



Issue 57

Gold Bull-ion

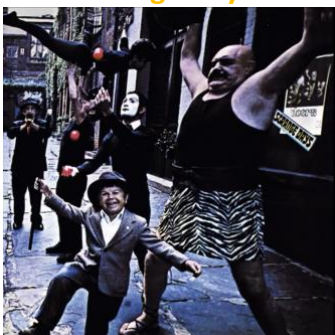
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Lithium Gold-ilocks

Strange Days

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Love Street



When the Music's Over

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We Could be So Good Together

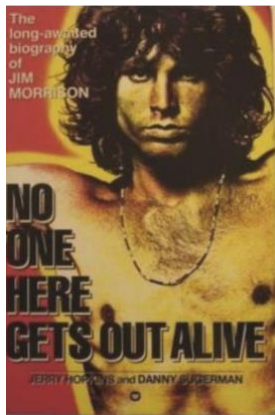
Clickbait headlines are not beneath me as I attempt to entice gold bugs to read that I capitulated last week after a near 10-year hiatus and dipped my toe into never old gold. And perhaps encourage them to repay the favor and follow 3 erstwhile lithium bears/gold bulls who have come to appreciate **Goldilocks**. Plain vaniLLa lithium porridge -- neither too hot (Western Australia) nor too cold (Quebec), but just right (North Carolina) – and on **NASDAQ**.

I encourage you to [click this thorough Piedmont Lithium note](#) from gold bull **Chris Temple** of **National Investor** who followed gold bull **Brien Lundin** of **The Gold Letter & New Orleans Investment Conference**, and gold bulls **Brent Cook** and **Joe Mazumdar** at **Exploration Insights/Metals Investor Forum** all who joined early adopters **Jeb Handwerger**, **Peter Epstein & Sean Brodrick** in appreciating after 4 years of zero SQM production growth that there's no such thing as a Saudi Aramco of lithium. I've observed that a number of the themes that animate American gold speculators (and influence Presidential Elections) are evident in thinking about geopolitical super-power rivalry and supply chain disruption in the context of COVID-19.

In the first ten of my 20 years advising and investing in junior resource companies, I had great success with two medium-sized, modest head-grade, vanilla gold projects that advanced from early exploration through feasibility, financing and buy-out. **Jinshan Gold Mines** – in inner Mongolia, China – bought by **China Gold International**, and **Capital Gold** – in Sonora Mexico – bought by **Gammon/Aurico**. I also helped **Sino Gold/Eldorado** rock star Jake Klein (no relation) in the early Conquest/Catalpa days who has repeated a successful mid-tier Australian gold **Evolution**. **EVN** may be soon appear alongside the small **GDX** and **GDXJ** I initiated in these *Strange Days* last week. My firm, RK Equity, advised hedge fund Luxor Capital on its 2012 take-over of **Crocodile Gold** later sold to Newmarket Gold. Amongst these wins were battle scars (eg, **Medusa**, **Beadell**, **Ivanhoe/Oyu Tolgoi**) from which I've learned many lessons – **project execution risk, emerging market sovereign risk, big strategics who take 51% project control**.



Much as I look for half full glasses while sheltering in epicenter Queens of the epicenter NYC, I am sometimes influenced by my beautiful Hungarian wife, conditioned by her first 20 years behind the Iron Curtain, to hear *When the Music's Over*. Will we get to experience the irreplaceable peace and love this July/August of our 11- and 15-year-old boys in summer sleepaway camp? Or will we channel the dark-minded counselor from my own 5<sup>th</sup> grade summer who opened for me *The Doors*?



