

# Case Analysis of Tianqi Lithium Corp's Acquisition of Sociedad Química y Minera

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**Abstract:** Enterprise mergers and acquisitions (M&A) are vital strategies for companies worldwide to expand markets, enhance competitiveness, and achieve strategic goals. The Chinese government's strong support for the new energy industry has created a favorable policy environment for the development of the lithium battery sector. Against this backdrop, Tianqi Lithium Corp's acquisition of Sociedad Química y Minera (SQM) in Chile has garnered widespread attention. This paper takes Tianqi Lithium Corp's acquisition of SQM as the research subject, conducting a detailed analysis of the motives behind the M&A. Subsequently, financial indicators are employed to conduct a performance analysis from a financial perspective, examining the impact of the M&A. Finally, based on the findings of the case analysis, relevant suggestions are proposed to offer a reference for the development of enterprise mergers and acquisitions.

**Keywords:** Enterprise mergers and acquisitions; Tianqi Lithium Corp; Sociedad Química y Minera de Chile (SCM)

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## 1. Case introduction

### 1.1. Overview of the acquirer: Tianqi Lithium Corp

Tianqi Lithium Corp. (formerly Sichuan Tianqi Lithium Industries Inc., hereinafter referred to as "Tianqi Lithium"), founded in 1995 and listed on the Shenzhen Stock Exchange in 2010, is a new energy materials company with lithium as its core focus. Its headquarters are located in Sichuan Province, China. Tianqi Lithium's main business operations include lithium concentrate mining, lithium compound processing, and the research, development, production, and sales of lithium products <sup>[1]</sup>.

### 1.2. Overview of the acquired: Sociedad Química y Minera

Sociedad Química y Minera (hereinafter referred to as "SQM") is a leading global producer of specialty chemicals and lithium products, headquartered in Chile. SQM is one of the largest lithium producers globally and holds mining rights to the Atacama Salt Lake, one of the richest lithium-bearing salt lakes in the world. SQM extracts high-quality lithium products from salt lakes using advanced extraction technologies and supplies

them to lithium battery manufacturers worldwide.

### 1.3. Merger and acquisition process

Figure 1 shows Tianqi Lithium’s merger and acquisition process of SQM. In late 2015, Argentina’s Pampa Group, a shareholder of SQM, announced the sale of its stake in SQM, providing Tianqi Lithium with the opportunity to acquire SQM shares.

In 2016, Tianqi Lithium approached the Ponce family, the controlling shareholders of SQM, and submitted a non-binding offer to acquire their 23.02% stake in SQM held through the Pampa Group. While negotiating with the Ponce family for this acquisition, Tianqi Lithium also purchased 2.1% of SQM’s Class B shares on the market and obtained options to acquire an additional 20.07% of Class B shares <sup>[2]</sup>.

In September 2016, Tianqi Lithium acquired 5,516,772 Class B shares of SQM on the open market from Gangzi Capital, representing approximately 2.10% of SQM’s total issued shares. However, just as the acquisition appeared imminent, the Ponce family unexpectedly announced the termination of the sale of SQM shares, halting Tianqi Lithium’s initial acquisition plan.

In 2017, the Nutrien Group proposed a strategic shift to focus on its core fertilizer business, offering its 32% stake in SQM for sale.

In 2018, Tianqi Lithium signed an agreement with Nutrien to acquire a 23.77% stake in SQM for USD 4.066 billion, representing 43.81% of SQM’s Class A shares listed on the New York Stock Exchange. The total transaction value was USD 4.066 billion <sup>[3]</sup>.

In November 2018, Tianqi Lithium’s acquisition of SQM shares faced opposition from Chile’s antitrust authorities and major shareholders of SQM <sup>[4]</sup>. After several legal proceedings, the deal was finally approved. As of December 31, 2018, Tianqi Lithium had successfully acquired a 25.86% stake in SQM, marking the conclusion of the acquisition.

