Lynas Bets $500 Million on Rare Earths Market Expansion

written by Melissa (Mel) Sanderson | August 10, 2022

Lynas Rare Earths Ltd.'s (ASX: LYC) August 3 announcement that it will invest an additional $500 million to rewrite its own already aggressive growth plan is risky, sure, but then, when it comes to rare earths, what isn't? Managing Director Amanda Lacaze appears to be reading the demand-pull market for Lynas' main products, neodymium (Nd) and praseodymium (Pr), as further accelerating, despite some hits to the "green" economy from the war in Ukraine. There are sound reasons supporting such a view, including the commitments by EU auto manufacturers to cease all gasoline production by 2025 and recent (surprising) political developments in the US, especially passage of the CHIPS Act (supporting redevelopment of a US-based semiconductor industry) and the current Inflation Reduction Act (also known as Build Back Better in disguise) likely to be approved this week by the House of Representatives and signed quickly by President Biden.

Lynas is particularly well-positioned to benefit from this latest legislation as it already has two agreements with the US Department of Defense for construction of two separation plants: a $30 million light rare earths plant (deal signed in January 2022) and also in June a $120 million deal for a heavy RE plant. This in addition to Japan's ongoing demand, a not insignificant factor as Lynas self-identifies as controlling 80% of that market.

So, if all looks positive on the demand, where are the risks? Well, unvarnished success will require the split-second timing of a juggler. Expanding output at Mt. Weld should be a green light: the deposit and its characteristics are well known and should present few obstacles to an experienced team (with the usual caveats about the weather which these days can be a real Devil).

But, there is a problem with Malaysia. Despite winning an unprecedented two EcoVadis awards, political and public concerns about radioactive materials led the Malaysian government to refuse to extend Lynas' cracking and leaching permits. (ESG Comment: this goes to show how history haunts even companies who had nothing to do with previous problems, and how hard it can be to gain and retain trust.)

Lynas announced in February of this year that it has received Ministerial approval for its Kalgoorlie rare earth processing facility, clearing the way for construction to begin. This new facility will strip and store the radioactive elements (uranium and thorium) and then ship the "clean" material to Malaysia for final processing. Thus the timing issue. If the processing plant can be constructed in record time with no unexpected issues, it could dovetail nicely with the increased output from the mine. Otherwise, lower through-put or possibly storage of mined materials could be necessary, providing a cost hit. And even if the timing is impeccable, there will be some increased product cost due to shipping to and processing at Kalgoorlie and then onwards to Malaysia.

Nonetheless, kudos to Lynas for a bold move, going for market share in a booming market with positive political signals and economic momentum. As Christopher Ecclestone said to InvestorIntel: "Lynas just goes to show that it is a doer when so many others are just talkers in the Rare Earth space."