

# Molycorp – The Great Rummage Sale begins



It is sometimes said that after a nuclear holocaust the only lifeform that will survive will be the cockroach. That said there are some hardy cockroaches indeed in the Rare Earth space. Indeed some managements must be almost masochistic in

persevering despite the opprobrium heaped upon the metals they pursue and their own companies. Nevertheless Darwinian forces are at work and the original 200 plus Rare Earth wannabes have shrunk to a couple of handfuls. These are definitely the cockroaches..

But one may well wonder whether it is much fun to live in a post-nuclear world. What is the future for the survivors?

## **All the Right Pieces in All the Wrong Places**

The US Rare Earth “giant”, Molycorp, is now a wounded beast and is going down fast. The hyenas are circling and the question is what value can be rescued from the ruins.

In popular imagination Molycorp is a mine with a processing plant, but long before that it was an agglomeration of assets including some small manufacturers scattered around the globe and some larger assets such as the Silmet plant in Estonia. It then transformed itself with the pricy purchase of Neo Materials which brought it a processing and distribution Empire which also included assets in other metals, such as Gallium. So while the Mountain Pass mine itself may have gone the way of the dinosaurs, and much of the costly infrastructure around it appear redundant, there is still

value to be rescued from the broader Molycorp empire.

As we well know the Neo Materials entity did very well all by itself in the Great Rare Earth Boom. It did not need to be vertically integrated with a mine (though there are some arguments that it may have inevitably been forced into that if China has applied the thumbscrews). However the Molycorp merger resulted in it being part of the same corporate grouping as a mine but was it actually vertically integrated? Was Silmet vertically integrated with Mountain Pass? Silmet's raison d'être was to process product from the Loparite mines in Russia's Kola peninsula, not to take product from the Californian desert.

We have all played Monopoly at some time or another with one of those players that buy whatever property they fall upon and they end up with a ragbag of assets and no sets of properties that you can take further (i.e. build houses or hotels). Molycorp's strategy was akin to this. It had some interesting "bits" of the global Rare Earth equation and while Neo Materials was like Monopoly's Park Lane card, Mountain Pass was definitely more like the Old Kent Road card.



So what might play out here? Clearly Mountain Pass is likely to return to being a playground for rattle snakes and

jackrabbits. It is a great shame that so much above-ground infrastructure is there that shall be surplus to requirements. It has long been my contention that Molycorp should have had a second string to its bow in the form of a smaller Heavy REE focused mine somewhere. If it had done this then the existing processing facilities could have been utilized, repurposed and/or relocated to service a new mine with a more market-amenable REE mix. Instead we have a sizeable plant in the wrong place, designed for the wrong REE mix and arguably way over-sized for whatever "new" REE mine might be able to supply it.

### **So Who Gets What?**

The emotions of Molycorp management must be torn. Most coming from the old Neo Materials are probably wondering how they can get their hands on their old assets and ride off into the sunset. Possibly even Silmet and the other "early" acquisitions of Molycorp could be bundled with the Neo Materials processing and distribution network and make some sense. Ideally a private equity firm might back the escape bid giving the MCP debtholders some "widow's mite" to, in some small way, compensate them. The question though is what happens to the mine (essentially useless) and the plant at Mountain Pass. This is where opportunity knocks. But it is also a test of the credibility of the remaining REE *cucurachas*.. We could conjure with at least 4-5 names that could "do something" with the MCP mill and plant, if only their own projects were in a state to move forward. Even more critically though the managements would have to be serious about becoming producers. Conceivably an owner of a North American REE mine project could make a case to the debtholders for knocking together their mine with the Mountain Pass kit and making a more viable concept than the original Molycorp proposition. Why are they not stepping forward for this once in a decade opportunity?

On other fronts, the Silmet asset is looking vulnerable with

its Russian supply source exhausted and its US "source" (even if merely theoretical) being shuttered. Then what to do...? The answer is for a combine between Tasman with its Norra Karr deposit in Sweden and the Silmet plant just across the water. Will this happen? We doubt it.. makes too much sense...

## **Conclusion**

Rare Earth assets may be at giveaway prices these days and Molycorp may look like a doomed wildebeest, but there is material here to make a silk purse out of a sow's ear. The core Neo Materials assets are largely intact within the stricken corporate shell and the secret is going to be to apply some financial wizardry to liberate them without letting the debtholders realise the value of what they have. Even the rump Mountain Pass processing operations could be combined with an existing project and given renewed life force. Silmet is somewhat more problematical but a combine with a European-based REE wannabe could give both parties a well-needed fillip.

Fortune favours the bold and the travails of Molycorp are producing a unique opportunity to other Rare Earth players to become hyenas and pick over the bones for tasty morsels.