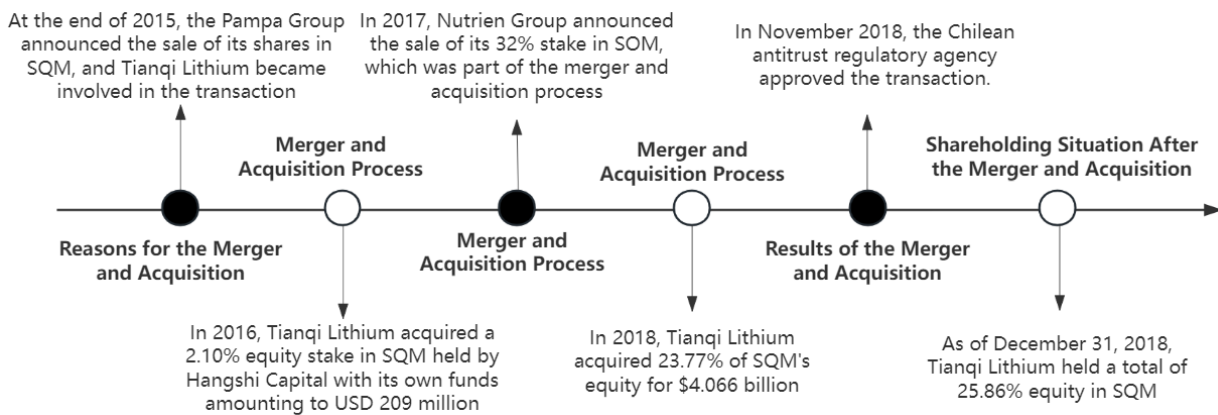


Figure 1. Tianqi Lithium’s merger and acquisition process of SQM

## 2. Analysis of the motivation for mergers and acquisitions

### 2.1. Policy factors

Over the past several decades, China has liberalized its economic policies and adopted a more outward-looking approach. As a result, Chinese multinational enterprises have rapidly internationalized and actively engaged in outward foreign direct investment <sup>[5]</sup>. Moreover, the Chinese government places great importance on the

development of the new energy industry. As shown in Table 2.1, from 2010 to 2018, China’s lithium industry attracted significant attention from the government, which issued a series of important industrial policies. This has provided substantial policy support for Tianqi Lithium’s acquisition of SQM, thereby increasing its confidence in the acquisition.

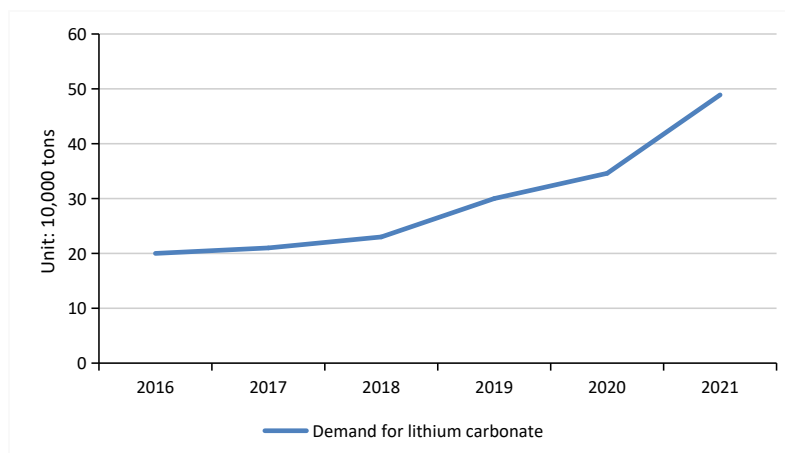
**Table 1.** Key industrial policies for China’s lithium battery industry from 2010 to 2018

