Rare Earths Frontrunner Neo Performance Outperforms with an Impressive 48% Return YTD

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Neo Performance Materials Inc. (TSX: NEO) continues its outperformance in 2021, posting an impressive 48% return year to date (YTD). That compares to the TSX Composite, which closed for the first time above 19,000 yesterday, up 9.1% on the year and the S&P 500 returning a positive 8.6%. The reason for this is somewhat obvious in that there have been several catalysts so far this year for Neo including a significant deal with Energy Fuels, solid year end results and encouraging guidance for the start of 2021.

Energy Fuels Deal

As discussed previously on InvestorIntel and further in this interview with the two companies, the deal with Energy Fuels Inc. (NYSE American: UUUU | TSX: EFR) could be considered a game changer to break the dominance of China in the rare earth supply chain. Additionally, the fact that Energy Fuels spent less than $2M to modify its White Mesa Uranium Mill in Utah (the only licensed facility of its type in the USA) to process up to 2,500 tons per year of monazite into clean mixed rare earth carbonates and Neo Performance already having existing capacity, makes this joint venture incredibly cost-effective and competitive with China. Neo owns the only operating rare earth separation facility in Europe at Sillamäe, Estonia ("Silmet"), which is the destination for Energy Fuels ore.

Q4 & Year-End Results

On March 21st Neo reported Q4/20 and FY2020 results that included significantly stronger sequential results in the fourth quarter of 2020, driven largely by a sharp rebound in automotive and industrial end markets in the latter portion of 2020. Highlights include Q4/20 revenue of $110.4M higher by 16.8% YoY and by 41.8% over Q3/20, adjusted Net income of $9.6M ($0.25 per share) improved by 56.7% YoY and reversed a loss in Q3/20, while adjusted EBITDA of $12.3M was higher by 114.8% sequentially.

Other than a $59.1M non-cash impairment charge in Q2 relating to non-productive assets whose value was adjusted as a result of the economic impacts of COVID-19 on future cash flows, the overall results would have been positive as well. Alas everyone has had some COVID impacts in one form or another.

First Quarter 2021 Outlook

More importantly, the company has indicated that the positive trends in volumes and higher selling prices that occurred in Q4/20 have continued into Q1/21 for the Chemicals & Oxides and the Magnequench business units, resulting in a significant positive variance between what Neo anticipates it will report for Q1/21 and current analyst consensus estimates. Neo expects that its Q1/21 financial results will exceed current analyst consensus estimates of $84.9M in revenue and $9.9M in EBITDA for the period (both lower than Q4/20), as well as being significantly higher than the Q4/20 financial results. However, we are going to have to wait until May for the Q1 results to confirm this.

Summary

Neo Performance has plenty of momentum moving forward in 2021. The company should start to see the positive benefit of the Energy Fuels deal towards the end of Q2, over and above the upward trending momentum seen from Q3/20 through Q4/20 and Q1/21. Neo finished 2020 with cash and cash equivalents of $72.2M and positive cash flow meaning the company has plenty of options to grow both organically or via acquisition.

There are currently 37.5M shares outstanding (38.6M fully diluted) of which Oaktree Capital Management, L.P. holds, directly or indirectly, an aggregate of 17.1M Common Shares, representing 45.7%, which gives the company decent leverage to good news or positive results. Neo's market cap is roughly $759M as of close of business yesterday. Using conservative corporate guidance, an annualized Q1 P/E is 17-18x, which isn't unreasonable in the context of the current market. The question is, how much is "significantly higher than the Q4/20 financial results" and thus how much upside is there for Neo Performance?