### The End



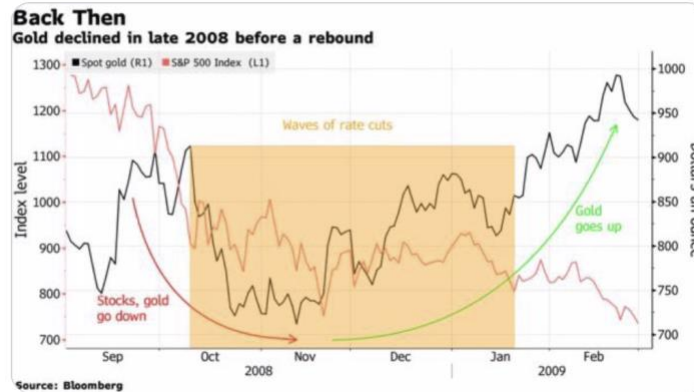
In the wake of massive monetary and fiscal stimulus in the US (\$2,000,000,000,000), and globally, the first three of the 10 reasons for owning gold have greater resonance (h/t Frank Holmes, US Global)

1. Skyrocketing Government Debt
2. Negative Real Rates
3. Inflation Hedge
4. Geopolitical Uncertainty
5. A History of Holding Its Value
6. Weakness of the U.S. Dollar
7. Deflation Protection
8. Supply Constraints
9. Increasing Demand - Central Bank Buying China/India Jewelry
10. Portfolio Diversification

This view was reinforced in a [great podcast with Silicon Valley billionaire Chamath Palihapitiya](#) (h/t @VivasVK7 @Benchmarkmin) who has no gold ax to grind but nevertheless suggests **gold**, **bitcoin** and the **US dollar** are all “better bid”. I believe there are more people who will begin to believe the arguments that gold will go higher than those that will believe the opposite. Demand > supply should support gold prices and gold stock inflows. I believe gold’s initial selloff in recent crisis mirrored 2008 and could be followed by a similar big rally.



Anthony Milewski @A\_Milewski · Mar 23  
#gold



I further believe that a sustained #gold #rally could lead to a broader rally in other mined #commodities and commodity equity inflows which should help #lithium.

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*My Wild Love*

In 2009 I followed Jinshan Gold's CEO Jay Chmelauskas in search of greener Lithium-ion rEVolution pastures in gray Western Lithium Nevada clay. I stopped chasing Gold bullion entirely in 2012, and after 3 subsequent commodity wilderness years, the Lithium-ion Bull, yours truly, was born in the wake of Jay's genius timing to merge with **Lithium Americas**.

**Vamos Argentina: Success!**

**Almost Famous: Lithium 2.0 Battle Scars**



**Western Lithium Americas – 11-year Chart**

It's quite amazing that 4 years later MineraExar/Cauchari is the only new, fully integrated project funded and in construction from Lithium 2.0...And that LAC is on sale at the same price when SQM first bought their stake in March 2016.



**Ganfeng's** a great company, but off only 25% from \$10B valuation is IMO pricing in perfect execution of something never attempted - zero to 40kt Argentina greenfield. #BrinesAreHard. A debt &/or convert &/or equity raise is forthcoming – the justification for consolidating 51% control of MineraExar. China retail Momentum trading could push \$1772 to further nosebleed levels, but it would take either a massive lithium price spike (2021/22), earnings improvement, or a further 50%+ price fall to justify re-entry for a Value or GARP investor.