| Time | Policy name  | Key policy points  |
|------|--|--|
| 2010 | “Ministry of Science and Technology’s Prioritized Development of Key Areas for the National Key New Product Plan”  | Lists lithium batteries and related products and technologies as priority development areas  |
| 2012 | “Ministry of Science and Technology’s 12th Five-Year Plan for Electric Vehicle Science and Technology Development”   | Focuses on comprehensive technological innovation in power batteries, with energy-type lithium batteries as the priority and battery modularization as the core                                      |
|      | “Ministry of Industry and Information Technology’s 12th Five-Year Plan for Electronic Basic Materials and Key Components”  | Emphasizes the development of high-efficiency and energy-saving brushless motors, high-performance magnetic components, and power batteries for new energy   |
| 2017 | “Ministry of Science and Technology’s 13th Five-Year Plan for Scientific and Technological Innovation in the Materials Field”  | Lists lithium-ion batteries as advanced energy materials and a national strategic key new material   |
| 2018 | “Notice of the Ministry of Finance and Three Other Departments on Adjusting and Improving the Financial Subsidy Policy for the Promotion and Application of New Energy Vehicles” | Raises the technical threshold requirements for batteries, encourages the application of high-performance power batteries, and increases the energy consumption requirements for new energy vehicles |

Source: Chinese government website.

## 2.2. Market factors

Since 2009, the Chinese government has implemented various policies to promote the development of new energy vehicles (NEVs). Consequently, China’s NEV industry has made notable progress in recent years, becoming a global leader in market size [6]. The extraction of lithium has increased rapidly over the past decade due to the growing global interest in electric vehicles and energy storage technologies [7]. In the long run, global demand for lithium continues to grow, with the International Energy Agency (IEA) predicting that demand for lithium in the electric vehicle industry alone will increase 43-fold by 2040.



**Figure 2.** Changes in demand for lithium carbonate from 2016 to 2021

### 2.3. Industrial layout factors

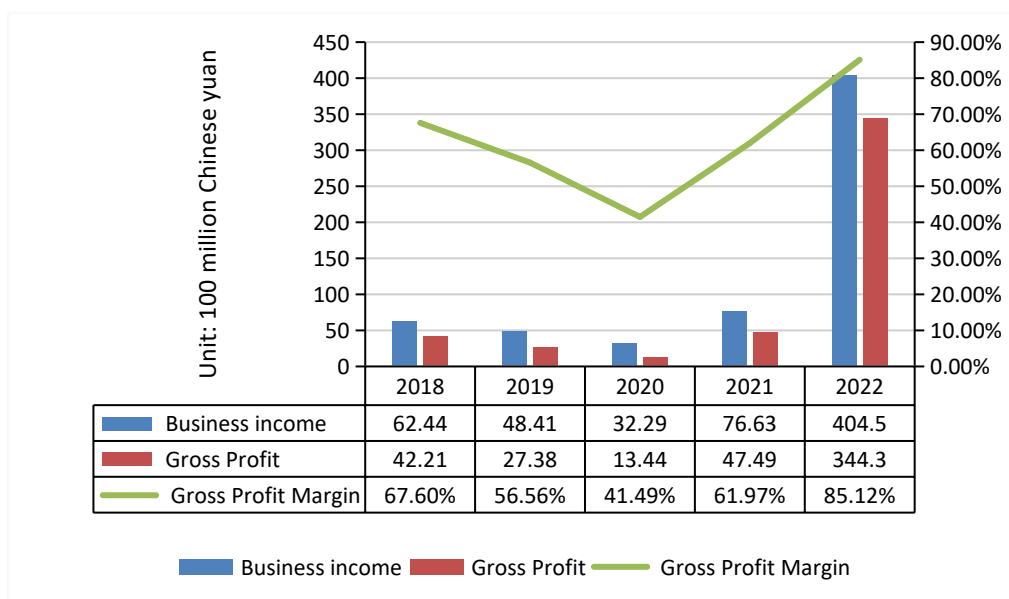
Chile is the world’s second-largest lithium producer, accounting for around 19% of global supply, all of which is extracted from brine at the country’s two major operations in the Atacama Desert <sup>[8]</sup>. By acquiring SQM, which controls the Atacama Salt Lake, Tianqi Lithium gains direct access to these abundant lithium resources, further consolidating its leading position in the global lithium market. Additionally, SQM boasts a robust global sales and distribution network that supports the sale of its products worldwide. Through this acquisition, Tianqi Lithium can leverage SQM’s existing global sales network to quickly expand into international markets, enhancing its brand influence and market share.

