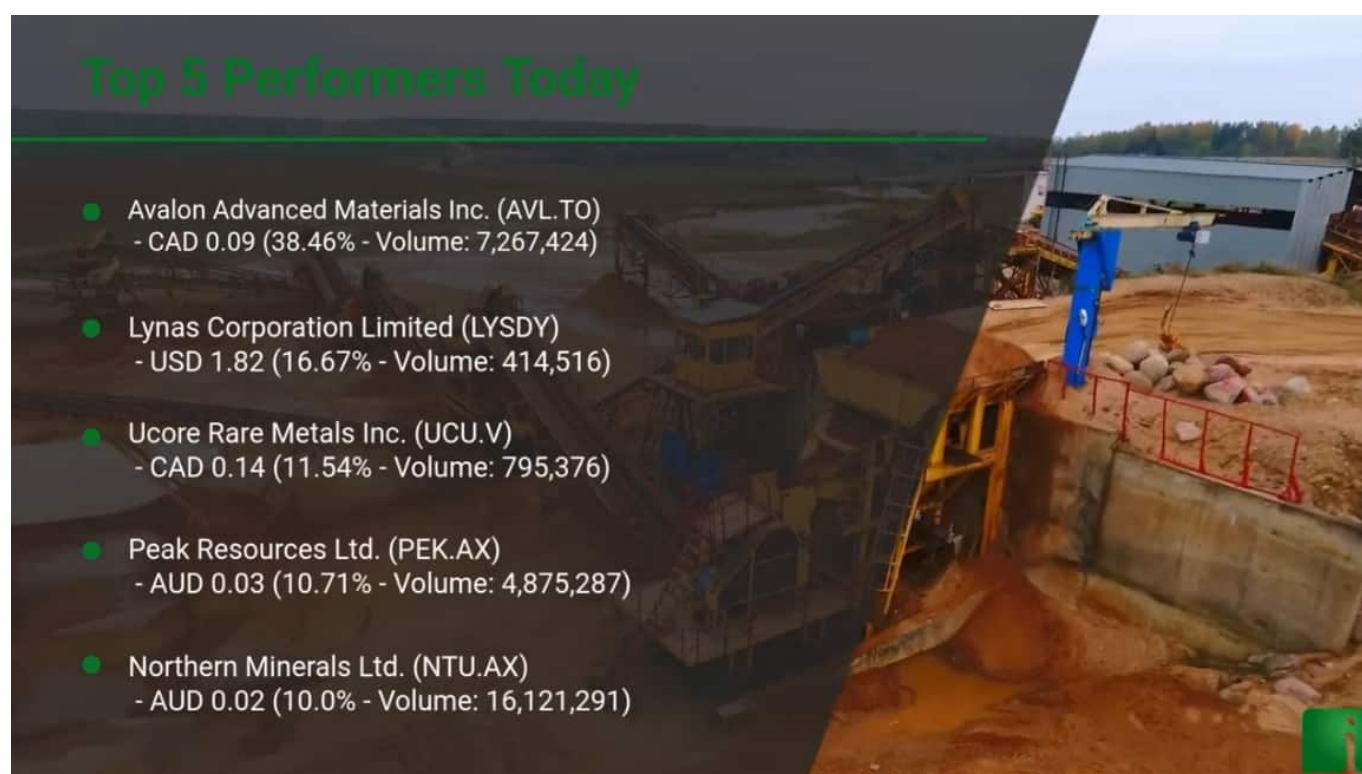


# Rare earths company jumps 38.46% yesterday as the world searches for a NA supply

As good news continues to flow for the rare earths sector, today I look at one of the recent best performers, whose stock was **up 38.46%** yesterday as they led the pack of rare earth companies higher. Impressively, the stock is **up 80%** so far in 2020.

