Rio Tinto's acquisition of Arcadium marks a key step for the lithium market

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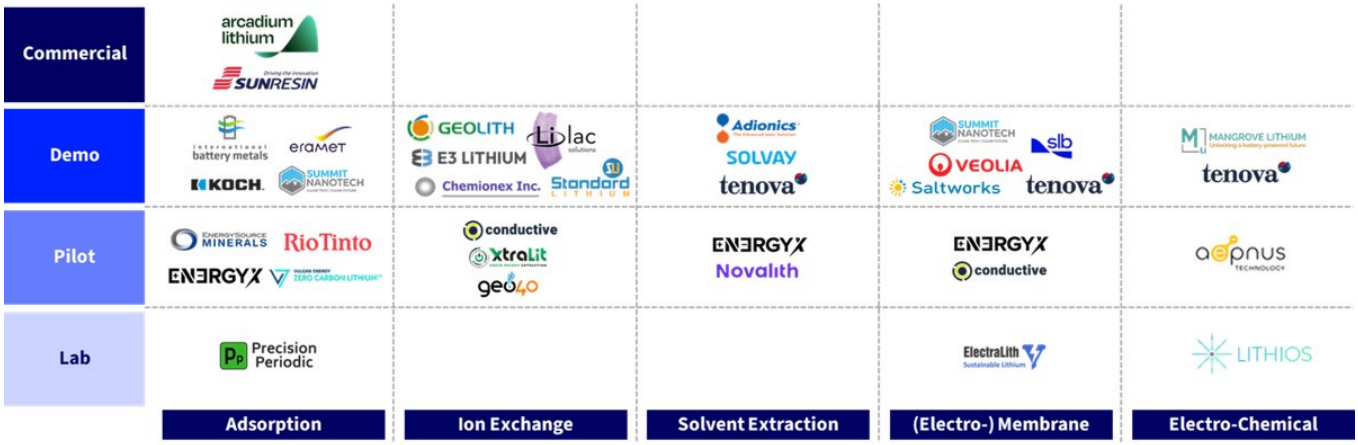
Key Takeaways

- Rio Tinto's acquisition of Arcadium Lithium strengthens its strategic commitment to securing a significant position in the lithium market.
- This acquisition allows Rio Tinto to invest in a high-growth market at a favourable point in the cycle, anticipating future demand increases.
- The lithium industry is experiencing consolidation as companies aim to enhance their market positions and achieve economies of scale.

Rio Tinto recently acquired Arcadium in a US$6.7Bn deal[1]. Acquiring Arcadium gives Rio Tinto instant scale, expertise, and more growth options. Arcadium's production is expected to double by 2028. Rio will leverage its balance sheets to deliver the project pipeline, where funding has been one of Arcadium's biggest bottlenecks. Its business is vertically integrated and has an ex-China supply chain.

This acquisition is crucial because Arcadium specialises in Direct Lithium Extraction (DLE), a newer and more efficient technology designed to shorten processing times and improve the environmental footprint of lithium extraction. Arcadium is one of two companies globally with commercial-scale DLE production.

Figure 1: DLE technology providers and development stage



Source: Extantia, Wood Mackenzie, WisdomTree as of 31 October 2024. Note: Arcadium Lithium (previously Livent), and Rio Tinto are both proprietary technology providers and project developers.

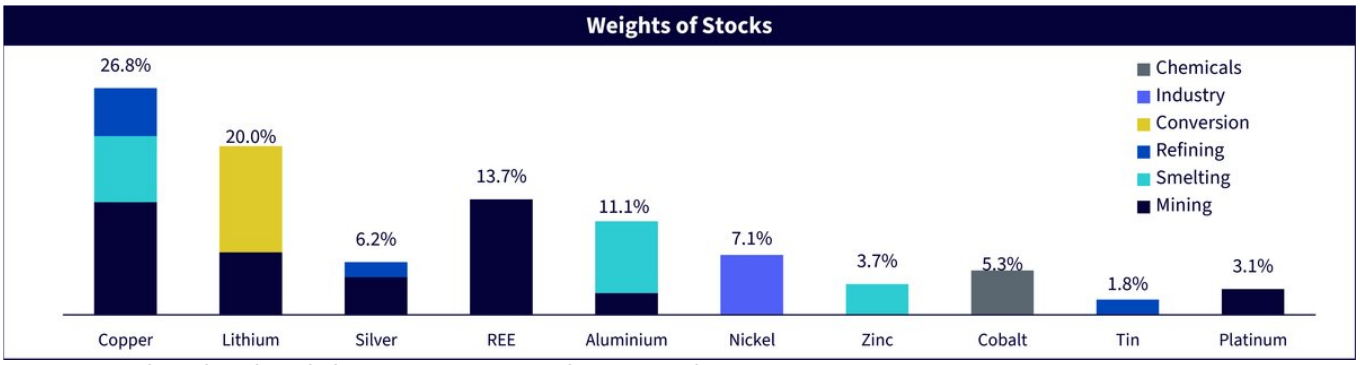
Rio's greener growth to come from lithium