## 3. Analysis of integration results

### 3.1. Performance analysis of key financial indicators

#### 3.1.1. Profitability analysis

The profitability of a company is primarily reflected in its earning capacity, a core factor determining its ability to sustain operations and expand <sup>[9]</sup>. In 2018, Tianqi Lithium made a significant acquisition of a 23.77% stake in SQM for 25.8 billion Chinese yuan (CNY). This acquisition led to a substantial increase in Tianqi Lithium’s financial expenses. From 2019 to 2020, the global lithium compound market experienced an oversupply, resulting in a decline in market prices. This had a direct and significant negative impact on Tianqi Lithium’s profitability. In 2022, Tianqi Lithium’s performance soared, with this significant improvement primarily attributed to the positive effects of its acquisition of SQM beginning to manifest. SQM provided Tianqi Lithium with a high degree of mineral self-sufficiency, significantly reducing its production costs and enabling it to maintain a relatively high gross profit margin (**Figure 3**).



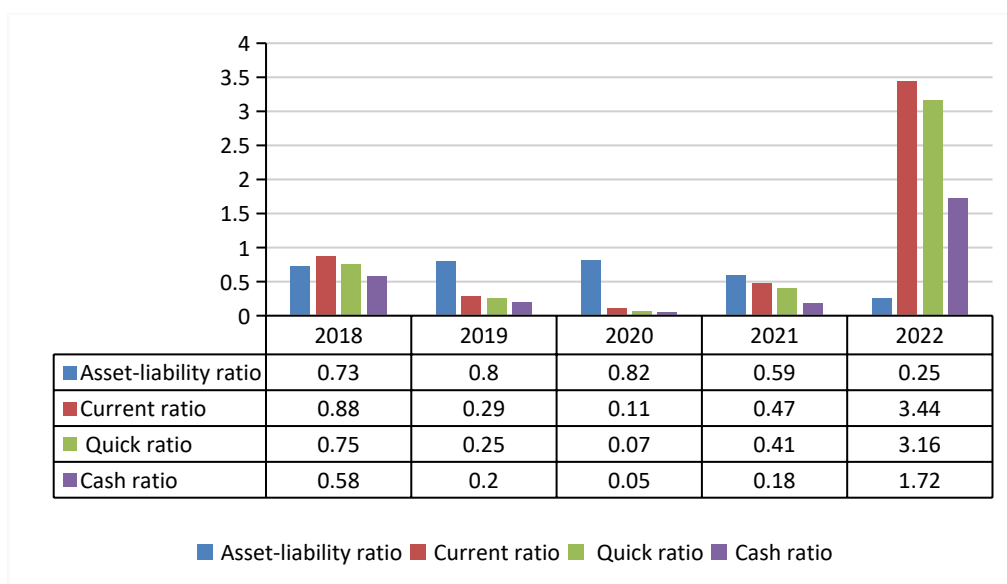
**Figure 3.** Changes in Tianqi Lithium’s profitability from 2018 to 2022

#### 3.1.2. Solvency analysis

Solvency refers to a company’s ability to use its assets to repay both long-term and short-term debts. It is an important indicator reflecting its financial position and operational capability <sup>[10]</sup>. As evident from the detailed

data in **Figure 4**, Tianqi Lithium’s financial position underwent significant fluctuations after 2018. From 2018 to 2021, due to the substantial acquisition, Tianqi Lithium’s asset-liability ratio remained at a high level. Concurrently, its current ratio, quick ratio, and cash ratio—crucial indicators for assessing a company’s short-term solvency—were all at low levels. The downturn in these three indicators directly indicates that Tianqi Lithium’s solvency during this period was relatively weak, significantly impacted by the acquisition.