**Avalon Advanced Materials leads the pack as the rare earths miners make a comeback**



Source: InvestorChannel's Rare Earths Watchlist Update – July 27, 2020

**What has caused the surge in prices for western rare earth miners?**

The recent price surge appears to be due to a combination of

factors, all positive for rare earths:

- July 14, 2020 – In the USA, Joe Biden unveiled a \$2 trillion green infrastructure and jobs plan. Key areas of the Biden plan are electrification of the US transport sector (including a boost for American production of electric cars and batteries) and a plan to build 1.5 million ‘energy efficient’ homes. All of these require rare earths.
- July 24, 2020 – The European Commission unveiled a €750 billion (\$872 billion) “green” infrastructure plan.
- July 24, 2020 – The US Department of Defense announced the US\$77.3 million Defense Production Act Title III COVID-19 Actions to “strengthen essential domestic industrial base capabilities and defense-critical workforce in the aviation, **rare earth materials**, and electronics industries.”

These are in addition to several other Acts currently before the US Senate, such as:

- The American Mineral Security Act.
- The Onshoring Rare Earths Act – the ‘ORE Act’.
- The American Critical Mineral Exploration and Innovation Act of 2020.

Added to all of this the US Department of Defense recently said that it will seek \$1.7 billion to purchase rare earths in the 2021 National Defense Authorization Act. You can read more on the three Acts here.

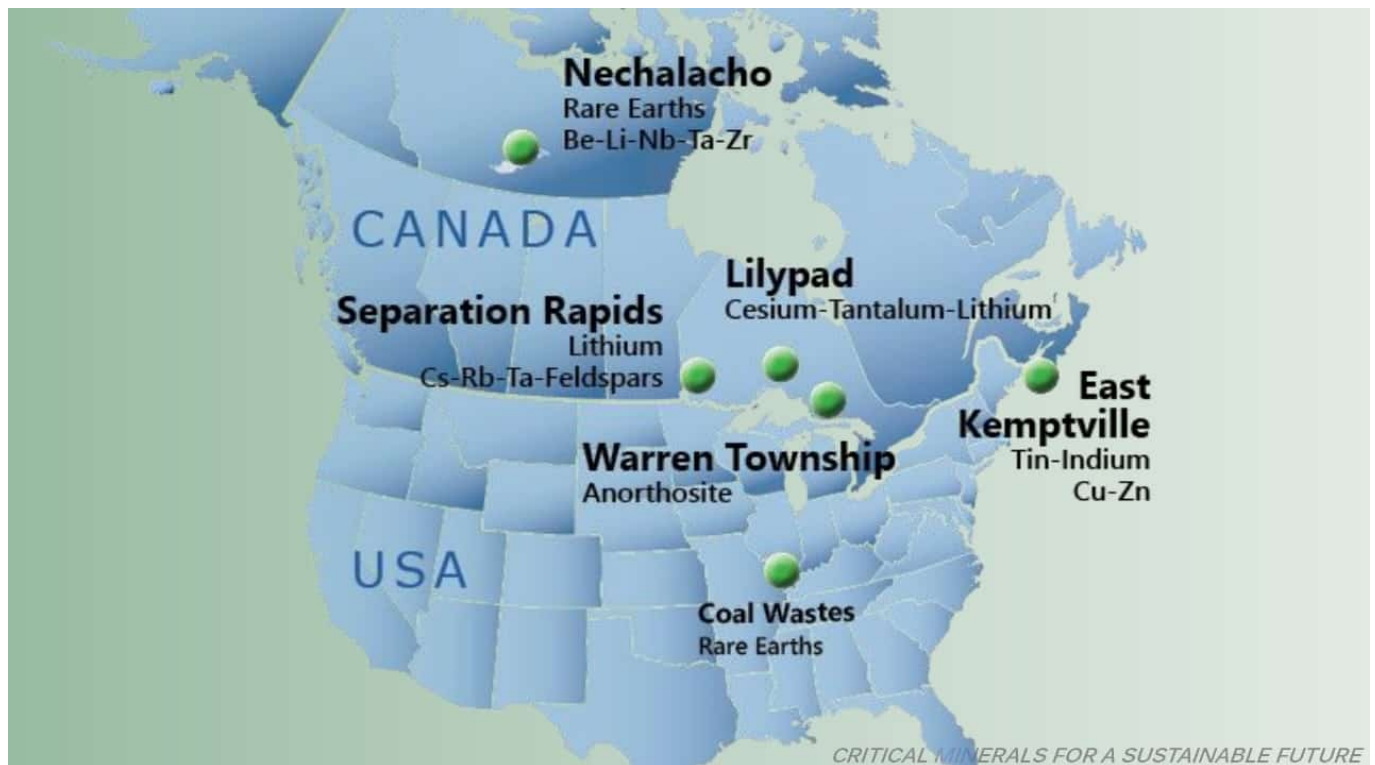
With this extremely favorable backdrop, today I take a look at yesterday’s star performer Avalon Advanced Materials Inc. (TSX: AVL | OTCQB: AVLNF).

