



Lynas Corporation Ltd (LYC.ASX)

Excellent Performance as Market Awaits Review

Event:

- FY19Q1a result; revised assumptions, earnings, and PT.

Investment Highlights:

- LYC announced FY19Q1a results on 25 October with highlights including a new monthly NdPr production record and robust cash generation:** the company reported a new quarterly record of NdPr production in FY19Q1a of 1,579t (+9% QoQ, +9.6% vs FSBe), including a 600+t month of NdPr production in September. Total REO production in Q1a was 5,220t REO (+1.5% QoQ), also a new record.
- Product sales mix drove excellent revenue and cash receipts.** FY19Q1a average selling price improved 27.2% to A\$27.1/kg as the company sold a higher proportion of NdPr from total REO sales, coupled with opportunistic SEG sales.
- Other quarterly report highlights** include sales revenue of \$105.6M (+15.2% QoQ, 14.8% vs FSBe). Cash receipts of \$105.2M were similarly strong (+6.7% QoQ, +18.9% vs FSBe). Production costs for FY19Q1a were \$52.6M (cash basis), -3.6% QoQ, despite a 9% QoQ increase in NdPr and total REO volume.
- 600t NdPr per month underscores operational excellence at Kuantan.** Achieving the 600t/m comes an impressive three months ahead of schedule. We infer recoveries at LAMP are outstanding. We draw confidence that LYC will achieve sustainable 600t/m NdPr production from January 2019e.
- LYC are yet to receive lanthanide concentrate processing approvals, without which FY19Q2e production could be impacted by 400t NdPr.** We had previously forecast a conservative ramp profile FSBe 6,278t vs company target of 6,600t NdPr. Even if approval does not come through prior to the CY18e end, FY19Q1a output gives us confidence 2H19e production can make up the shortfall.
- Cash builds to A\$66M at quarter end, net debt is ~A\$167M.** Convertible debt is currently US\$15.2M (equivalent to 20.3M shares). Senior debt is US\$150M.

Earnings and Valuation:

- We **retain our long term US\$48/kg assumption for NdPr 99% oxide**, though we have **decreased FY19e and FY20e assumptions by 4.4% and 7.7% to US\$43/kg and US\$48/kg** (prior US\$45/kg and US\$52/kg) and made minor revisions to our currency assumptions.
- We have **revised NPAT forecasts in FY19e to FY21e by -16%, -22%, and +1% to \$70M, \$138M, and \$181M** (prior \$83M, \$177M, \$180M).
- We have a **decreased LYC valuation of \$2.64 (previously \$2.73) on a fully diluted basis**, underpinned by our NPV₁₀ for LYC of A\$2,190M (previously A\$2,276M). 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 decrease our price target to \$2.64/share** (previously \$2.73), in line with our DCF valuation, noting swift resolution of operation review will be a positive catalyst.
- Key catalysts for the stock include:** Malaysian government review outcome; 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.

Disclosure

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 150,000 LYC shares.

Refer to end of report for details.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$2.64
Previous Target	\$2.73

Share Price (A\$)	\$ 2.10
ASX Code	LYC
52 week low - high (A\$)	1.585-2.89

Capital structure

Shares on Issue (M)	666
Market Cap (A\$M)	1,398
Net Cash/(Debt) (A\$M)	(167)
EV (A\$M)	1,565
Options and warrants (M)	32
12mth Av Daily Volume ('000)	6,631

Forecasts	2018a	2019e	2020e	2021e
Revenue A\$M	374.1	410.2	499.0	551.5
EBITDA, A\$M	127.7	131.0	191.3	230.8
NPAT, adj., A\$M	58.9	70.2	138.5	181.3
Diluted EPS, cps	8.2	9.8	19.3	25.3
PER, x	25.6x	21.5x	10.9x	8.3x
EV/EBITDA, x	13.0x	12.6x	8.7x	7.2x

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

Challenger	7.1%
Fidelity	6.2%

Share Price Graph



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