



Lynas Corporation Ltd (LYC.ASX)

Controlling What They Can

Event:

- FY19Q2a result; revised assumptions, earnings, and valuation.

Investment Highlights:

- LYC announced FY19Q2a results on 22 January, delivering a solid performance in the face of a temporary shutdown in December 2018 and ongoing regulatory uncertainty.
- The company provided a suite of incremental positive announcements including a second 600t NdPr production month in October, final Lynas NEXT works implementation to produce separated Nd and Pr, and first production and shipment of Nd oxide.
- Sound production, though impacted by temporary shutdown: NdPr production was 1,223t (-22.5% QoQ, +2% vs FSBe) due to LAMP shutdown in December 2018. LYC used the shutdown cleverly to implement final Lynas NEXT upgrades to produce separated Nd and Pr.
- LAMP has restarted, and is currently producing at Lynas NEXT rates again.
- No definitive regulatory update, although no further escalation for now. Management noted effective engagement with the Malaysian Government and remain confident of reaching a mutually acceptable resolution of ongoing regulatory matters. We also note no further deterioration in regulatory matters as a positive.
- Closing cash was \$53.7M at quarter end. LYC made a modest US\$3.1M senior debt repayment in early January. Senior debt was reduced to US\$146.9M. Net debt is ~A\$173M. Convertible debt is currently US\$15.2M (equivalent to 20.3M shares).

Earnings and Valuation:

- We retain our long term US\$48/kg assumption for NdPr 99% oxide, though we have decreased FY19e price by 2% to US\$42/kg (prior US\$43/kg) and made minor revisions to our currency assumptions.
- We have revised NPAT forecasts in FY19e to FY21e by -9% and +7% as a result of updated NdPr and currency assumptions. We now forecast FY19e-FY21e NPAT of \$21M, \$132M, and \$163M, respectively (prior \$23M, \$123M and \$165M).
- We have a decreased LYC valuation of \$2.38 (previously \$2.44) on a fully diluted basis, underpinned by our NPV₁₀ for LYC of A\$2,011M (previously A\$2,046M). We maintain a US\$48/kg LT NdPr forecast, conservative production ramp profile, and assume full conversion of convertible debt.

Recommendation:

- We reiterate our Buy recommendation for LYC, with an unchanged price target of \$2.40/share, broadly in line with our DCF valuation.
- Key catalysts for the stock include: update on licence renewal and associated residue storage issue; 1H19 result; maintaining increased production targets, current cost profile, and EBITDA margin; supportive NdPr oxide prices; continued deleveraging; 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 250,000 LYC shares.

Refer to end of report for details.

Recommendation

Buy	Buy
Risk	High

Price Target

Price Target	\$ 2.40
Previous Target	\$2.40

Share Price (A\$)

Share Price (A\$)	\$ 1.555
ASX Code	LYC
52 week low - high (A\$)	1.515-2.89

Valuation (A\$)

Valuation (A\$)	\$ 2.38
Valuation Methodology	DCF

Capital structure

Shares on Issue (M)	666
Market Cap (A\$M)	1,035
Net Cash/(Debt) (A\$M)	(173)
EV (A\$M)	1,208
Options and warrants (M)	32
12mth Av Daily Volume ('000)	7,047

Forecasts, Y/E June

	2018a	2019e	2020e	2021e
Revenue A\$M	374.1	406.1	508.8	550.8
EBITDA, A\$M	127.7	79.5	187.5	215.8
NPAT, adj., A\$M	58.9	20.7	131.8	163.4
Diluted EPS, cps	8.2	2.9	18.4	22.8
PER, x	18.9x	53.9x	8.5x	6.8x
EV/EBITDA, x	10.0x	16.1x	6.8x	5.9x

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



Analyst: Matthew Chen

+61 2 9993 8130

matthew.chen@fostock.com.au