Neo Performance Materials looks to expand capacity as it rides the tailwind of growing rare earth permanent magnet demand

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Demand for rare earth metals and magnets has been very strong in 2021, boosted by an approximate 100% surge in electric car sales so far in 2021. This means that companies that sell the valuable magnet metals such as neodymium and praseodymium (NdPr) are doing very well, as NdPr (the combination is called "didymium" in the trade) is used to produce high performance neodymium, iron, and boron (NdFeB) magnets, used in many electric cars today.

Neo Performance Materials Inc. (TSX: NEO) ("Neo") is a rare Western company that processes natural rare earth mixtures to produce individual high value separated rare earth chemicals, then uses them to produce rare earth fine chemicals, metals, alloys, and "bonded" rare earth permanent magnets. Neo summarizes well when they state:

"Neo is the only company in the world that operates dual supply chains inside and outside of China for REE separation and REE advanced materials. Neo owns the only operating commercial rare earth separation facility in Europe."

Neo operates globally with sales and production across 10 countries including: Japan, China, Thailand, **Estonia**, Singapore, Germany, United

Kingdom, Canada, United States, and South Korea.

Neo Performance Materials global operations

Source: Neo Performance Materials investor presentation

Neo explores a possible expansion, and new production of advanced rare earth element products in Estonia

As announced on November 17, 2021: "Joint Communiqué in Support of Expanding Valued-Added Rare Earth Product Manufacturing in Estonia. A joint effort between the Estonian Ministry of Economic Affairs and Communications and Neo Performance Materials has been launched **to explore a possible expansion of Neo's current production of advanced rare earth element ("REE") products in Estonia, and well as to potentially launch new manufacturing of REE-based metals, alloys, and magnetic materials** for use in electric vehicles and other green technologies."

The timing to expand in Europe is perfect given the massive rise in European and global EV sales. For example, Europe's electric car sales were 184,000 in October 2021, up 26% YoY, reaching 23% market share. Germany reached 30% share, France 23%, and Netherlands 35% share in October 2021. It also times nicely with Tesla beginning electric car production at Giga Berlin in 2022.

Only a day earlier on November 16, 2021, Neo announced: "Completion of $100.66 Million Bought Deal Treasury and Secondary Offering of Common Shares…..The Company issued and sold from treasury an aggregate of 2,598,000 Common Shares at a price of $19.25 per share for total gross proceeds to the Company of approximately $50.01 million."

The above announcement does not mention what the $50.01 million

will be used for; however, it seems to me more than just a coincidence that only a day later Neo announced their Estonia expansion plans. I will let the reader draw their own conclusions.

Neo continues to produce strong financials in 2021

In 2021 Neo continues to deliver strong YoY revenue and income growth; albeit revenue and adjusted net income were slightly lower than last quarter.

As announced on November 8, 2021, Neo reported Q3 2021 revenue of US$119.8 million, higher by 53.9% YoY. Volumes in the quarter of 3,523 tonnes improved by 16.1% YoY. Adjusted net income was US$9.8 million, or $0.26 per share.

This compares to Q2 2021 results of revenue of US$135.1 million up 99.5% YoY and adjusted net income of US$14.1 million, or US$0.37 per share.

Neo Performance Materials financials summary quarter by quarter from Q2 2020 to Q3 2021

Source: Neo Performance Materials investor presentation

More about Neo

Neo is a processor and manufacturer of advanced industrial materials including rare earth metals, alloys, and “bonded” rare earth permanent magnets, specialty chemicals, technology metals, and alloys. Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and greater use of superalloys.

Global rare earths expert Jack Lifton's view on Neo:

"Neo Performance Materials is today, the only Western company that is vertically integrated with the capability and commercial scale capacity to separate the rare earths, manufacture rare earth metals and alloys, and manufacture rare earth permanent magnets. It is the non-Chinese model for any venture seeking to enter or assemble a total rare earths permanent magnet supply chain."

Closing remarks

While companies such as Tesla get all the headlines, did you know that Neo's stock price is performing better than Tesla in 2021. YTD in 2021 Neo Performance Materials stock price is up 62% compared to Tesla up 46%.

The other key difference is Neo trades on a PE of 14.8 compared to Tesla on a PE of 302. Both stocks are being supported by the booming EV trend, just one is many multiples cheaper (based on current PE ratios).

Investors would be wise to take a deeper look at Neo Performance Materials especially now while they trade on a reasonable multiple and look set to expand in Estonia.