Lithium is a small but fast-growing market that is essential for the energy transition. Lithium's light weight and ability to store charge make it an ideal element for mobile battery solutions. This deal strengthens Rio Tinto's strategic commitment to securing a significant position in the lithium market, leveraging Arcadium's intellectual property and expertise. Lithium prices have been under pressure owing to unabated supply increases. With lithium prices down more than 80% from peak levels, this acquisition allows Rio Tinto to invest in a high-growth market at a favourable point in the cycle, anticipating future demand increases. At current price levels, we think we are well into the cost curve, and many lithium producers could likely be losing money, which could lead to supply-side cuts that ultimately support lithium prices.

A unique way to invest in the energy transition

Interestingly, Arcadium Lithium was the fourth largest holding (before the acquisition) in the WisdomTree Energy Transition Metals and Rare Earth Miners UCITS ETF (RARE). The ETF is built in partnership with industry experts Wood Mackenzie and invests across upstream, midstream, and downstream components of the value chain, covering subsectors like mining, refining, smelting, conversion, chemicals, and industry. The stock selection and weighting in RARE is based on the purity of exposure to the theme and company growth prospects. Lithium accounts for the second highest metal exposure in RARE.

Figure 2: WisdomTree Energy Transition Metals and Rare Earth Miners Index: holdings

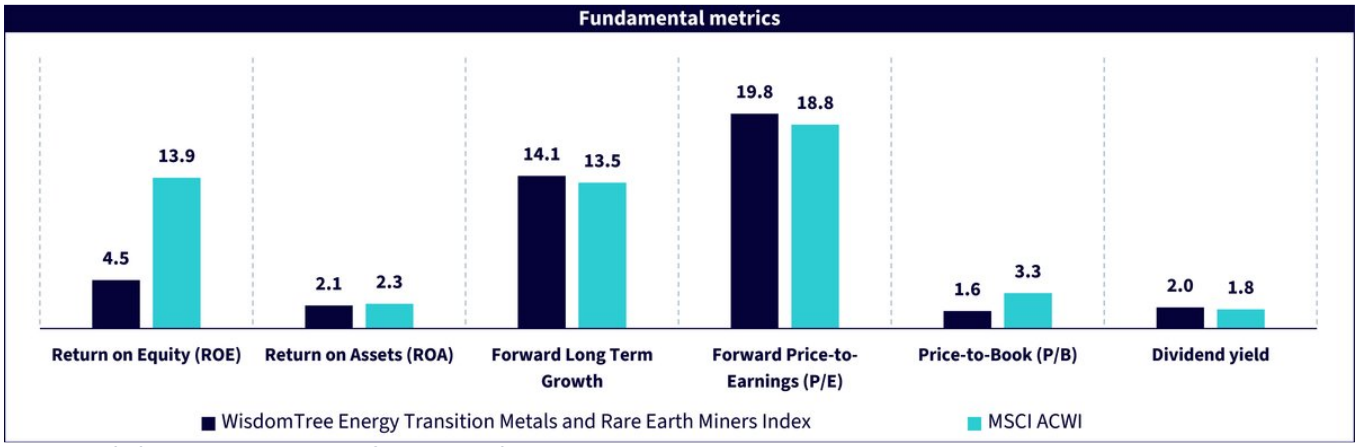


Source: Wood Mackenzie, WisdomTree, FactSet as of 30 September 2024.