Avalon is focused on critical minerals and cleantech materials including rare earths, lithium, tantalum, cesium, cobalt, nickel, tin, and others with near term production potential. Avalon has a very large project pipeline of promising, mostly

development stage projects including:

- Their flagship Nechalacho Rare Earth Elements Property (Thor Lake, Northwest Territories, Canada) with a 3% NSR on the near surface T-Zone and Tardiff Zone bought by Cheetah Resources, and the 100% owned HREE Basal Zone. The Basal Zone retained by Avalon contains a rich polymetallic rare metals resource, with potential for economic recovery of several rare earth elements. A Feasibility Study was completed in 2013 on the Basal Zone resulting in a pre-tax NPV10% of \$1.35 billion (post-tax NPV10% of \$900m). The post-tax IRR was 19.6%. CapEx was \$1.575b. Sales of the five critical REO (neodymium, europium, terbium, dysprosium and yttrium) account for over 82% of the separated REO revenues.
- Their Separation Rapids Lithium Project (70 km by road north of Kenora, Ontario) holds one of the largest “complex-type” lithium-cesium-tantalum pegmatite deposits in the world. A PEA was completed in 2018 resulting in a pre-tax NPV8% of \$156m, post tax IRR of 22.7%, CapEx C\$77.7m with a 20 year mine life. You can read a company update here. Currently Avalon is working on optimizing the process flowsheet and producing new petalite product samples for glass-ceramic manufacturers.
- Their Lilypad Cesium Property (150 km northeast of Pickle Lake, Ontario) is an exploration stage project with cesium-lithium-tantalum mineralization.
- Their Warren Township Feldspar Project (100 km west of Timmins, Ontario) hosts a significant resource of high purity anorthosite, consisting of up to 98% high calcium plagioclase feldspar. The PFS was completed in 2003.
- Their East Kemptville Tin Project (45 km northeast of Yarmouth, Nova Scotia) with a PEA completed in 2018.

**Avalon Advanced Materials' project pipeline are all located in North America**



Source: Company investor presentation

Since Avalon did not release any new news in July, I can only conclude that yesterday's 38.46% stock price surge was related to the very positive rare earths market news from the U.S. government and European Commission reported on July 24 as I discussed above. The fact that Avalon surged more than the rest is likely due to their lower market cap resulting in greater leverage to the positive rare earths news. Certainly having a low market cap and a very significant local Canadian rare earths project with a pre-tax NPV10% of \$1.35 billion would go a long way in explaining the potential ahead. Most companies would trade on ~20% of the post-tax FS value. In this case that would mean ~20% of \$900 million or ~\$180 million. Even allowing for the large CapEx, using 10% of the \$900 million would suggest a market cap of \$90 million. The Feasibility Study costs alone were ~\$60 million. Also this does not include any value for the other projects. Avalon is trading on a market cap of just C\$31 million.

**Closing remarks**

The good thing about western rare earths companies is they actually do better if US-China relations get worse. This is because of the implied threat that China may one day cut off or severely restrict their rare earths supply to the US as they did before to Japan.

Rare earths stand to be one of the biggest winners of the new economy this decade as the world continues to decarbonize and moves towards using powerful magnets for electric motors used in electric vehicles and wind turbines.

Investors wanting broad exposure to multiple rare earths and critical materials should consider Avalon Advanced Materials. Avalon gives investors exposure to four advanced stage projects and one exploration stage project – with exposure to lithium, tin, cobalt, indium, beryllium, niobium, cesium, zirconium and tantalum, as well as the rare earth elements, neodymium, europium, terbium, dysprosium and yttrium.