryerberg’s message that companies should reinvest in production capacity rather than undertake share buybacks or pay dividends, so maybe my comments are superfluous. Nevertheless, a simple succinct observation may be useful.

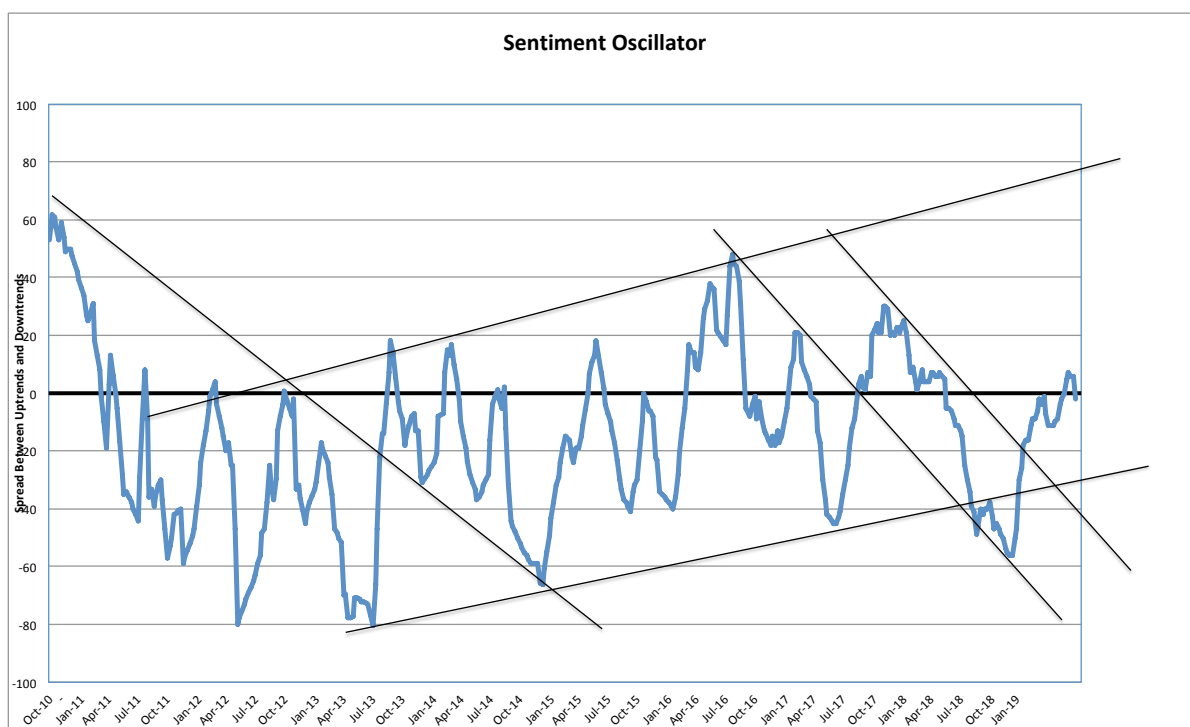
Interest rates are very low, depriving many retirees of interest income. Every time rates fall it reduces income for that population, placing them at the other end of the spectrum to mortgage owners. In order to compensate for the loss of income we will see another quest for high dividend yielding stocks.

Investors buy shares because they want to make profits. These can be via capital gains or by dividend income. If a

company decides that the investment outlook is insufficiently attractive to warrant reinvestment it is much smarter to return capital to shareholders rather than to build up cash balances and become fat and lazy. This is especially so when interest rates are so low, and use of debt funding is an attractive alternative. Having debt and the disciplines required to service this debt will lead better thought out decisions.

Rather than directing companies as to how they should use their funds, the Federal Government should be working harder to provide the business conditions that would make a reinvestment decision easy to make. Fixed the energy debacle and bring down electricity prices would be a good start.

We have deleted chart coverage of Triton Minerals and Volt Resources this week in recognition of the futility being experienced in the graphite sector. We have added Pacifico Minerals.



Sentiment Oscillator: Sentiment slipped further over the week. There were 37% (39%) of the charts in uptrend and 39% (33%) in downtrend on Friday’s close.

Detailed Chart Comments



NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.

