



Lynas Corporation Ltd (LYC.ASX)

Strong finish to FY18e from Lynas NEXT

Event:

- Chinese quotas, Malaysia GE14; FY18Q3a result; convertible debt update.

Investment Highlights:

- Malaysia general election held on 9 May:** Mahathir's surprise win has spurred recent volatility, although we view LYC's educational and community efforts as a stout defence to any future criticism levelled at its Malaysian operations.
- Chinese first half RE mining quotas up 40%.** While the headline quota number represents an increase, we view this as an effective allowance for previously unsanctioned production volume, which would have filtered to market in any case. There has been no material impact on prices so far; we anticipate greater transparency to minimise the historical depressant effect on RE prices arising from illegal production.
- LYC announced FY18Q3a results mid-April with lessons learnt from November inspection:** the company reported a pleasing recovery in NdPr production in Q3a of 1,332t (+9% QoQ) in spite of regulatory inspections and NEXT upgrades, while total REO production in Q3a stabilised (-1.5% QoQ). **The company is now targeting at least 500tpm NdPr production from April 2018 to finish FY18e strongly, and then 600tpm from January 2019.**
- Other quarterly report highlights** include sales revenue of \$85.9M (-7.6% QoQ); NdPr price for the quarter stabilising (Q3a average of US\$45.2/kg, +1.5% QoQ). The lower sales revenue reflected a slight reduction in average selling price of REO kg (A\$19.6/kg REO, -5.3% QoQ) and timing of orders. Operational costs for Q3a was \$64.1M (cash basis), -2.1% QoQ, despite a 9% increase in NdPr volume.
- Significantly reduced convertible debt since FY17a end.** Convertible debt is currently US\$15.2M (equivalent to 20.3M shares), reduced by US\$71.3M from US\$86.5M at 1H18a end. Senior debt is US\$170M, unchanged from 1H18a 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.**
- We have made modest adjustments to our **profit forecasts for FY18e and outer years as a result of updated currency assumptions.** We now forecast NPAT of \$97M, \$141M, and \$194M in FY18e to FY20e (prior \$97M, \$140M, and \$191M).
- We have an **increased LYC valuation of \$2.72 (previously \$2.70) on a fully diluted basis,** underpinned by our NPV₁₀ for LYC of A\$2,228M (previously A\$2,214M). We maintain a US\$48/kg LT NdPr forecast, conservative production ramp profile, and assume full conversion of convertible debt.

Recommendation:

- We **reiterate our unchanged Buy recommendation for LYC, and increase our price target to \$2.72/share** (previously \$2.70), in line with our DCF valuation, noting the GE14 event has created a near term buying opportunity.
- Key catalysts for the stock include:** achieving increased production targets, maintaining current cost profile and EBITDA margin; supportive NdPr oxide prices, continued deleveraging of the company, updates on long term agreements, updates on Mt Weld Resource Estimate.

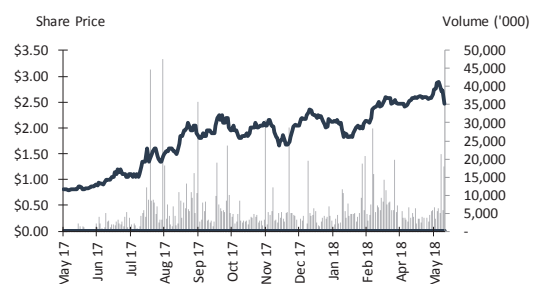
Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$2.72			
Previous Target	\$2.70			
Share Price (A\$)	\$ 2.46			
ASX Code	LYC			
52 week low - high (A\$)	0.80-2.89			
Capital structure				
Shares on Issue (M)	663			
Market Cap (A\$M)	1,630			
Net Cash/(Debt) (A\$M)	(171)			
EV (A\$m)	1,801			
Options and warrants (M)	35			
12mth Av Daily Volume ('000)	5,490			
Forecasts	2017a	2018e	2019e	2020e
Revenue A\$M	257.0	396.0	465.0	538.4
EBITDA, A\$M	29.4	156.7	195.6	235.3
NPAT, adj., A\$M	-14.9	96.7	140.8	194.4
Diluted EPS, cps	-2.1	13.5	19.6	27.1
PER, x	nm	18.3x	12.5x	9.1x
EV/EBITDA, x	65.8x	12.4x	9.9x	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 250,000 LYC shares.