



## Lynas Corporation Ltd (LYC.ASX)

### Still Plenty of Positives Ahead

#### Event:

- FY18a result; revised earnings and PT.

#### Investment Highlights:

- LYC released its FY18a results last week, with highlights including** a record year of production and maiden profit. The second half was in our view strong, as the company cycled off an outstanding first half.
- Production and sales comparable over the halves, with pricing the key difference:** average NdPr price of US\$51.6/kg over 1H18a compared with an average of US\$45.3/kg in 2H18a. The company generated pre interest operating cash flow of \$80M in 1H18a compared with \$39M in 2H18a.
- Malaysia risk is overstated in our view; near term pricing environment and US-China tensions more likely overhang.** We hold the view the US-China trade tensions is causing skittishness among Chinese consumers, while the Malaysia political uncertainty is largely hypothetical at this stage.
- Net debt currently estimated at A\$185M.** The company has significantly reduced debt over the course of the year, and with another strong FY19e and continued debt pay down, the company could be at a manageable debt level with the potential to consider initiating a dividend.

#### Earnings and Valuation:

- We have **lowered our forecast NdPr 99% oxide for FY19e to US\$45/kg** from US\$50/kg; we retain a **LT forecast of US\$48/kg**.
- We maintain a **conservative production ramp profile of 6,278t and 6,840t NdPr production in FY19e and FY20e**, respectively. We note the company is currently targeting 500tpm, and then 600tpm from January 2019e, implying 6,600t and 7,200t NdPr in each of the coming fiscal years.
- We have **lowered forecast NPAT to \$83M, \$177M, and \$180M in FY19e to FY21e** (previously \$138M, \$185M, \$198M), due to the change in FY19e forecast NdPr price and modestly higher costs over the forecast period, as well as increased interest expense, offset by rebased depreciation charge.
- We have a **decreased LYC valuation of \$2.73 on a fully diluted basis**, underpinned by our NPV<sub>10</sub> for LYC of A\$2,276M (previously A\$2,335M). We maintain a US\$48/kg LT NdPr forecast, conservative production ramp profile, and assume full conversion of convertible debt.

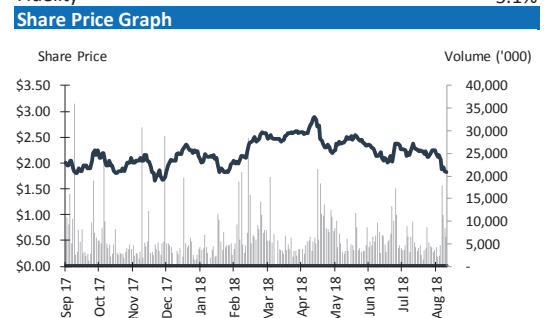
#### Recommendation:

- We **reiterate our unchanged Buy recommendation for LYC, with a decreased price target of \$2.73/share**, in line with our DCF valuation. We note the stock is very attractively priced in our view after the recent share price sell off, with the current share price implying US\$40/kg for NdPr oxide over LOM.
- 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, resolution of Malaysia political risk and US-China trade tensions; renegotiating JARE covenant foreshadowing a maiden dividend announcement.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$2.73			
Previous Target	\$2.85			
Share Price (A\$)	<b>\$ 1.79</b>			
ASX Code	LYC			
52 week low - high (A\$)	1.65-2.89			
Capital structure				
Shares on Issue (M)	663			
<b>Market Cap (A\$M)</b>	<b>1,186</b>			
Net Cash/(Debt) (A\$M)	(185)			
<b>EV (A\$m)</b>	<b>1,371</b>			
Options and warrants (M)	35			
12mth Av Daily Volume ('000)	6,154			
Forecasts	2018a	2019e	2020e	2021e
Revenue A\$M	374.1	423.7	538.4	549.8
EBITDA, A\$M	127.7	144.0	229.5	229.1
NPAT, adj., A\$M	58.9	83.3	176.7	179.6
Diluted EPS, cps	8.2	11.6	24.6	25.0
PER, x	21.8x	15.4x	7.3x	7.1x
EV/EBITDA, x	11.4x	10.1x	6.3x	6.4x

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	
Challenger	6.1%
Fidelity	5.1%



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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 450,000 LYC shares.

Refer to end of report for details.