



Lynas Corporation Ltd (LYC.ASX)

Q2FY18e preview, expecting continued cash flow

Event:

- Preview of December quarterly report; convertible debt update.

Investment Highlights:

- LYC will announce its December quarter (Q2FY18e) report in the week beginning 22 January 2018.** We forecast NdPr production of 1,325t in Q2FY18e (Q1FY18a 1,442t NdPr), and forecast total REO production in Q2FY18e of 4,150 tonnes (Q1FY18a 4,665t total REO).
- The **December quarter production will be affected by planned inspection and maintenance** of cracking and leaching equipment (RKA/RKB). The **March 2018 quarter will be similarly affected** by inspection and maintenance of RKC/RKD plant. LYC will target **500tpm NdPr production for June 2018 quarter**, and we reiterate our **unchanged FY18e production assumption of 5,600t NdPr**.
- NdPr pricing was volatile in the December quarter**, and began the period at US\$59/kg, dipped to US\$34/kg (mid-December 2017) and recovered to US\$40/kg at quarter end. Renewed environmental inspections and increased magnet consumer demand has triggered a price recovery in the last five weeks, with spot now at US\$45.4/kg. The **average NdPr price for Q2FY18 was US\$46.6/kg** (Q1FY18a US\$56.7/kg).
- We forecast **pre interest operating cash flow of \$21M for Q2FY18e**, ex development ~\$10M cash outflow and receivables. We expect \$23M in receivables from Q1FY18a will have been collected in October 2017, which will boost cash headline cash receipts for Q2FY18e.
- Reduced leverage at December 2017 end.** Senior debt now stands at US\$170M, from US\$200M at FY17a. Convertible debt now stands at US\$86.5M (equivalent to 115.3M shares), reduced from US\$225M at FY17a, with US\$10M converted since the AGM in November 2017.
- The company continues to **work on long term contracts to reduce underlying commodity price exposure**; updates here will be a strong catalyst.
- Looking ahead, Lynas NEXT has **very low incremental capex of \$22.5M and set to increase CY19e production volumes materially**. The company will optimise existing assets for continued plant reliability and recoveries, and target **7,200tpa NdPr and 26,000tpa total REO production from January 2019 (+38% and +63% increase on FY17a production, respectively)**.

Earnings and Valuation:

- We have **unchanged price and currency forecasts and an unchanged LYC valuation of \$2.49 on a fully diluted basis**, underpinned by our NPV₁₀ for LYC of A\$2,098M, a long term NdPr forecast of US\$48/kg and fully converted debt.

Recommendation:

- We reiterate our **Buy recommendation for LYC and retain 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, Resource update in 2H18e, contract announcements, and continued deleveraging of the company.

Recommendation		Buy		
Previous		Buy		
Risk		High		
Price Target		\$2.49		
Previous Target		\$2.49		
Share Price (A\$)		\$ 2.130		
ASX Code		LYC		
52 week low - high (A\$)		0.78-2.36		
Capital structure				
Shares on Issue (M)		564		
Market Cap (A\$M)		1,201		
Net Cash/(Debt) (A\$M)		(187)		
EV (A\$M)		1,388		
Options and warrants (M)		38		
12mth Av Daily Volume ('000)		4,219		
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	17.5x	12.4x	8.9x
EV/EBITDA, x	58.3x	11.5x	9.6x	8.1x
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				
Credit Suisse		5.4%		
Share Price Graph				



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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 600,000 LYC shares.