Rising demand benefits the only integrated producer of bonded rare earth permanent magnets outside of China

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Neo Performance Materials Inc. (TSX: NEO) (Neo) is an almost totally integrated Western (Canadian) company that processes mixed rare earth concentrates to produce separated individual and specifically blended rare earths to produce rare earth metals, alloys, and "bonded" rare earth permanent magnets. What makes Neo special is that they are the only company in the world that operates dual supply chains inside and outside of China for REE separation and REE advanced materials and end-use products. Neo owns the only operating commercial rare earth separation facility outside of Asia. It's in Europe (Estonia facility) and it has sales and production centers spread across 10 countries globally.

All of the above makes Neo unique as a Western producer of rare earth materials as well as end-use products, which are critical in the green energy and EV revolution.

Award winning facilities

As announced on February 22 and March 28, 2022, Neo won awards for two of its key factories, the first in Thailand and the second in Estonia. The awards were Gold Medals awarded by EcoVadis for 2021 sustainability performance.

The second announcement stated: "This places Neo's Silmet facility in Sillamäe, Estonia in the top five percent of all facilities around the world reporting to EcoVadis for its sustainability programs in 2022… The Silmet facility processes mixed rare earth feedstock into a variety of high-purity rare earth specialty materials, including neodymium-praseodymium (NdPr) oxide, which is used by Neo's Magnequench business unit to produce neodymium-iron-boron (NdFeB) magnetic materials and magnets for automotive, factory automation, home appliance, circulation pump, and other applications."

This impressive recognition is also very well timed given the surging demand for NdFeB magnets used in many EV motors. Global electric car sales finished March 2022 with 851,000 sales for the month (the second best month ever), 60% higher YoY, with market share of 15%.

The global OEM automotive industry today uses mainly sintered NdFeB rare earth permanent magnets, but the use of bonded type NdFeB in this application is growing rapidly. Neo has pioneered the use of bonded NdFeB magnets in automotive applications with Japanese customer/partner, Honda, and this use is expanding. Neo has agreed with European magnet customers to expand its capacity there and to add sintered NdFeB magnets to its product lines. The EU has encouraged and is financially supportive of this move by Neo.

Prices for rare earths materials and end-user products used in the green economy have been surging the past year, due to demand exceeding supply, and this is reflected in Neo's latest financial results. This supply deficit looks to be baked in for at least the next decade due to the growth of the green economy.

Q4 2021 and Full-Year financial results highlights (in USD)

As reported on March 10, 2022, Neo achieved the following outstanding financial results:

- “Q4 2021 revenue of $153.4 million higher by 39.0% YoY; full-year 2021 revenue of $539.3 million was higher by 55.5% YoY.
- Volumes in the fourth quarter of 3,311 tonnes; full-year volumes expanded by 20.2%.
- Operating income of $12.7 million in the quarter; $59.9 million for the year.
- Adjusted Net Income for the quarter of $16.1 million, or $0.39 per share, with full-year Adjusted Net Income of $55.0 million, or $1.42 per share.
- Adjusted EBITDA for the quarter of $19.7 million; 2021 Adjusted EBITDA of $81.9 million was 183.7% higher YoY.
- Cash balance of $89.0 million after raising $38.0 million from equity offering and distributing $12.8 million in dividends to shareholders.”

As shown above, full-year 2021 revenue was 55.5% higher YoY, based on volume growth of 20.2%. Clearly higher-end product prices helped support the stellar results. Neo sums it up well and the general direction the business is heading by stating:

“Neo reported strong year-over-year (YoY) gains in revenue, volumes, operating income, Adjusted EBITDA, and profitability in the year ended December 31, 2021, driven largely by increased demand for products across all three of its operating divisions, higher selling prices for rare earth materials, and continuing progress in several of the Company’s strategic initiatives.”

I did warn investors that this was what we were expecting from Neo with our December 22, 2021 article: “Neo Performance Materials looks to expand capacity as it rides the tailwind of growing rare earth permanent magnet demand.”

Neo Performance Materials is one of a few Western companies able to process rare earths and make magnets

Source: Neo Performance Materials website

Closing remarks

Neo Performance Materials occupies a rare and critical position in the Western supply chain to produce rare earths specialty products. Demand for powerful rare earth type magnets used in many consumer goods as well as in wind turbines and EVs is expected to surge this decade.

Neo Performance Materials trades on a market cap of C$546 million and a current PE of 17.6. 2022 PE is forecast at 7.82.

The next catalyst for Neo will be the Q1, 2022 earning results due out before the market opens on May 13, 2022. Stay tuned.