



September 12: Back to School; SQM's Blue Sky & Green Fields

I graduated High School in 1986 when this Rodney Dangerfield hit made its debut at the box office:

Back to School (First Economics Class): <https://www.youtube.com/watch?v=YIVDGmjz7eM>

Re-watching this clip reminded me a bit of tactics Donald Trump very well may have utilized in building his \$1B Taj Mahal Casino, in Atlantic City, which opened in 1990, closed in October of last year and just finished a clearance liquidation – Hard Rock International bought it from Carl Icahn for \$50M and is to invest \$500M on a Rock and Roll-themed resort ☺

https://en.wikipedia.org/wiki/Trump_Taj_Mahal

I also thought of the various parties associated with **Bald Hill**.

I want to thank a good friend of mine **Nick Vardy** for re-visiting his lithium write-up from last year, with a big shout out for the Rebranded **Lithium-ion Bull** and **Piedmont Lithium**:

Click here: <https://www.stockinvestor.com/30616/revisiting-lithium-mania-year-later/>

Nick's been a **Global Guru** for around 15 years. I encourage you to read and follow his other work, starting with this one from August, which I found uplifting, as I am unhandicapped with high intelligence.

<https://www.nicholasvardy.com/why-high-intelligence-is-a-handicap-to-profitable-investing/>

My only quibble with Nick's lithium note is that I do believe it is wise for most investors interested in playing the lithium theme to have some Big 5 exposure. And the one I prefer is SQM, which should trade at a premium to ALB, not a discount, in my view. Mr. Market hasn't even begun to understand/price in the growth from its JVs with LAC and KDR.

SQM Investor Day Presentation:

http://s1.q4cdn.com/793210788/files/doc_news/2017/SQM-Investor-Day-2017_FINAL_Sept6.pdf



SQM

I'm having some fun nicknaming. In 1984, 15-year-old Li Bull's MTV eyes saw this exotic lady:

SADE: Smooth Operator: <https://www.youtube.com/watch?v=4TYv2PhG89A>

In 1993 when the term "Emerging Markets" was just being coined, SQM was one of the first blue-chip EM names to achieve the dream to end all dreams – a listing on the most prestigious stock market in the world. The Big Board. The N.Y.S.E. Bill Clinton was just elected and the post-Cold War '90s booms and busts had several years still to unfold (Mexico, Thailand, Korea, Russia, LTCM, internet stocks etc).

SQM mentioned next year is 25 years on the NYSE and joked about ringing the bell in 2018 - a year I expect should be one of record lithium profits, further new lithium development partnerships/ acquisitions (fourth location?!) and resolution with CORFO on pumping quota, with some similar excess profits tax to that which ALB agreed.

I was more focused on Eastern Europe in the mid '90s, living in Budapest, Hungary. My wife was the first office manager for what is now **Euronet Worldwide**, a \$90 mid-cap stock I owned from sub \$10 microcap beginnings over 20 years and is now \$5B+ Nasdaq listed ATM and transaction processor. More on that digression another time. **Hint: Lithium Cash Machines.**

SQM repeated many times its guiding principles in evaluating any project: Low opex, low capex – always at the low end of the cost curve. And how it foresees a further uptick to pricing in 2H as it continues to exert its price-making position via short 3-6 month contracts with its customers. There was a fair bit of chatter on how SQM contrasts with what Joe Lowry calls' ALB's reality distortion, leading them to forecast lower 2H pricing despite super tight market.

<https://www.linkedin.com/pulse/albs-reality-distortion-field-joe-lowry>

SQM is a Smooth Operator for stealthily capturing from painful POSCO in early 2016 Lithium Americas' Cauchari - an asset it rightly understood to be a super large, best-in-class brine resource. 50,000 tons for 40 years at \$2,500/ton opex. High market price. 70% EBITDA margins.

I've now concluded with EYES WIDE OPEN that **Kidman** is a history repeat rather than a rhyme – following nearly exactly the LAC script. Smooth Operator SQM understood earlier and better than most that Mt Holland is a long-lived, best-in-class hard rock asset upon which both a downstream carbonate and hydroxide refinery business could be built. And they are very serious about moving ahead with it.



Lithium Americas

I had the privilege of sitting at standing-room-only SQM Investor Day next to Mr. Lithium, a man who has forgotten more than I will ever know about lithium (and blogging, and tweeting, and parenting). I witnessed Mr. de Solminac's (feigned?) deference to ensure he stays out of Twitter cross-hairs. And later, a knowing glance when talking about the very small universe of projects on the supply-side that will make it.

About 10 could, in my estimation, with a 5-10 year view, especially if China is serious about its ICE phase-out, news of which had perhaps the most ReTweets of any I've seen in the lithium space. SQM insists it has a **responsibility** to its customers to provide the volumes. But they can't do it all, and other juniors will have to get financed to respond with supply from such this disruptive demand shock.

I also reconnected with a number of senior LAC management, who hosted a LAC lunch presentation to a similar standing-room-only crowd.