RARE is designed to provide diversified equity exposure to capture the growth and demand of important energy transition metals. Given the evolving nature of the energy transition, we constantly strive to adapt to the ever-changing nature of the energy transition value chain and position ourselves for an informed view of where the megatrend is headed. RARE provides a unique equity solution for investors seeking to tap into the nexus of the critical metals and the mining value chain. We believe the role of metals and miners in the energy transition will be pivotal in decarbonising the economy and achieving the ambitious goals set by countries globally.

The valuations for the WisdomTree Energy Transition Metals and Rare Earth Miners Index underscore a higher forward long-term growth multiple alongside a lower price-to-book earnings multiple than the MSCI All Country World Index.

Figure 3: Comparison of fundamental metrics



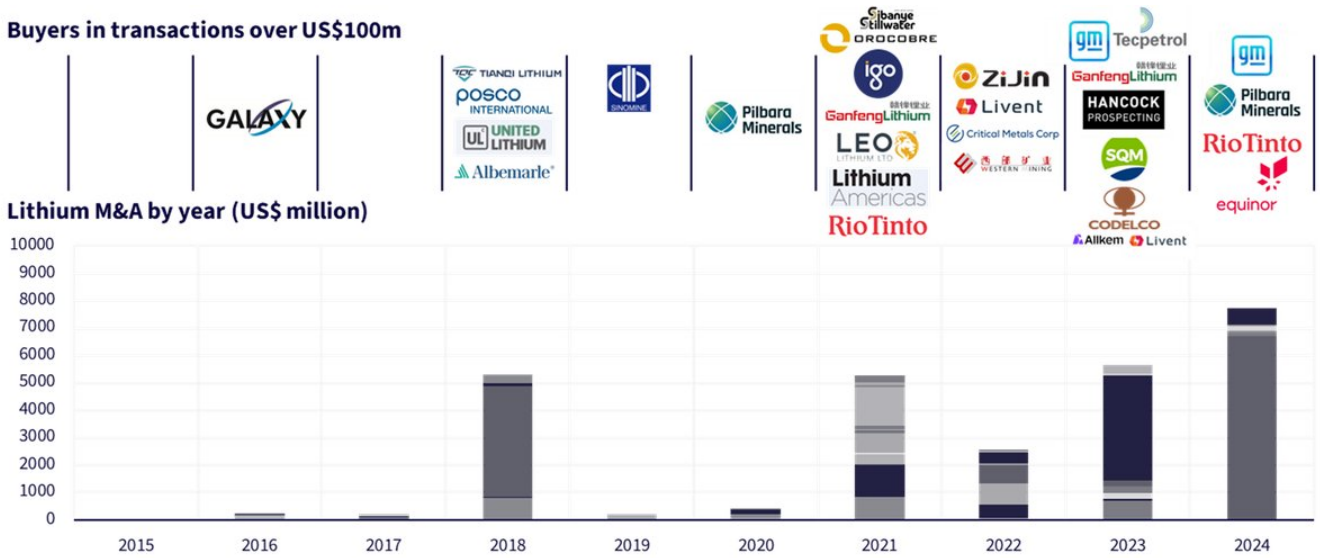
Source: WisdomTree, FactSet as of 30 September 2024.

Further M&A activity in the lithium mining sector

The global shift towards electric vehicles (EVs) and renewable energy storage has significantly increased the demand for lithium, a key component in batteries. This surge in demand encourages companies to secure lithium resources through acquisitions, as evident from Rio Tinto's recent acquisition of Arcadium.

The lithium industry is experiencing consolidation as companies aim to enhance their market positions and achieve economies of scale. Despite recent declines in lithium prices, major mining companies are making strategic acquisitions, anticipating long-term demand growth. Beyond traditional mining companies, entities from various sectors are entering the lithium market. For example, Hancock Prospecting's $1.1 billion acquisition of gas assets from Mineral Resources reflects a broader trend of diversifying into energy-related resources, including lithium.

Figure 4: Only 28 deals over US$100 million since 2015, but bigger names and bigger deals are coming



Source: Wood Mackenzie Corporate Strategy and Analytics Service, FactSet as of 31 October 2024.

[1] Reuters as of 9 October 2024.

Important Risks Related to this Article

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