Indices	Code	Trend Comment	
All Ordinaries	XAO	testing short term downtrend	
Metals and Mining	XMM	breached uptrend	
Energy	XEJ	breached uptrend	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA		new uptrend forming	HPA
Adriatic Resources	ADT	broad, shallower uptrend	zinc
Aeon Metals	AML	new low	copper + cobalt
Alacer Gold	AQG	new high	gold – production
Alkane Resources	ALK	sideways at its highs	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alchemy Resources	ALY	breached uptrend - rights issue	nickel, cobalt
Alicanto Minerals	AQI	at recent highs - placement being done	gold exploration
Allegiance Coal	AHQ	new high	coal
Alliance Resources	AGS	could be a new uptrend starting	gold exploration
Altech Chemicals	ATC	sideways	industrial minerals - synthetic sapphire
Apollo Consolidated	AOP	rising	gold exploration
Arafura Resources	ARU	down	rare earths
Argent Minerals	ARD	new uptrend	silver
Aurelia Metals	AMI	breaching downtrend	gold + base metals
AusTin	ANW	new low	tin, cobalt
Australian Bauxite	ABX	breached uptrend	bauxite
Australian Potash	APC	continuing with uptrend	potash
Australian Mines	AUZ	still in downtrend	cobalt/nickel
Australian Vanadium	AVL	new low	vanadium
BHP	BHP	heavy slump	diversified, iron ore
Base Resources	BSE	sideways	mineral sands
Bathurst Resources	BRL	down	coal
BBX Minerals	BBX	down	gold exploration
Beach Energy	BPT	risen through resistance line	oil and gas
Beacon Mining	BCN	pullback	gold production
Bellevue Gold	BGL	correcting lower after placement	gold exploration
Berkeley Energia	BKY	in secondary downtrend	uranium
Blackstone Minerals	BSX	steeply higher	gold, cobalt
Bounty Coal	B2Y	still in downtrend	coal
Breaker Resources	BRB	drifting	gold exploration
Broken Hill Prospecting	BPL	steeply higher, then all the way back down	minerals sands
Buru Energy	BRU	testing uptrend	oil
Buxton Resources	BUX	continuing down	nickel exploration
Capricorn Metals	CMM	strong uptrend	gold
Cardinal Resources	CDV	breached downtrend	gold exploration

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Cassini Resources	CZI		softer	nickel/Cu expl.
Celsius Resources	CLA		falling back to lows	copper/cobalt
Chalice Gold	CHN		new uptrend	gold exploration
Chase Mining	CML		uptrend breached	nickel/copper/PGE
Chesser Resources	CHZ		breached downtrend	gold exploration
Cobalt Blue	COB		new lows	cobalt
Dacian Gold	DCN		strong rise	gold
Danakali	DNK		sideways to lower	potash
Davenport Resources	DAV		down	potash
Egan Street Resources	EGA		under takeover offer, but weaker	gold
Emerald Resource	EMR		gentle downtrend	gold
Evolution Mining	EVN		new high	gold
Exore Resources	ERX		sideways	gold exploration
FAR	FAR		sideways at lows	oil/gas
First Graphene	FGR		correcting lower after options exercise	graphene
Fortescue Metals	FMG		rallying	iron ore
Galaxy Resources	GXY		new low	lithium
Galena Mining	G1A		sideways movement	lead
Galilee Energy	GLL		new high	oil and gas, CBM
Gold Road	GOR		new high	gold
Graphex Mining	GPX		drifting lower	graphite
Heron Resources	HRR		new low	zinc
Highfield Resources	HFR		surge to new high then heavy pullback	potash
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		down heavily	mineral sands
Image Resources	IMA		testing uptrend	mineral sands
Independence Group	IGO		rising	gold, nickel
ioneer (was Global Geoscience)	INR		testing downtrend	lithium
Jervois Mining	JVR		sideways at lows	nickel/cobalt
Jindalee Resources	JRL		slump, testing support line	lithium
Karoo Gas	KAR		heavy retracement	gas
Kasbah Resources	KAS		new low	tin
Kibaran Resources	KNL		down	graphite
Kin Mining	KIN		new uptrend forming	gold
Legend Mining	LEG		stronger	nickel exploration
Lepidico	LPD		down	lithium
Lithium Australia	LIT		new low	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		breached uptrend	rare earths
Mako Gold	MKG		rising off lows	gold exploration
Marmota	MEU		rising	gold exploration
MetalsX	MLX		new low	tin, nickel
Metro Mining	MMI		back to downtrend	bauxite
Mincor Resources	MCR		continuing higher	gold

