



## Lynas Corporation Ltd (LYC.ASX)

### Introducing Lynas NEXT

#### Event:

- AGM; Lynas NEXT program; share consolidation; continued deleveraging.

#### Investment Highlights:

- LYC recently held its AGM, as well as announcing its new Lynas NEXT initiative.
- New NdPr production targets:** 500tpm NdPr from April 2018 (6ktpa, annualised run rate), increasing to **600tpm NdPr from January 2019** (7.2ktpa). LYC are also targeting a higher value product mix, with up to 150tpm (of the 600tpm) of separated Nd and Pr, and up to 200tpm additional separated Ce and La. **Total REO production target from January 19 will be 26ktpa**, from 16ktpa in FY17a.
- New production targets represent a 38% and 63% increase on FY17a production for NdPr and total REO, respectively.**
- Low incremental capex of \$22.5M looks extremely attractive:** Lynas NEXT will look to optimise existing assets and capability, and continued improvement in plant reliability and recoveries. Total capex for Lynas NEXT is \$35M over the next three quarters, and includes \$12.5M previously planned capital expenditure.
- LYC management have flagged a Resource and Reserve upgrade to be announced in 2H18e**, as drilling continues. Preliminary results are positive, and show depth extension of AP mineralisation, and a new base of AP mineralisation at greater depth than previously contemplated.
- LYC shares have undergone a 10-for-1 consolidation on 4 December 17.**
- Significant leverage reduction during 1H18.** Senior debt reduction to US\$170M, from US\$200M at FY17a. Convertible debt now stands at US\$96.5M (equivalent to 128.7M shares), reduced from US\$225M at FY17a.

#### Earnings and Valuation:

- We have increased our production forecasts in line with the proposed targets**, although we have made a minor allowance for down time in reconfiguration and restart of plant. We have maintained our price forecasts, and updated our FY18e-FY20e currency forecasts, but retained our long term currency forecast.
- We now forecast increased FY19e NPAT of \$123.2M and FY20e NPAT of \$171.3M (previously \$121.4M and \$159.9M), assuming 6,270t and 6,840t NdPr production, respectively, but partially offset by currency changes. We now forecast FY19e and FY20e fully diluted EPS of 17.2cps and 23.9cps (previously 17cps and 22cps).
- We have increased our LYC valuation to \$2.49 on a fully diluted basis (previously \$2.30/share post consolidation equivalent)**, underpinned by our NPV<sub>10</sub> for LYC of A\$2,098M. We maintain a long term NdPr forecast of US\$48/kg (ex VAT) and assume the convertible debt is fully converted into shares.

#### Recommendation:

- We recommend LYC as a Buy and have a 12-month price target of \$2.49/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.
- Key catalysts for the stock include: achieving increased production targets per Lynas NEXT initiative, supportive NdPr oxide prices, ongoing reliable RE production, and continued deleveraging of the company.**

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$2.49
Previous Target (post 10-for-1 consolidation)	\$2.30
Share Price (A\$)	\$ 1.755
ASX Code	LYC
52 week low - high (A\$)	0.63-2.25

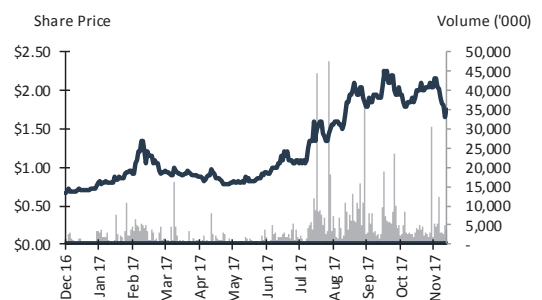
Capital structure	
Shares on Issue (M)	550
Market Cap (A\$M)	966
Net Cash/(Debt) (A\$M), est. at 7 Sep	(198)
EV (A\$M)	1,163
Options and warrants (M)	38
12mth Av Daily Volume ('000)	3,829

Forecasts	2017a	2018e	2019e	2020e
Revenue A\$M	257.0	394.8	465.0	533.8
EBITDA, A\$M	29.4	148.7	178.7	212.9
NPAT, adj., A\$M	-14.9	87.2	123.2	171.3
Diluted EPS, cps	-2.07	12.15	17.17	23.88
PER, x	nm	14.4x	10.2x	7.3x
EV/EBITDA, x	49.5x	9.8x	8.2x	6.8x

Board	
Mike Harding	Non-Executive Chairman
Amanda Lacaze	Managing Director
Kathleen Conlon	Non-Executive Director
Philippe Etienne	Non-Executive Director
John Humphrey	Non-Executive Director
Grant Murdoch	Non-Executive Director

Major Shareholders
Nil

#### Share Price Graph



Analyst: Matthew Chen +61 2 9993 8130

[matthew.chen@fostock.com.au](mailto:matthew.chen@fostock.com.au)

The analyst does not own LYC securities.

Foster Stockbroking and associated entities (excluding

Cranport Pty Ltd) do not own LYC securities.

Cranport Pty Ltd owns 608,613 LYC shares.