

The 600 pound gorilla in the room – welcome, Lynas Rare Earths

In the rare earths space, it is the 600 pound gorilla, but we mean that in a positive way. Investors familiar with rare earths will know this, but for those of you just coming to learn about the company, it is one of only two producers of scale of separated rare earths outside of China and is the second largest in the world.

Welcome to the “new Lynas” Corporation, officially renamed “Lynas Rare Earths Limited” (ASX: LYC) on December 1, 2020. Listed on the Australian Securities Exchange, the company has a market capitalization of approximately AU\$3.3 billion. The company’s share price hit an all-time high on December 4, 2020 as the market pays close attention to this industry leading company. Lynas ADRs can also be found on the US OTC, trading under the symbol LYSDY.

What a difference a year (or three) makes. It was just 2017 when the company consolidated its shares on a 1:10 basis, after five challenging years in the rare earths market when the company was on the verge of going bust. Recall that the global rare earths’ price bubble collapsed in 2014 on the back of a negative World Trade Organization decision against China. A global industry had all but been decimated and lowest cost production and industry dominance was now Chinese.

Except for Lynas. The company mines rare earths in Western Australia at Mt. Weld, which is one of the world’s highest grade rare earths mines. The mined ore is concentrated at the Mt. Weld concentration plant and sent for further processing to Lynas Malaysia’s Advanced Material Plant near Kuantan, Malaysia where the facility, commissioned in early 2013,

produces separated rare earth oxide products for sale to customers in Japan, Europe, China and North America. Currently, the most valuable product produced at the plant is praseodymium/neodymium (NdPr), used in magnets.

With the increasing interest in all things electric and electronic, rare earths have again come to the fore. Specifically, because so many things need electric motors (more than 140 small electric motors in the average automobile – electric and hybrid electric vehicles use even more small electric motors and larger traction motors), global demand is increasing.

We have known about this for a long time and the world is only now (again) starting to pay attention. Because of previous global price increases and the subsequent price collapse in the rare earths, China arguably has the world's most complete rare earth industry chain. This means in order to make full use of the rare earths mined in various countries, miners must come to China for processing. China produces approximately 80% of the world's rare earths but can only supply about 30% of the raw ore.

This is a problem, because the digital transformation is unstoppable – there could be as many as eight rare earths metals in your smartphone and who can't wait to get the next latest and greatest device? However, companies using rare earths for our end-use products are becoming focussed on supply chain resilience and suppliers who are closer to home (also a strategic decision). This was also recognized by US President Trump, who signed an executive order at the end of September 2020 declaring a national emergency in mining in an effort to jump (re)start the domestic industry.

Ahead of the curve, management of Lynas had already recognized this and despite being a global leader in rare earths, in 2019 put into action "Lynas 2025" – a plan to grow production and create a new rare earths processing centre in Western

Australia. In addition, also in 2019, the company announced a Memorandum of Understanding to develop a rare earths processing facility in the United States. To be located in Texas, Lynas and the company's partner announced in April 2020 that they will receive "Phase 1" funding from the U.S. Department of Defense (DoD) for planning work for the construction of the facility. Initial plans are to process ore at the facility from the company's mine at Mt. Weld and it was announced that in July, 2020 the companies signed a contract with the US DoD for detailed design of a heavy rare earths processing facility.

As goes the rare earths industry, so goes Lynas and in August 2020, the company successfully raised AUS\$425 million in new equity to fund future and ongoing activities in Australia and Malaysia, giving the company an even stronger balance sheet to finance future growth plans and maintain an industry leading position in the rare earths space. At year-end June 30, 2020, the company had positive working capital of approximately AUS\$84 million plus a loan of AUS\$164.9 million.

The world absolutely needs more rare earths to supply a seemingly unquenchable demand for new and evolving products. The rare earths supply chain has been dominated by China, but refreshed interest in strategic and domestic supply has caused the world to re-evaluate the current rare earths supply system. Despite a number of new and promising startup rare earths companies, Lynas continues to be the global leader. Does it belong in your portfolio?