In 2022, the company’s profits surged significantly, providing a strong foundation for improving its financial position. Additionally, Tianqi Lithium successfully raised 1.2 billion CNY, primarily used to repay loans incurred from the acquisition of SQM. This measure alleviated the company’s debt pressure and restored its solvency.



**Figure 4.** Changes in Tianqi Lithium’s solvency from 2018 to 2022

### 3.1.3. Growth capacity analysis

The five-year growth indicators of Tianqi Lithium from 2018 to 2022 showed a clear upward trend, indicating the continuous expansion of its competitiveness and market share within the industry. From 2018 to 2020, Tianqi Lithium experienced a decline in profits and a slowdown in total asset growth, primarily due to its acquisition of SQM. However, in 2021, Tianqi Lithium’s growth capabilities began to recover, with significant surges in both revenue and profits. By 2022, all indicators of the company demonstrated robust performance in Tianqi Lithium’s growth capabilities. This indicates that Tianqi Lithium’s acquisition of SQM has fueled the company’s future growth (**Figure 5**).

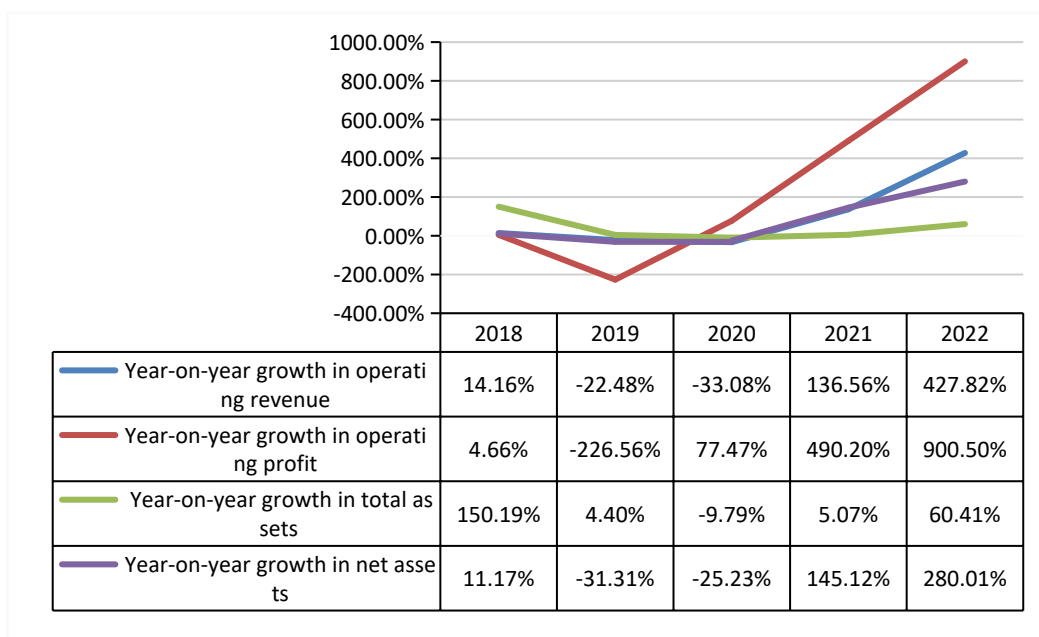


Figure 5. Changes in Tianqi Lithium’s growth capacity from 2018 to 2022

### 3.2. The business impact of mergers and acquisitions

#### 3.2.1. The enhancement of lithium resource reserves

SQM operates the Atacama project, with the Atacama Salt Lake accounting for 44% of the global lithium brine supply, making it the most productive lithium brine project in the world. Through the acquisition of SQM, Tianqi Lithium has significantly increased its lithium-ion resource reserves, providing a solid foundation for the steady development of its business.