LAC qualified last week for the S&P TSX SmallCap Index and will join September 18, which means more buying from index and benchmarked funds and additional trading liquidity.

With LAC stock already hitting National Bank Financial analyst's \$1.40 target – which I suggested was a likely worst case when he initiated just 5 weeks ago – he nudged his target to \$1.65.

More worth listening to is MacMurray Whale at Cormark, who re-iterated LAC as his top pick and CAD 2.59 NAV.



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MORNING MEETING NOTES
 SEPTEMBER 8, 2017

Takeaways For Lithium Americas: From a high level, the presentations left the packed audience with a clear picture that SQM has made a significant effort and incurred significant cost to explore and advance both expansion projects and greenfield projects in the Lithium segment. We believe the details provided on both the Cauchari and Mt. Holland projects indicate that SQM is fully committed to develop the projects on the timelines provided. While confident more quota from CORFO will come, risk, timing and the eventual impact on margin are insufficiently known, making the geographical diversification essential.

- Pond and processing plant design is moving well into detailed engineering
- Pond construction to begin in late 2017 with filling to begin in Q1/18
- 20 months of pond operation will provide a window to start lithium carbonate production in late 2019

As a result of a clear articulation of a growth plan for lithium from SQM that involves multiple projects, from varied mineral resources, in different geographies, and indications of progress on construction, we expect investors to begin to lower the discount placed on the Cauchari project. Furthermore, we anticipate that LAC will begin to articulate a development plan for its clay resource in Nevada more fulsomely. Although we do not expect investors will immediately embrace this earlier stage opportunity, it does represent significant upside as the resources are large and arguably no value is currently being realized in the stock.

Maintaining C\$2.00 Target And Top Pick Recommendation: We have made no changes to our valuation parameters, maintaining our C\$2.00 target and Top Pick recommendation. We use a Stage 1 discount rate of 8% with 10% on Stage 2. The project is essentially derisked from a financing perspective, supporting a lower discount rate than the 10% we used when initiating our coverage in January.

Our target uses a share count of 453 MM, which is the sum of the 315 MM currently outstanding, the 114 MM remaining from the two private placements related to the strategic investments and 24 MM for the warrants and options that are exercisable. Note that our NAVPS is C\$2.59, which moved higher in July because of the increase in our long-term price assumption since our last note on LAC. Our C\$2.00 target implies a target NAV multiple of just under 0.77x, a modest level for a project in construction.

Figure 1: NAV Calculation For LAC

Mining Assets	Ownership	Discount	\$MM	\$/Share
Cauchari Stage 1	45.8%	8%	\$405	\$0.89
Cauchari Stage 2	45.8%	10%	\$286	\$0.63
RheoMinerals Inc.	100%	-	\$11	\$0.02
Lithium Nevada Corp.	100%	-	\$85	\$0.19
Total			\$787	\$1.74
Financial Assets				
Excess Cash (post construction investments)			\$83	\$0.18
Warrants & Options			\$10	\$0.02
Debt			\$1	\$0.00
Net Financial Assets			\$94	\$0.21
Net Asset Value (US\$)			\$881	\$1.94
Net Asset Value (C\$)			\$1,175	\$2.59

Source: Cormark Securities Inc.



New Nickname

Rodney Dangerfield no more, my first instinct for LAC was, of course:

Aretha Franklin – RESPECT: <https://www.youtube.com/watch?v=6FOUqQt3Kg0>

But I prefer to save that for when **Altura** catches a similar re-rating, which I suggested 5 weeks ago. Aretha and the Godfather of Lithium soul, **James Brown**, are a better match.

Other than *Money*, nothing about LAC seemed right about my favorite rock band Pink Floyd, which will be subject to a near-term Lithium-ion Bull. I'm seeing Roger Waters' US & Them Tour at Barclays Arena tomorrow night and visited "Their Mortal Remains," in August, a fantastic Exhibit at the V&A museum; **A MUST SEE BY OCTOBER 1 IF YOU'RE IN LONDON.**

<https://www.vam.ac.uk/exhibitions/pink-floyd>

So, I turn to my second favorite:



Led Zeppelin Americas. Lithium Brine Stars.



Stairway to Heaven

Lithium Americas Corp (TSE:LAC)

Add to portfolio

1.40 +0.07 (5.26%)

Sep 8 - Close

TSE data delayed by 15 mins - Disclaimer

Currency in CAD

Range	1.33 - 1.42	Div/yield	-	
52 week	0.52 - 1.42	EPS	-0.09	
Open	1.38	Shares	437.30M	
Vol / Avg	1.82M/1.05M	Beta	2.44	
Mkt cap	609.74M	Inst. own	-	
P/E	-			



– up 330% in 20 months since Jan 1, 2016. At 52-week high.

