



Lynas Corporation Ltd (LYC.ASX)

Reliability delivering cost control and margin expansion

Event:

- 1H18a result; convertible debt update.

Investment Highlights:

- LYC announced 1H18a results** and reported \$50.8M profit (FSBe \$45M) ahead of our expectations, from \$200.9M revenue (FSBe \$205M).
- Cost control was an especially pleasing dividend from increased reliability and recovery.** NdPr oxide production over the half was 2,664t, up 6.3% on pcp; total REO production was 8,839t, up 16.6% on pcp. Even though production volume increased, 1H18a operating costs of \$118M were broadly flat on pcp.
- Disruption minimisation strategy in place for Q3FY18 production**, with planned inspection and maintenance scheduled for March 2018, and management expects an improvement on Q2FY18a production volume.
- The company benefitted from strong pricing over the half, particularly Q1FY18a.** Average NdPr price for the half was US\$51.6/kg compared to US\$31.9/kg in the pcp (Q1FY18a US\$56.7/kg, Q2FY18a US\$45.1/kg), which enabled strong operating cash flow of \$80M for the half (pre interest).
- Further debt repayment and convertible debt conversion means reduced leverage at December 2017 end.** Senior debt now stands at US\$170M, unchanged from 1H18a end. Convertible debt is currently US\$36.5M (equivalent to 48.7M shares), reduced by US\$50M from US\$86.5M at 1H18a end, and from US\$225M at FY17a end.

Earnings and Valuation:

- We have **retained our rare earth price forecasts (long term US\$48/kg for NdPr 99% oxide), and have made only slight revisions to our currency assumptions.**
- In light of the most recent half's cost control and expanded EBITDA margin and higher total REO output, we have **increased our profit forecasts for FY18e and outer years as a result of lower forecast operating costs.** We now forecast NPAT of \$97M, \$140M, and \$191M in FY18e to FY20e (previously \$87M, \$122M, and \$173M).
- We have an **increased LYC valuation of \$2.70 (previously \$2.51) on a fully diluted basis**, underpinned by our NPV₁₀ for LYC of A\$2,214M. We maintain a long term NdPr forecast of US\$48/kg (ex VAT) and assume convertible debt is fully converted.

Recommendation:

- We continue to recommend LYC as a **Buy and increase our price target to \$2.70/share** (previously \$2.49), in line with our DCF valuation. Our target is based on a conservative production capacity increase and schedule, and an unchanged long term NdPr forecast of US\$48/kg.
- Key catalysts for the stock include:** achieving increased production targets per Lynas Next initiative, maintaining current cost profile and EBITDA margin; supportive NdPr oxide prices, ongoing reliable RE production, continued deleveraging of the company, updates on long term agreements, updates on Mt Weld Resource Estimate.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$2.70
Previous Target	\$2.49
Share Price (A\$)	\$ 2.42
ASX Code	LYC
52 week low - high (A\$)	0.78-2.50
Capital structure	
Shares on Issue (M)	630
Market Cap (A\$M)	1,525
Net Cash/(Debt) (A\$M)	(177)
EV (A\$m)	1,703
Options and warrants (M)	38
12mth Av Daily Volume ('000)	4,757

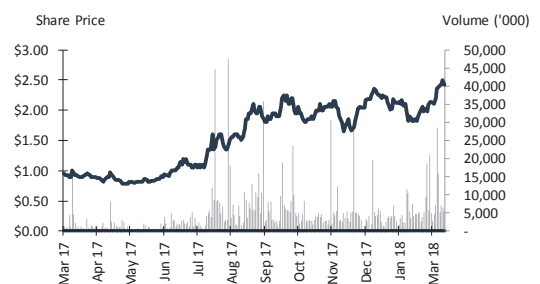
Forecasts	2017a	2018e	2019e	2020e
Revenue A\$M	257.0	396.4	464.2	535.1
EBITDA, A\$M	29.4	157.0	194.8	232.1
NPAT, adj., A\$M	-14.9	97.0	140.0	191.2
Diluted EPS, cps	-2.1	13.5	19.5	26.7
PER, x	nm	17.9x	12.4x	9.1x
EV/EBITDA, x	65.0x	12.2x	9.8x	8.2x

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

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 450,000 LYC shares.