



## Lynas Corporation Ltd (LYC.ASX)

*Operationally robust and leveraged to RE price recovery*

### Event:

- We provide an update on Lynas Corporation Ltd (LYC) following our site visit to the company's Malaysian processing plant (LAMP).

### Investment Highlights:

- LYC is an ASX listed integrated rare earth mining and processing operation with a rare earth mine in Mt Weld, WA and processing plant in Malaysia.
- LAMP has undergone significant technical improvements, and is now running reliable production: 5,200t NdPr production in FY17, up 36% from FY16. In excess of 440tpm for each month of 2H17 is evidence of reliable production.
- Further production capacity increase for FY18 for minimal spend: LYC is targeting annualised 6,000t NdPr production in FY18 over the next two quarters, as management continue to refine its production reliability.
- Global supply has tightened, NdPr prices have increased in response. Tighter supply as stricter enforcement of environmental regulations in China greatly cuts global supply, with 160ktpa REO production in 2016 reduced to 100ktpa.
- Meaningful leverage to improving rare earth prices, especially key product, NdPr oxide. From an average NdPr price of US\$33/kg in FY17 to current spot prices of close to US\$50/kg (ex China VAT), NdPr prices have improved significantly in the recent past, as supply cuts drive prices higher.
- The company remains geared, but with stronger prices and significant operating leverage, has the potential to be debt free very rapidly. At a US\$60/kg NdPr price (ex China VAT), LYC has sufficient operating leverage to produce ~A\$235M in free cash for FY18e; this would be close to settling the JARE senior debt facility entirely.
- Electric vehicles (EVs) fuel premium marginal rare earth demand. The company forecast incremental demand from EVs and wind turbines will require a new Lynas operation every four years to satiate RE requirements.

### Earnings and Valuation:

- We value LYC at \$0.23/share on a fully diluted basis. Our valuation is underpinned by a DCF analysis. We have derived a NPV<sub>10</sub> for LYC of A\$1,622M. We have assumed a conservative long term NdPr forecast of US\$48/kg (ex VAT) and the convertible debt is fully converted into shares.
- We see significant upside if NdPr prices persist at supportive levels, and note the company generates significant cash flow at current prices. Current spot price is at US\$48/kg for NdPr oxide (ex VAT), and LYC has outstanding leverage to NdPr price improvements.

### Recommendation:

- We recommend LYC as a Buy and have a 12-month price target of \$0.23/share, in line with our DCF valuation. Our target is based on a conservative production capacity increase and schedule, and a long term NdPr forecast of US\$48/kg (ex VAT).
- Key catalysts for the stock include: sustained momentum in NdPr oxide prices, increased production capacity, ongoing reliable RE production, and continued deleveraging of the company.

<b>Recommendation</b>	<b>Buy</b>
Risk	High
Price Target	\$0.23
<b>Share Price (A\$)</b>	<b>\$ 0.15</b>
ASX Code	LYC
52 week low - high (A\$)	0.053-0.16

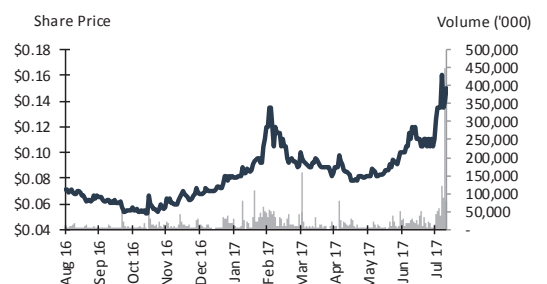
<b>Capital structure</b>	
Shares on Issue (M)	4,066
<b>Market Cap (A\$M)</b>	<b>610</b>
Net Cash/(Debt) (A\$M), est. at 7 Aug	(506)
<b>EV (A\$M)</b>	<b>1,116</b>
Options and warrants (M)	407
12mth Av Daily Volume ('000)	19,041

<b>Forecasts</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>	<b>2020e</b>
Revenue A\$M	191.0	264.0	405.7	452.7
EBITDA, A\$M	-11.0	30.3	165.4	177.5
NPAT, adj., A\$M	-90.2	-36.5	108.0	130.9
EPS, cps	-259.1	-102.8	243.1	219.4
PER, x	nm	nm	6.2x	6.8x
EV/EBITDA, x	nm	38.9x	7.1x	6.6x

<b>Board</b>	
Mr Mike Harding	Non-Executive Chairman
Ms Amanda Lacaze	Managing Director
Mr William Forde	Non-Executive Director
Ms Kathleen Conlon	Non-Executive Director
Mr Jake Klein	Non-Executive Director
Mr Philippe Etienne	Non-Executive Director

<b>Major Shareholders</b>	
Mt Kellett	8.2%

### Share Price Graph



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 The analyst owns no LYC shares.