

With a new PEA Search Minerals' rare earths projects deserve a serious look

Search Minerals Inc. (TSXV: SMY | OTCQB: SHCMF) continues to stand out as one of the most interesting, high-potential stories in the critical minerals space. With a focus on the four rare earths required for permanent magnets – neodymium, praseodymium, dysprosium, and terbium – the company is riding powerful supply/demand fundamentals.

Demand for these unique elements comes especially from the defense industry (fighter jets and missile guidance systems), but also the EV industry, wind turbines, computer hard drives, MRI hardware and more.

Yet on the supply side, there is a punch line you've heard before: the lion's share of these minerals come from China, which poses important national security risks to the United States.

Experts suggest we will need 10 times the current rare earth production by 2030 and 25 times by 2050. Considering that it can take 10+ years to get a new mine up and running, additional supply is far over the horizon. In the meanwhile, rising demand without a commensurate rise in supply will translate into higher prices.

This will be a tailwind for Search Minerals, one of the few companies in North America that can help, in the short run, address this glaring supply problem. Support for this view comes from their recent PEA, which projects an NPV of \$2.3 billion, capital cost of \$442 million, a pre-tax NPV of 55%, and a payback period of 1.5 years.

These are impressive numbers by any measure, but consider that they relate only to two of the five deposits at their site in Labrador – Deep Fox and Foxtrot. The other three are in early-stage exploration, but have the potential to greatly increase the size and economics of the project.

Besides controlling a large resource that could get much bigger, Search also has an important edge with respect to ore processing. To understand why, consider the fact that the US Geological Survey describes rare earths as “relatively abundant in the earth’s crust.” This oxymoron highlights the fact that rare earths aren’t in fact rare, but their deposits are low grade, and they come out of the ground in a tangled geochemical mess of other elements.

Hence a big part of profitability in the rare earth world depends upon processing ore efficiently and effectively. Search Minerals does this using a patented “Direct Extraction Process” whereby ore goes through a grinding and magnetic circuit to produce concentrate at the mine site. This means less ore goes on to the next step, which is expensive chemical processing via solvent extraction. Less processing means less expense means more profitability. This in part explains the PEA’s reference to a 55% pre-tax NPV and a 1.5 year payback period.

Surprisingly for the mining world, Search Minerals is on a very short fuse. Their stated goal is to have a bankable feasibility study in place in 2024, and to begin production in 2025. Rarely do we see mining companies moving this quickly, but Search is located in a mining-friendly area of Newfoundland and has received backing from various branches of the Canadian government. Presumably, this government support will help them navigate the permitting gauntlet.

For a company with such a compelling story, Search Mineral’s stock appears deeply undervalued. With a market cap of only \$37 million, it is trading far below the level implied by a

standard rule of thumb in mining, which is that PEA-stage companies should trade at 10-20% of NPV. At the low end, this would suggest Search Minerals stock price should be about 7X higher, at a market cap near \$200 million.

This sort of valuation anomaly is not new in the junior mining world, but in this case, it seems especially pronounced. With several short-term catalysts, a huge deposit, and a big tailwind, Search Minerals seems to have all the ingredients for a potential major upward move in share price.