



Lynas Corporation Ltd (LYC.ASX)

Consolidating quarter with continued cash generation

Event:

- December 2017 quarter activities and cash flow reports.

Investment Highlights:

- Planned outage affects production:** LYC produced **1,222t NdPr in Q2FY18a** (FSBe 1,325t), down 15.3% QoQ, and down 8.2% on pcp. **Total REO production for Q2FY18a was 4,174t** (FSBe 4,150t), down 10.5% QoQ, but up 6.7% on pcp.
- Disruption minimisation in place for Q3FY18 production**, which will be similarly affected by inspection and maintenance scheduled for March 2018, although management expect an improvement on Q2FY18a production volume.
- More than offset by cash generation: net operating cash flow for Q2FY18a was very strong at \$41.9M**; pre interest and accounting for significant receivables from Q1FY18a infers underlying net operating cash for the quarter of \$25.8M. This was in spite of weaker average benchmark NdPr price of US\$44.6/kg for Q2FY18a (Q1FY18a: US\$57.0/kg). **Demand remained strong in the December quarter, with increased orders from key customers.**
- Welcome update on long term contracts to reduce underlying commodity price exposure:** LYC has finalised an agreement with Bosch for rare earth magnet materials, and has noted substantial progress on at least two other long term contracts. We keenly anticipate continued updates as the company works to reduce linkage to benchmark prices.
- Malaysian AELB update:** LYC set aside a further A\$30.9M security deposit in December 2017, and will commit US\$7.8M at the end of each of CY18e and CY19e.
- Further debt repayment and convertible debt conversion means reduced leverage at December 2017 end.** Senior debt now stands at US\$170M, from US\$185M at Q1FY18a end. Convertible debt now stands at US\$86.5M (equivalent to 128.7M shares), reduced from US\$116.5M at Q1FY18a end.

Earnings and Valuation:

- We have **retained our rare earth price forecasts, and have made minor revisions to our currency assumptions.**
- We have an **increased LYC valuation of \$2.51 (previously \$2.49) on a fully diluted basis**, underpinned by our NPV₁₀ for LYC of A\$2,124M. We maintain a long term NdPr forecast of US\$48/kg (ex VAT) and assume convertible debt is fully converted.

Recommendation:

- We recommend LYC as a **Buy 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, continued deleveraging of the company, and updates on long term agreements.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$2.49
Previous Target	\$2.49
Share Price (A\$)	\$ 2.18
ASX Code	LYC
52 week low - high (A\$)	0.78-2.36

Capital structure	
Shares on Issue (M)	564
Market Cap (A\$M)	1,229
Net Cash/(Debt) (A\$M)	(178)
EV (A\$M)	1,407
Options and warrants (M)	38
12mth Av Daily Volume ('000)	4,280

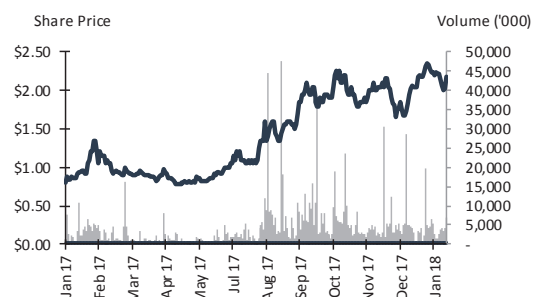
Forecasts	2017a	2018e	2019e	2020e
Revenue A\$M	257.0	393.9	463.6	535.7
EBITDA, A\$M	29.4	147.7	177.4	214.7
NPAT, adj., A\$M	-14.9	86.5	121.9	173.3
Diluted EPS, cps	-2.1	12.1	17.0	24.2
PER, x	nm	18.1x	12.8x	9.0x
EV/EBITDA, x	59.2x	11.8x	9.8x	8.1x

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

Nil

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 500,000 LYC shares.