

Superalloy and Magnet Producer Neo Performance Materials is Buying its own Stock, Should You?

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During the first half of 2020, [Neo Performance Materials Inc.](#) (TSX: NEO) purchased US\$1.3M of stock under its Normal Course Issuer Bid Program. Neo believes that its current share price trading range does not adequately reflect the value of the Company.

Neo's share buyback could be a signal that it is time for investors to look at the Company's current business and future sales prospects. As an added bonus, the Company also pays a dividend that is currently yielding 3.4%.

Markets Include EVs and Wind Turbines

As countries attempt to re-boot their economies after COVID-19, there is a push for decarbonization and a greener economy, which bodes well for Neo as it supplies superalloy and magnets used in electric vehicles, wind turbines, and high-efficiency motors.

Headquartered in Toronto, Canada, Neo operates as a global advanced materials manufacturer with sales and production in 10 countries: Canada, China, Japan, Estonia, Germany, Singapore, South Korea, Thailand, the United Kingdom, and the United States.

3 Key Operational Segments

Neo currently operates 3 divisions:

- Magnequench: LTM Revenue of US\$152.9M
 - Creates rare earth powders for bonded and hot deformed magnets.
 - The magnetic materials enable increased energy efficiency in motors across the Hybrid/Electric Vehicles, Industrial Automation, Residential Appliances, and High-Efficiency Motor segments.
- Chemicals & Oxides: LTM Revenue of US\$124.5M
 - Produces advanced industrial materials for end markets that include automotive catalysts, rare earth separations, multi-ceramic capacitors, and water treatment.
- Rare Metals: LTM Revenue of US\$78.2M
 - Makes tantalum-based and gallium-based specialty products with the largest end market being aerospace applications.

Revenue for the first half of 2020 was US\$158.4M, down almost 25% compared with the same period in 2019. All three divisions reported decreases in revenue caused by slower economic activities due to the COVID-19 pandemic. The downturn in the global automotive industry negatively impacted the Company's sales as, collectively, it is Neo's single largest end market.

But even with lower revenues, Neo's core business remained strong. The Company remained operationally profitable for the first half of 2020 and posted an Adjusted EBITDA of US\$10.8M.

Demand Fuels US\$5M Expansion

The Magnequench division saw demand growth in compression molded magnets and the Company plans to expand its existing production capacity at its two existing facilities in China by investing US\$5M. The expansion was expected to be completed by late September 2020.

“This increase in demand for Magnequench’s value-added NdFeB magnetic materials underscores the market confidence in the precision, quality, product development capabilities, and customer service that Neo provides to its customers,” commented Constantine Karayannopoulos, Neo’s President and CEO.

Neo will host its Third Quarter 2020 earnings conference call on November 16. Currently, analysts’ consensus revenue estimate for Q3/2020 is US\$79.7M, down almost 29% from the same period in 2019, but up 7.4% quarter over quarter, so revenue is trending in the right direction.

Moreover, the Company has a strong Balance Sheet with US\$78.7M in cash and US\$6.2M in undrawn credit facilities. Neo is well-positioned to ride out the economic downturn but able to capitalize on the restart of the Chinese economy. The Chinese market currently comprises 31% of Neo’s revenue and is its largest geographic segment. China is [forecasted](#) by the IMF to be the only country with a positive growth forecast in 2020.

Looking beyond the end of the current health crisis, if you believe the renewable energy sector and electric vehicles will continue to be two of the hottest growth areas, Neo could be a way to profit from these trends.