



## Lynas Corporation Ltd (LYC.ASX)

*Strong NdPr prices to enable robust cash flow*

### Event:

- NdPr price sensitivity analysis and comparative peer valuation.

### Investment Highlights:

- Given the recent strong underlying spot NdPr price, we revisit the opportunities for further upside for LYC in our sensitivity analysis.
- Even though global supply remains tight, spot NdPr prices have stabilised around the US\$60/kg (ex VAT) for the past three weeks after a series of sharp increases through July and August 2017; the latest spot price exceeds US\$65/kg. This is in stark contrast to the average NdPr price of US\$33/kg in FY17.
- LYC has performed well recently but still further significant upside if NdPr prices persist at spot, with significant cash flow at spot. Current NdPr oxide spot now exceeds US\$65/kg (ex VAT), LYC could generate \$275M in free cash for FY18e. Under this assumption into perpetuity, our valuation (fully diluted) would increase to \$0.40 per share. We have a valuation range of \$0.25-\$0.40/share for spot prices in FY18e only, FY18e-FY20e, and in perpetuity.
- Bull case of US\$100/kg ex VAT gives a valuation range of \$0.28-\$0.76/share.
- The current LYC share price implies a US\$45/kg NdPr price into perpetuity, suggesting the recent NdPr price performance still has not been fully reflected in the share price as yet, even in spite of recent strong performance.
- Applying specialty chemicals and mining multiples to our base case FY18e metrics infers LYC's valuation is in the range of \$0.23-\$0.30/share.
- Senior debt reduction to US\$185M, from US\$200M. During August, two tranches of convertible debt of US\$25M and US\$37.83M converted to 837.8M shares. Convertible debt now stands at US\$162.2M.

### Earnings and Valuation:

- We maintain our LYC valuation of \$0.23/share on a fully diluted basis, underpinned by our NPV<sub>10</sub> for LYC of A\$1,622M. We maintain a conservative long term NdPr forecast of US\$48/kg (ex VAT) and the convertible debt is fully converted into shares.
- We have made minor consequential changes to forecast earnings due to lower interest following further debt conversion. We now forecast FY18e NPAT of \$108.9M, and FY19e NPAT of \$121.4M, assuming 5,600t and 6,000t NdPr production, respectively. We now forecast FY18e and FY19e fully diluted EPS of 1.53cps and 1.70cps as a result of the US\$38M debt conversion to equity in mid August with the convertible debt deep in the money.

### 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.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$0.23
Previous Target	\$0.23
Share Price (A\$)	\$ 0.195
ASX Code	LYC
52 week low - high (A\$)	0.053-0.195

Capital structure	
Shares on Issue (M)	4,609
Market Cap (A\$M)	899
Net Cash/(Debt) (A\$M), est. at 7 Sep	(454)
EV (A\$M)	1,353
Options and warrants (M)	368
12mth Av Daily Volume ('000)	24,979

Forecasts	2016a	2017e	2018e	2019e
Revenue A\$M	191.0	264.0	405.7	452.7
EBITDA, A\$M	-11.0	30.3	165.4	177.5
NPAT, a dj., A\$M	-90.2	-36.5	108.9	121.4
Diluted EPS, cps	-2.59	-0.51	1.53	1.70
PER, x	nm	nm	12.8x	11.5x
EV/EBITDA, x	nm	53.9x	9.9x	9.2x

Board	
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

Major Shareholders
Nil

### Share Price Graph



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 The analyst owns no LYC shares.