

Neo Performance Materials Establishes a Brighter Future with New Permanent Magnet Plant in Estonia

written by InvestorNews | September 13, 2023

They say in tough times it makes sense to make acquisitions and expand the business ready for the cyclical upturn that inevitably follows. Well, that is what today's company is doing with a new acquisition, a new investment, and the commencement of construction of a new permanent magnet facility.

Neo Performance Materials Inc. (TSX: NEO) ("Neo")

[Neo Performance Materials](#) manufactures advanced industrial materials including magnetic powders and magnets, specialty chemicals, metals, and alloys. These products are critical to the performance of many everyday products and emerging technologies.

Neo has recently acquired 90% of SG Technologies Group Limited, invested to acquire 44% of Neo North Star Resources, and completed the groundbreaking for a new permanent magnet manufacturing plant in Narva, Estonia. They also delivered a record [Q2 2023 revenue](#) of US\$170.4 million, albeit with lower adjusted net income for the quarter.

SG Technologies Group Limited's 90% acquisition

As [announced](#) on April 18, 2023, Neo has agreed to acquire 90% of SG Technologies Group Limited ("SGTec") for "an initial payment of £10.8 million (US\$13.4 million) plus future earn-out considerations of between 0 and £5.4 million (US\$6.7 million) based on Adjusted EBITDA performance over the SGTec's fiscal years 2024 through 2026." SGtec is one of Europe's leading advanced, specialty manufacturers of rare earth and other high performance magnets. The announcement [stated](#):

"Today, SGTec produces a variety of high-performance magnets and magnetic assemblies for some of the world's leading brands in electric and hybrid vehicles, multi-fuel and medium-duty engines, hydrogen fuel cell vehicles, off-highway fuel systems, automotive systems, and consumer electronics. It is recognized as a leader in the production of fully dense bonded neodymium-iron-boron ("NdFeB") magnets, soft magnetic composites (used in high-speed solenoids and electric motor applications), and other high-performance magnets."

A summary of SGTec's business – now 90% owned by Neo Performance Materials

Your partner for engineered magnetics solutions



Magnetics Excellence

Magnetics is at the heart of everything we do.

[Learn more](#)



Be part of the Future of Magnetics

We are seeking new talent to join our team.

[Learn more](#)



Sustainability

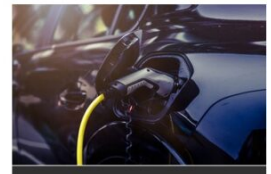
Sustainability is at the forefront of our business.

[Learn more](#)



Advanced Production Technologies

We design and build bespoke production solutions.



Transport Electrification

Our products help power some of the world's most technologically advanced electric motors

Source: [SGTec website](#)

Investment to acquire 44% of Neo North Star Resources

In Q2, 2023 Neo completed an investment of [~US\\$4.5 million for a 44% stake](#) of Neo North Star Resources Inc. ("NNSR"), including an off-take agreement of 60% of the product produced. NNSR is a JV between Neo and North Star Resources which owns the license for the Greenland Sarfartoq Rare Earth Project. Neo's plan is for the Project, once in production, to be a source of neodymium and praseodymium ("NdPr") for their Estonia rare earth separations plant.

You can read more details [here](#) about the Neo North Star Resources Inc. JV and the Greenland Sarfartoq Rare Earth Project [here](#).

Permanent magnet manufacturing plant in Estonia

As [reported](#) on July 7, 2023, Neo has commenced construction of their European permanent rare earth magnet Plant in Estonia.

Interestingly the Plant will recycle end-of-life magnets to make new permanent magnets. High-purity magnetic rare earth oxide feed will come from Neo's existing rare earth separations plant in Estonia. Once in operation, the two Neo plants will form Europe's first and only fully integrated supply chain for sintered rare earth permanent magnets designed to produce specialized rare earth permanent magnets for use in electric vehicles, wind turbines, and other clean energy technologies.

Neo [state](#):

"Phase 1 production of 2,000 tonnes/year is slated to begin in 2025, an amount that can support the manufacturing of ~1.5 million electric cars. Neo's expected Phase 2 production of 5,000 tonnes/year can support the manufacturing of ~4.5 million electric cars."

Given the [typical forecasts](#) for global plugin electric cars is an increase from ~14 million pa in 2023 to ~24 million pa by the end 2025 and ~50 million pa by the end of 2030, there should be enormous demand for permanent rare earth magnets, even if some cheaper EVs choose to use inferior magnets. Added to this will be all the other demand areas such as wind turbines etc.

