



Lynas Corporation Ltd (LYC.ASX)

Reserve Upgrade Foundation For Increased Production

Event:

- Mt Weld Mineral Resource and Ore Reserve Upgrade.

Investment Highlights:

- LYC announced an update of its Mineral Resource and Ore Reserve at Mt Weld, WA on 6 August.** While the Resource update does not come as a surprise as LYC had previously flagged this, the size of the increase is a surprise to the upside.
- Tier 1 Rare Earth Deposit now even larger.** While we did not doubt the quality of the Mt Weld Resource, the latest update confirms the superiority of LYC's deposit on grade, NdPr content, total REO tonnage, and life of mine.
- Lays foundation for increased production targets over and above Lynas NEXT uplift.** Proven classification of Reserve contains 285kt NdPr oxide, which would comfortably support 10ktpa NdPr production profile for 25+ years. LYC are targeting 7,200tpa NdPr from January 2019e as part of its previously announced Lynas NEXT program.
- "Potential for replenishment and further growth":** we note the 2015 Resource update envisaged a 25+ year mine life at 22ktpa total REO, while the latest update shores up a 25+ year mine life at 26ktpa total REO, and comfortably in our view. We see the Resource update as a strong precursor for further growth in production rates in the near term, and provides assurance of longevity and grade to potential long term supply for use within auto OEM supply chain.
- Mt Weld is now estimated to contain a 19.7Mt Reserve at 8.6% TREO and 1.69Mt total REO contained.** There has been a significant increase in Resource size (+99%) and total REO contained (+58%), with a minor trade off in grade (-2.2%), when compared to the previous 2015 estimate of 9.9Mt Reserve at 10.8% TREO and 1.07Mt total REO contained. The current Proven classification of the Reserve is 14.6Mt at 8.9% TREO and 1.29Mt total REO contained.
- Mt Weld now hosts a 55.4Mt Resource at 5.4% TREO and 3Mt total REO contained.** Similar significant increase in Resource size (+139%) and total REO contained (+72%), while TREO grade falls (-2.0% TREO), when compared to October 2015 Update of 23.2Mt Resource at 7.4% TREO and 1.74Mt TREO.

Earnings and Valuation:

- We have downgraded forecast NPAT of \$66M, \$138M, and \$185M in FY18e to FY20e (previously \$97M, \$141, \$194M), due to lower revenue and higher costs in FY18e. We have **retained our LT US\$48/kg forecast for NdPr 99% oxide.**
- We have an increased LYC valuation of \$2.85 on a fully diluted basis,** underpinned by our NPV₁₀ for LYC of A\$2,335M (previously A\$2,228M). We maintain a US\$48/kg LT NdPr forecast, conservative production ramp profile, and assume full conversion of convertible debt.

Recommendation:

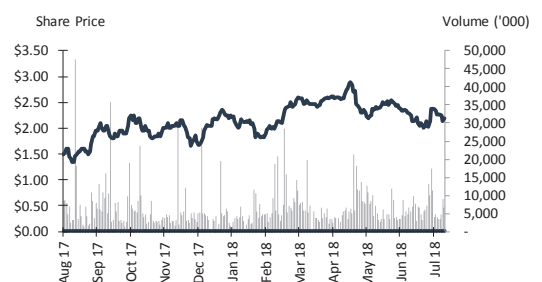
- We reiterate our unchanged Buy recommendation for LYC, with an increased price target of \$2.85/share,** in line with our DCF valuation.
- Key catalysts for the stock include:** achieving increased production targets, maintaining current cost profile and EBITDA margin; supportive NdPr oxide prices; continued deleveraging of the company; updates on long term agreements.

Recommendation		Buy			
Previous		Buy			
Risk		High			
Price Target		\$2.85			
Previous Target		\$2.72			
Share Price (A\$)		\$ 2.16			
ASX Code		LYC			
52 week low - high (A\$)		1.35-2.89			
Capital structure					
Shares on Issue (M)		663			
Market Cap (A\$M)		1,431			
Net Cash/(Debt) (A\$M)		(163)			
EV (A\$m)		1,594			
Options and warrants (M)		35			
12mth Av Daily Volume ('000)		6,368			
Forecasts		2017a	2018e	2019e	2020e
Revenue A\$M		257.0	378.2	465.0	538.4
EBITDA, A\$M		29.4	133.5	191.4	235.3
NPAT, adj., A\$M		-14.9	65.6	137.8	185.1
Diluted EPS, cps		-2.1	9.1	19.2	25.8
PER, x		nm	23.6x	11.2x	8.4x
EV/EBITDA, x		58.2x	12.8x	8.9x	7.3x

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 367,547 LYC shares.

Refer to end of report for details.