#### 3.2.2. The fluctuations and recovery of performance

Tianqi Lithium’s profits fell, and its total asset growth slowed as it made significant capital investments. However, with the merger’s performance improving from 2021 to 2023, significant investment returns have been generated for Tianqi Lithium.

#### 3.2.3. The improvement of market status

The higher the degree of technical similarity between the two parties, the easier it is to integrate resources. This avoids redundant innovations, saves substantial manpower and material resources, and achieves economies of scale through efficient innovation <sup>[11]</sup>. By integrating SQM’s high-quality resources and technologies, Tianqi Lithium has further consolidated its leading position in the global lithium market.

### 3.3. Subsequent risks following the merger and acquisition

#### 3.3.1. Operational risks of SQM

As evidenced in Table 2, prior to Tianqi Lithium’s acquisition, from 2015 to 2017, SQM Group’s operating revenue and net profit showed a gradual growth trend. However, after 2018, SQM’s operating revenue declined from USD 2.266 billion to USD 1.817 billion in 2020, with an even more pronounced drop in net profit. This undoubtedly deviates from Tianqi Lithium’s projections for SQM’s future operational performance.

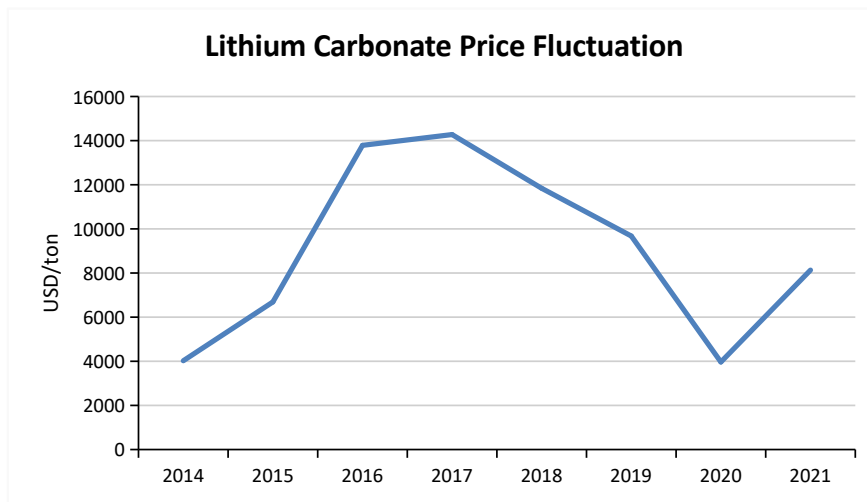
**Table 2.** Profitability of SQM from 2015 to 2022

| Item                            | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022   |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|--------|
| Operating revenue (100 million) | 17.28 | 19.39 | 21.57 | 22.66 | 19.44 | 18.17 | 28.62 | 107.11 |
| Net profit (100 million)        | 2.13  | 2.78  | 4.28  | 4.40  | 2.78  | 1.65  | 5.85  | 39.06  |

Data source: Sina Finance

### 3.3.2. Lithium resource price fluctuation risk

As can be seen from **Figure 6**, the price of lithium carbonate continued to rise before Tianqi Lithium acquired SQM. Prices then fell due to a glut of lithium salt. Prices for lithium carbonate dropped by more than 70% from 2018 to 2020, when Tianqi acquired about a quarter of the Chilean miner SQM for USD 4.1 billion<sup>[12]</sup>. As a result, Tianqi Lithium faces the risk that the price of lithium resources may continue to fall in the future.