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Musgrave Minerals	MGV		breached downtrend	gold exploration
Myanmar Minerals	MYL		down	zinc
Nelson Resources	NES		new low	gold exploration
Neometals	NMT		continuing down	lithium
Northern Cobalt	N27		risen to resistance line	cobalt
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		breached uptrend	gold
NTM Gold	NTM		rising again	gold exploration
Oceana Gold	OGC		back into downtrend	gold
Oklo Resources	OKU		bounced off lows	gold expl.
Orecorp	ORR		rising again	gold development
Oro Verde	OVL		rising	rare earths
Orocobre	ORE		strong bounce	lithium
Oz Minerals	OZL		down	copper
Pacific American Holdings	PAK		sideways	coal
Pacifico Minerals	PMY		rising	silver/lead
Pantoro	PNR		down	gold
Panoramic Res	PAN		testing downtrend	gold , nickel
Peak Resources	PEK		down	rare earths
Peel Mining	PEX		still down	copper
Peninsula Energy	PEN		down	uranium
Pensana Metals	PM8		down	rare earths
Perseus Mining	PRU		surge to new high	gold
Pilbara Minerals	PLS		down	lithium
PNX Metals	PNX		new uptrend forming	gold, silver, zinc
Polarex	PXX		testing uptrend	polymetallic exploration
Prodigy Gold	PRX		correcting	gold exploration
Ramelius Resources	RMS		new high	gold production
Real Energy	RLE		new low	gas
Red5	RED		new high	gold
Red River Resources	RVR		now in secondary downtrend	zinc
Regis Resources	RRL		pullback	gold
Resolute Mining	RSG		surge higher	gold
RIO	RIO		short term down	diversified, iron ore
Salt Lake Potash	SO4		new high	potash
Saracen Minerals	SAR		breached uptrend	gold
St Barbara	SBM		breached uptrend	gold
Sandfire Resources	SFR		down	copper
Santos	STO		into uptrend	oil/gas
Saturn Metals	STN		uptrend	gold exploration
Sheffield Resources	SFX		rising again	mineral sands
St George Mining	SGQ		testing downtrend	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal

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Strandline Resources	STA		slump	mineral sands
Sundance Energy	SEA		heading lower	oil/gas
Syrah Resources	SYR		free fall on capital raising	graphite
Talga Resources	TLG		down	graphite
Technology Metals	TMT		sideways	vanadium
Tiger Realm	TIG		heavy slump on \$12m loss	coal
Troy Resources	TRY		testing downtrend	gold
Vango Mining	VAN		moving higher	gold
Vector Resources	VEC		suspended	gold
Venturex	VXR		down	zinc
Vimy Resources	VMY		sideways under LT downtrend	uranium
West African Resources	WAF		improving	gold
Westgold Resources	WGX		uptrend	gold
Westwits	WWI		down	gold
Western Areas	WSA		surge out of downtrend	nickel
Whitebark Energy	WBE		rising	oil and gas
Whitehaven Coal	WHC		down	coal
Yandal Resources	YRL		stronger	gold exploration
Zinc Mines of Ireland	ZMI		breached downtrend	zinc
Totals	37%	53	Uptrend	
	39%	56	Downtrend	
		143	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

Weightings of Sectors Represented in the Company Charts			
Sector	No. of Companies	Weighting	
Gold	33	23.1%	
Gold Exploration	19	13.3%	
Nickel	10	7.0%	
Oil/Gas	9	6.3%	
Coal	8	5.6%	

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Lithium	8	5.6%	
Mineral Sands	6	4.2%	
Zinc/Lead	7	4.9%	
Rare Earths	6	4.2%	
Potash/Phosphate	5	3.5%	
Copper	5	3.5%	
Cobalt	4	2.8%	
Graphite	4	2.8%	
Tin	3	2.1%	
Iron Ore	3	2.1%	
Uranium	3	2.1%	
Bauxite	2	1.4%	
Vanadium	2	1.4%	
Silver	2	1.4%	
Diamonds	1	0.7%	
Other	3		
Total	143		

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