Neo Performance and Hastings – Will Wonders Never Cease?

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The term "Holy Moley" is seldom, if ever, used by us but our powers of speech are severely hampered by trying to digest the implications of the latest deal in the rare earths space. Neo Performance Materials Inc. (TSX: NEO) has now succeeded in flooring us twice in two weeks.

First, there was its announcement that it was acquiring a rare earths elements (REE) mining project in Greenland and making all the right noises as if it was going to move that forward (and if anyone can, it would be them). And then we have the shock announcement that Hastings Technology Metals Ltd (ASX: HAS), the sometime REE developer in Australia, is to acquire a 22.1% strategic shareholding in Neo Performance Materials. We need not remind investors that Neo is not only ***a*** leading global rare earths processing and advanced permanent magnets producer, but it is ***THE*** leading global rare earths processing and advanced permanent magnets producer outside China, with a string of plants around the world and most particularly its Silmet plant in Estonia, which is a cornerstone of the monazite sands processing strategy of Energy Fuels Inc. (NYSE: UUUU | TSX: EFR).

The market cap of Neo, on the eve of this announcement, was CAD$605 million. The acquisition has been agreed at a price of CAD$15.00 per Neo share, representing a total consideration of CAD$135 million. Bargain basement, indeed, in our view.

According to the release, the acquisition is intended to be funded by an AUD$150 million strategic investment in Hastings by Wyloo Metals through the issuance of secured, redeemable,

exchangeable notes.

Interestingly, the stake is not a *de novo* investment by Hastings but rather the purchase of a stake from an affiliate of Oaktree Capital Management. Those with long memories will recall that this stake dates back to the ancient history of when Molycorp went spectacularly bust just under ten years ago and Neo was reconstituted bigger and better out of the ruins. The stake being vended by Oaktree consists of 8,974,127 common shares in Neo, representing a 22.1% shareholding.

The proposed acquisition provides Hastings (and Wyloo) with a strategic stake in Neo and exposure to the global downstream processing of rare earth materials into magnets.

We have written about Hastings' Yangibana deposit so long ago that we must fight through a veil of cobwebs to find what we wrote. The company claims that the project remains the key priority for Hastings, "with good progress being made on funding initiatives and other key milestones." But they would say that, wouldn't they?!

The acquisition of the Neo stake, and in particular the Wyloo investment, are subject to shareholder approval (50% voting threshold). All this begs the question as to whether Canada (or indirectly the US) will allow the crown-jewel (indeed the Queen on the REE chessboard) to pass into the hands of Wyloo Metals.