**Figure 6.** Changes in the price of lithium carbonate from 2014 to 2021

### 3.3.3. Resource control risk

Strengthening the export management of resource-based minerals is becoming a globally recognized consensus. On June 2, 2024, Tianqi Lithium announced that its equity investment company, SQM, signed a “Partnership Agreement” with Chile’s state-owned copper company, Codelco. This agreement aims to establish a partnership by merging Codelco’s subsidiary, Minera Tarar, into SQM’s subsidiary, SQM Salar<sup>[11]</sup>. This suggests that Chile intends to nationalize SQM, and if the agreement officially takes effect, it will pose new challenges for Tianqi Lithium<sup>[13]</sup>.

## 4. Revelations and prospects

### 4.1. Implications for other businesses

#### 4.1.1. Choose the target company carefully

Enterprises should fully consider the actual situation of target companies and conduct in-depth research on their financial health, providing a detailed analysis of their profitability, solvency, and growth potential. Additionally, it is crucial to assess whether the target company aligns with the long-term strategy and business direction of the

acquirer. Mergers and acquisitions (M&A) are not just about asset accumulation; they also involve achieving strategic synergy between both parties to ensure benefits such as market expansion, product line diversification, channel acquisition, technology acquisition, and raw material control.

For example, although SQM is a leading company in the lithium resource industry, its operating conditions, lithium resource mining rights, and brine extraction technology are fraught with uncertainties. These uncertainties can significantly affect the operation and development of the combined company.

#### **4.1.2. Full consideration of the company's financial position**

Debt can directly determine the outcome and impact of cross-border M&A. Therefore, managers need to pay closer attention to the risks associated with debt in leveraged financing for cross-border mergers and acquisitions and choose appropriate financing methods according to the actual development of the enterprises<sup>[14]</sup>.

The main financing method for Tianqi Lithium's acquisition of SQM was bank loans. In future similar mergers and acquisitions, the company could consider issuing equity securities, interbank lending, introducing private equity funds, issuing corporate bonds, or establishing trust funds, among other financing methods. Furthermore, the acquirer should strengthen financial management and risk control, establishing a sound financial management system to ensure the authenticity and accuracy of financial information.

#### **4.1.3. Prepare for unexpected situations**

Conducting scientific analysis and rational control of M&A risks throughout the entire process is a key factor determining the success or failure of an acquisition<sup>[15]</sup>. After Tianqi Lithium acquired SQM, the global lithium resource market faced unprecedented challenges, seriously affecting SQM's operations. In 2024, SQM is expected to confront significant financial losses due to tax disputes, with an estimated reduction of approximately USD 1.1 billion in its net profit for the first quarter of 2024. Beyond financial difficulties, SQM may also face even more severe challenges, such as the Chilean government potentially considering the renationalization of SQM for various reasons, adding uncertainty to the company's future development. Many of these unforeseen circumstances are unpredictable black swan events. Consequently, when making merger and acquisition decisions, enterprises must fully recognize these potential risks and make adequate preparations.

To address potential contingencies, enterprises can adopt various measures. Firstly, allocating emergency funds can provide necessary financial support during critical times, preventing financial crises. Secondly, prior to mergers and acquisitions, enterprises should invest in multiple fields or establish partnerships with other companies to reduce the impact of a single event on overall operations. Additionally, enterprises should establish comprehensive emergency management and rapid response mechanisms to effectively deal with unexpected events.

## **4.2. Outlook**

Using Tianqi Lithium's acquisition of SQM in Chile as a case study, this article delves into the impacts of this merger and acquisition, aiming to provide insights and recommendations for enterprises' M&A development strategies. However, it is crucial to note that the influencing factors in real-world cases are numerous, complex, and constantly evolving. To maximize the benefits of M&A and the efficiency of resource integration, in-depth analyses and flexible responses tailored to specific situations are necessary. It is hoped that this case analysis will offer more specific and practical M&A strategies and risk management suggestions to enterprises, enabling them to navigate the tides of economic globalization with resilience and fortitude.



## Disclosure statement

The author declares no conflict of interest.

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