The recent groundbreaking ceremony of Neo's new rare earth magnet manufacturing facility in Estonia, Europe (set to begin in 2025)



Source: [Neo news July 7, 2023](#)

Record Q2 2023 revenue, but lower adjusted net income

As [reported](#) on August 11, 2023, Neo achieved record Q2 consolidated revenue of US\$170.4 million compared to US\$168.2 million for the same period in the prior year; an increase of \$2.2 million or 1.3% YoY. Adjusted Net Income was US\$2.5 million (US\$0.05 per share), down from US\$15.9 million (US\$0.39 per share) in the corresponding period of the prior year. Neo ended Q2, 2023 with a cash balance of US\$126.9 million, after funding acquisitions and investments of \$16.1 million, distributing \$6.7 million in dividends to its shareholders, and repurchasing \$1.2 million of shares.

[New Neo Performance Materials CEO](#), Rahim Suleman, [stated](#):

“Despite the subdued market environment for rare earth magnetism, and continuing lead-lag pricing challenges that we must navigate, our top-line performance was helped by high

volumes for value-added rare earth products outside of China. This performance generated healthy cash from operations and free cash flow, which allowed us to fund the acquisition of SG Technologies Group Limited, the investment in Neo North Star Resources, and the groundbreaking for our permanent magnet manufacturing plant in Narva, Estonia. Neo continues to be well positioned to execute our future growth initiatives."

Closing remarks

Neo is using the tough current market conditions to grow their business ready for the next cyclical upturn. Neo has done this via a clever acquisition and investment, combined with pushing forward on a new permanent magnet plant in Estonia. The current subdued demand for magnet products (typically used in powerful electric motors such as wind turbines and electric vehicles) will turn around at some point. And when it does Neo should potentially be better positioned than where it was before we entered the current global slowdown, at least in terms of its product lineup and supply chain.

Neo Performance Materials trades on a market cap of [C\\$393 million](#).

Under the Hood with a rare earths' products manufacturer

that is consistently profitable and cashed up

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Apparently, my “watchlist” is far too large these days. When I circle around to have a look at some of the names on the list, I’m often shocked by the progress they’ve made since the last time I looked at them. Fortunately, in some cases, I can potentially still purchase the stock at a price comparable to the last time I reviewed it, despite its success in the interim. Today is a great example of this. It’s a stock that I last [wrote about](#) in June 2021. Since that time the Company has continued to grow its revenue and be profitable, increased the cash on its balance sheet, pays a quarterly dividend and yesterday closed 6.5% lower than it was trading at the beginning of last June.

That company is [Neo Performance Materials Inc.](#) (TSX: NEO), which is currently trading at 17x trailing 12-month earnings, has a 2.5% dividend yield and over \$2/share of cash sitting on the balance sheet. These may not seem like outstanding metrics for an industrial stock as compared to its peers but Neo Performance is not like its industrial peers. They are sitting squarely in the driver’s seat of the green revolution. Neo manufactures the building blocks of many modern technologies that enhance efficiency and sustainability. The Company’s advanced industrial materials – magnetic powders and magnets, specialty chemicals, metals, and alloys – are critical to the performance of many everyday products and emerging technologies. Neo’s products are used in numerous end-use applications including micro motors, traction motors, auto catalysts, water pollution controls, healthcare (such as medical imaging), aerospace, clean energy technologies (such as HEVs and EVs), consumer electronics (such as smartphones and tablets), fiber optics, HDDs and a number of

other applications.

Not only is Neo involved in the manufacturing of materials integral to a sustainable future, but there's also the old real estate adage – location, location, location. The Company's Estonian facility is the only commercial producer of rare earths in Europe and one of only two producers of aerospace-grade tantalum and niobium in the EU. A key business focus is to meet the rapidly growing demand for magnetic rare earths in Europe, which are needed by electric vehicles and high-efficiency electric motors. Neo is partnering with industry and government leaders across Europe with an aim toward helping establish production in Europe of sintered neo magnets to help meet demand using rare earth feedstock from North America and elsewhere outside of China. If you are like me and that last sentence is a little over your head, I encourage you to go to the Company's [website](#) and click on all the "Learn More" boxes. It's pretty fascinating stuff, even if I still didn't understand a lot of it.

As bullish as this sounds, coupled with a track record of success and growth over the last couple of years, I can see a couple of things that may account for the uninspired performance of the stock price of late. The first is that 37% of corporate revenue in 2021 came from Chinese customers. With China's zero tolerance COVID policy and lockdown after lockdown making the news headlines, investors may wonder if Q1/22 financials might be impacted. They might, but that is somewhat short sighted in my opinion. Yes, I realize COVID has been annoying us for over 2 years now, but the world is adapting and starting to get on with life. It's possible there could be an impact to Q1 numbers but if there is, I would simply view that as a buying opportunity if the stock were to sell off (assuming this was the sole reason). Secondly, investors might be concerned that Estonia is a neighbor of Russia and formerly part of the USSR, which Putin

seems to want to reunify. However, Estonia is part of NATO (and the EU), and thus not likely to be in Putin's sights anytime soon as I'm pretty sure he doesn't want to stick his hand in that hornet's nest, especially given how poorly things are going for him in Ukraine at present. So without trying to understate the atrocities and humanitarian crisis going on in Ukraine, I personally don't view there to be much, if any, risk to Neo's Estonian assets.

