



## Lynas Corporation Ltd (LYC.ASX)

### WLP Residue Removal Precondition Pain Point

#### Event:

- Malaysian Government Ministry licence preconditions; regulatory update; revised earnings, valuation, and PT.

#### Investment Highlights:

- Review Committee Report finds LYC's LAMP operations low risk and compliant with applicable laws.** Notably, the Report recommended LYC determines and builds a permanent disposal facility for the WLP residue before its next licence renewal in September 2019. The Report also recommended LYC prepares and builds safe storage sites for NUF residues. Furthermore, the Report recommended that LYC be prepared to export WLP residue from Malaysia *if the PDF location is not identified or approved*.
- In contrast, Ministry adopted a tougher stance, and attached two new licence renewal preconditions.** The Minister for Energy, Science, Technology, Environment and Climate Change (MESTECC) required as preconditions for licence renewal both the export of WLP residue before 2 September 2019 and the submission of a NUF disposal plan. The first precondition is the main pain point for LYC, and is in contradiction to the Committee recommendations.
- We undertake a scenario analysis given the uncertainty LYC is currently facing.** At this stage, we consider the most likely resolution is the ultimate transport and removal of WLP residue to Australia to satisfy the new licence precondition. We think the effect on LYC of an additional charge for WLP residue transport is a modest decrement to ongoing opex. We also think that regulatory uncertainty will persist in the near term, as LYC remains coy about its options, we think as part of its strategy in reaching a resolution on this matter.

#### Earnings and Valuation:

- We have **reduced NPAT forecasts in FY19e to FY21e by -68%, -11%, and -9% to \$29M, \$123M, and \$165M** (prior \$70M, \$138M, \$181M), as a result of assuming an additional charge for the transport and storage of WLP residue away from LAMP, and the building of a storage facility, most likely domestically in Australia.
- We have a **decreased LYC valuation of \$2.44 (previously \$2.64) on a fully diluted basis**, based on our NPV<sub>10</sub> for LYC of A\$2,046M (previously A\$2,190M). The change is due to the adoption of a charge for the transport and storage of WLP residue away from LAMP. 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 \$2.40/share** (previously \$2.64), broadly in line with our DCF valuation. We view the price reaction to the Ministry precondition announcement as an overreaction, and believe a near term buying opportunity exists.
- Key catalysts for the stock include:** resolution of the WLP residue storage issue namely location, permitting, approvals, and certainty of continued operations; renewal of operating licences; achieving increased production targets, 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 100,000 LYC shares.

Refer to end of report for details.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$ 2.40
Previous Target	\$2.64
Share Price (A\$)	\$ 1.645
ASX Code	LYC
Valuation	\$2.44
Valuation Methodology	DCF
52 week low - high (A\$)	1.585-2.89

#### Capital structure

Shares on Issue (M)	666
Market Cap (A\$M)	1,095
Net Cash/(Debt) (A\$M)	(167)
EV (A\$m)	1,262
Options and warrants (M)	32
12mth Av Daily Volume ('000)	6,856

Forecasts	2018a	2019e	2020e	2021e
Revenue A\$M	374.1	410.2	499.0	551.5
EBITDA, A\$M	127.7	83.4	178.0	216.5
NPAT, adj., A\$M	58.9	22.6	123.4	165.2
Diluted EPS, cps	8.2	3.2	17.2	23.0
PER, x	20.0x	52.1x	9.6x	7.1x
EV/EBITDA, x	10.4x	15.9x	7.5x	6.1x

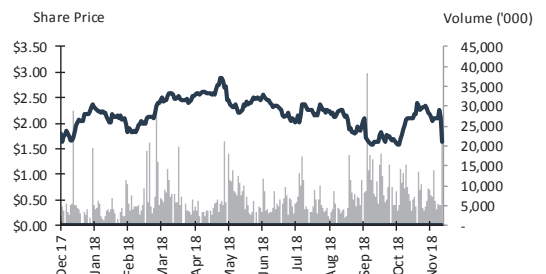
#### Board

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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