Arguably the greatest rock and roll song of all time deserves two tracks:

Kennedy Center Award (2012): <https://www.youtube.com/watch?v=2u-PjvRyr0I>

Song Remains the Same LIVE (1971): <https://www.youtube.com/watch?v=6Fqozggi-44>

Dr. David Deak's **Lithium Nevada Project?**

Your Time is Gonna Come (1971): <https://www.youtube.com/watch?v=5cvEVivHVsU>

And now it's time to Ramble On...

<https://www.youtube.com/watch?v=h9MxNn8P7w>



...About Kidman: More Blue Sky in SQM Green Field



**DEVELOPING A
WORLD-CLASS
LONG-LIFE
INTEGRATED
LITHIUM PROJECT**

MARTIN DONOHUE

MANAGING DIRECTOR
KIDMAN RESOURCES

RICARDO RAMOS

CFO AND VICE PRESIDENT OF
CORPORATE SERVICES
SQM

25 - 28TH JULY 2017

Details were skinny at Investor Day and should come out soon once the deal closes, which SQM CEO Patricio de Solminac suggested in a knowing glance with his lawyers, seemed largely a matter of legal language taking time, but that it should close as he said in other public formats, before end September deadline. KDR was in Trading Halt on Monday.

SQM's Lithium COO Juan Carlos suggested any notion that SQM knows only brines, but not hard rock, is misguided.

The Investor Day laid SQM's operational expertise on thick – Juan Carlos's deep Chilean English accent and body language emanating from a larger-than-life frame and cue ball haircut conveyed strong pride in the division's technical prowess: *SQM is a great place if you want challenges...Brines are difficult. Even for us – no one has the capabilities we do – 35 Hydrologists and Geologists. Brine evaporation rates are 3X in the summer (December/January) than in the winter (period just ending). Brines move. They can have 100X variability in terms of grade and impurities throughout the salar.*

By forcing us to sit through the Iodine division before lithium, SQM ensured most people stayed till the end and, for those not distracted by SQM's ticker hitting \$50 on their iPhones, learned that hard rock mining of SQM's Caliche ore - is the core of the iodine business.



SQM

MT. HOLLAND

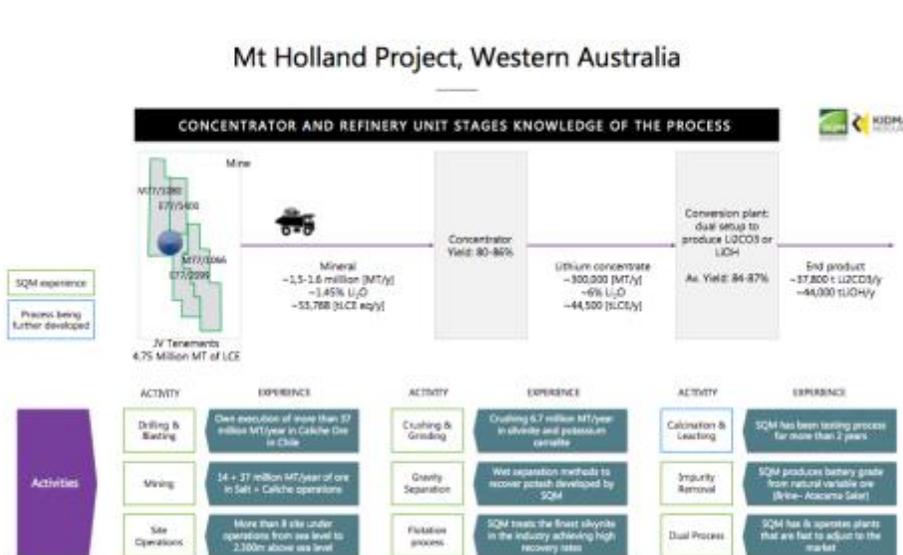


AUSTRALIA

- Spodumene production (open mining)
- Earl Grey Resource: 128 million MT at 1.44% Li₂O for 4.54 million MT of LCE⁻³²
- Integrated project
 - Maximum value added to the mineral
 - Dual plant production of lithium carbonate and hydroxide
- Production capacity ~ 40,000 MT of LCE
- Waste/Ore ratio 1.9 for first 27 years⁻³⁴
- High continuity of ore; more than 40 meters
- Integrated development process of mine and plant

What I felt was new and newsworthy for Kidman was Juan’s description above that Mt. Holland has a **very low 1.9 strip ratio for the first 27 years**. He referenced as well a number of times the high **continuity of the ores – 40 meters**, which should lead to lower costs compared to other deposits which have only 2-3 meter thicknesses. The dual refinery strategy – carbonate and hydroxide – will provide maximum flexibility to supply customers.

SQM said the only thing that is “new” to them in the below process is the Calcination & Leaching, for which it has been testing a process for more than 2 years.





SQM has thus far followed through with everything they've ever said with LAC in Argentina.

So I believe that SQM's announced plans and timelines with KDR are highly likely:

- 2019: 40K LCE equivalent spodumene production – same year as Argentina
- 2021: 40K refined carbonate and hydroxide product



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