Ganfeng Lithium - 2019 Unaudited Results (published March 30, 2020)					
USD (FX = 7)		2018	2019	Growth	Margin
Revenue	\$	698,554,571	\$ 749,489,286	7%	
Gross Profit	\$	250,550,000	\$ 176,793,143	-29%	24%
EBIT	\$	295,759,714	\$ 68,163,143	-77%	9%
EBITDA	\$	317,119,857	\$ 101,630,000	-68%	14%
Net Profit	\$	272,439,857	\$ 51,535,000	-81%	7%
LCE Production (tons)		42,298	54,241	28%	
Depreciation & Amortization	\$	21,360,143	\$ 33,466,857	57%	
Interest Expense	\$	16,376,143	\$ 29,802,714	82%	
Interest rate		5%			
EBIT/Interest		18	2		
USD (FX=7)		2018	2019		
Cash	\$	459,802,143	\$ 189,729,143		
Debt					
Short-Term	\$	193,765,000	\$ 281,222,143		
Long-Term	\$	100,874,143	\$ 208,157,571		
Convertible	\$	101,922,857	\$ 108,907,857		
<b>Total Debt</b>	\$	<b>396,562,000</b>	<b>\$ 598,287,571</b>		
Net Cash/Debt	\$	63,240,143	\$ (408,558,429)		
Investments in Associates	\$	338,952,857	\$ 130,771,571		
Investments in Joint Ventures	\$	7,342,429	\$ 477,717,286		
Total Investments	\$	346,295,286	\$ 608,488,857		
2018	designed capacity	effective capacity	actual production	LCE equiv	utilization rate
Product					
Lithium Carbonate	40,500	23,000	16,325	16,325	71%
Lithium Hydroxide	31,000	16,000	14,736	12,982	92%
Lithium Metal	1,600	1,600	1,519	-	95%
Others				12,991	
	73,100	40,600		42,298	
2019	designed capacity	effective capacity	actual production	LCE equiv	utilization rate
Product					
Lithium Carbonate	40,500	25,750	23,136	23,136	90%
Lithium Hydroxide	31,000	24,000	23,855	21,015	99%
Lithium Metal	1,600	1,600	1,435	-	90%
Others				10,090	
	73,100	51,350		54,241	
		% of total LCE	Growth		
Product					
	<b>2018</b>	<b>2019</b>			
Lithium Carbonate	39%	43%	42%		
Lithium Hydroxide	31%	39%	62%		
Lithium Metal	NA	NA	-6%		
Others	31%	19%	-22%		
Total LCE	100%	100%	28%		



Much as I believe in the long-term lithium thematic, as I have for 10 years, the trading performance of lithium shares demonstrate that the 'nuanced,' 'specialty chemical narrative' is a distraction/waste of time. The volatility of even the Big 4 stocks - ALB, SQM, LTHM and Ganfeng - demonstrate lithium shares are less 'investments' than 'commodity trades' even if with a 3, 5 or 10-year view. Volatile earnings; projects over-budget, late and low capacity utilization; high sustaining capex; no forwards market/hedging mechanisms; long-term contract floors built on quicksand.

It is risky to continue to believe – as I have – that 12-15X EV/EBITDA multiples that Rockwood paid for Talison and Albemarle for Rockwood will always be there – in particular within the context of a customer shift to volume Auto OEMs buyers struggling with their own profitability and used to squeezing their suppliers. Unless and until the lithium Oligopoly further consolidates and demonstrates the discipline and price leverage resulting in the same high quality, sustainable 30%+ EBITDA margins ALB benefits from in its Bromine business, and can grow lithium volumes in line with exciting 15-20% overall lithium demand growth, it is safer and likely better risk/reward IMO to invest in lower EV/EBITDA multiple commodity mining houses, like **Rio Tinto**, which I also bought recently, and will discuss in my next newsletter.

### *Waiting for the Sun*

The good news is that we're likely at the bottom of the bust, and the Lithium 3.0 boom is a question of when, not if...And if you believe, as I do, that lithium demand will grow from 300kt to 2m tons over the next 10 years, you'll realize the industry needs \$30B+ to buy and build those 1.7m incremental new, battery quality tons - ~75 new hydroxide and carbonate chemical processing plants using precursor ore, clay and brine (conventional and DLE)...And that despite lithium's relative abundance, credible, proven, conventional, sustainable integrated projects are scarce, and should garner competitive tension premiums akin to two of the biggest successes from Almost Famous Lithium 2.0 - **Kidman** and **Wodgina**.

### *Hello, I Love You*

**Piedmont Lithium (PLL: ASX/NASDAQ; USD10M net cash)** - market cap 90% below what **Wesfarmers** paid for 50% Mt Holland (a higher cost project with likely lower near-term cash flow with a 10-year view) - is one of a handful of opportunities with **modest risk/super-high reward** potential that keeps me excited about lithium equity investment potential in Lithium 3.0.



Research, Capital Raising, Advisory, Merchant Banking

10 Years Experience with Lithium Battery Materials Developers



#### Disclaimer

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