As the market is tending to drift towards value and industrial stocks with the specter of rising interest rates making investors second guess the multiples applied to tech stocks, assuming they even have earnings, one could question why Neo's stock price is trading far closer to its 52 week low instead of its 52 week high. Even if it were considered a "show me" stock, I would suggest looking at the last 4 (or more) quarterly earnings and question what else investors might be looking for. Net income, positive cash flow, virtually no debt and a 2.5% dividend yield put Neo Performance on a pretty good footing. Then consider the upside of the business segment they are involved in and one can make a strong case for taking a closer look at Neo Performance Materials.

**Neo Performance Materials
looks to expand capacity as it
rides the tailwind of growing**

rare earth permanent magnet demand

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Demand for rare earth metals and magnets has been very strong in 2021, boosted by an approximate [100%](#) surge in electric car sales so far in 2021. This means that companies that sell the valuable magnet metals such as neodymium and praseodymium (NdPr) are doing very well, as NdPr (the combination is called “didymium” in the trade) is used to produce high performance neodymium, iron, and boron (NdFeB) magnets, used in many electric cars today.

[Neo Performance Materials Inc.](#) (TSX: NEO) (“Neo”) is a rare Western company that processes natural rare earth mixtures to produce individual high value separated rare earth chemicals, then uses them to produce rare earth fine chemicals, metals, alloys, and “bonded” rare earth permanent magnets. Neo summarizes well when they [state](#):

“Neo is the only company in the world that operates dual supply chains inside and outside of China for REE separation and REE advanced materials. Neo owns the only operating commercial rare earth separation facility in Europe.”

Neo operates globally with sales and production [across 10 countries](#) including: Japan, China, Thailand, **Estonia**, Singapore, Germany, United Kingdom, Canada, United States, and South Korea.

Neo Performance Materials global operations



Source: [Neo Performance Materials investor presentation](#)

Neo explores a possible expansion, and new production of advanced rare earth element products in Estonia

As [announced](#) on November 17, 2021: “Joint Communiqué in Support of Expanding Valued-Added Rare Earth Product Manufacturing in Estonia. A joint effort between the Estonian Ministry of Economic Affairs and Communications and Neo Performance Materials has been launched **to explore a possible expansion of Neo’s current production of advanced rare earth element (“REE”) products in Estonia, and well as to potentially launch new manufacturing of REE-based metals, alloys, and magnetic materials** for use in electric vehicles and other green technologies.”

The timing to expand in Europe is perfect given the massive rise in European and global EV sales. For example, Europe’s electric car sales were [184,000](#) in October 2021, up 26% YoY, reaching 23% market share. Germany reached [30%](#) share, France [23%](#), and Netherlands [35%](#) share in October 2021. It also times nicely with Tesla beginning electric car production at Giga Berlin in 2022.

Only a day earlier on November 16, 2021, Neo [announced](#): “Completion of \$100.66 Million Bought Deal Treasury and Secondary Offering of Common Shares....The Company issued and sold from treasury an aggregate of 2,598,000 Common Shares at a price of \$19.25 per share for total gross proceeds to the Company of approximately \$50.01 million.”

The above announcement does not mention what the \$50.01 million will be used for; however, it seems to me more than just a coincidence that only a day later Neo announced their Estonia expansion plans. I will let the reader draw their own conclusions.

Neo continues to produce strong financials in 2021

In 2021 Neo continues to deliver strong YoY revenue and income growth; albeit revenue and adjusted net income were slightly lower than last quarter.

As [announced](#) on November 8, 2021, Neo reported Q3 2021 revenue of US\$119.8 million, higher by 53.9% YoY. Volumes in the quarter of 3,523 tonnes improved by 16.1% YoY. Adjusted net income was US\$9.8 million, or \$0.26 per share.

This compares to [Q2 2021 results](#) of revenue of US\$135.1 million up 99.5% YoY and adjusted net income of US\$14.1 million, or US\$0.37 per share.

Neo Performance Materials financials summary quarter by quarter from Q2 2020 to Q3 2021



Source: [Neo Performance Materials investor presentation](#)

More about Neo

Neo is a processor and manufacturer of advanced industrial materials including rare earth metals, alloys, and “bonded” rare earth permanent magnets, specialty chemicals, technology metals, and alloys. Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and greater use of superalloys.

Global rare earths expert Jack Lifton’s view on Neo:

“Neo Performance Materials is today, the only Western company that is vertically integrated with the capability and commercial scale capacity to separate the rare earths, manufacture rare earth metals and alloys, and manufacture rare earth permanent

magnets. It is the non-Chinese model for any venture seeking to enter or assemble a total rare earths permanent magnet supply chain."

Closing remarks

While companies such as Tesla get all the headlines, did you know that Neo's stock price is performing better than Tesla in 2021. YTD in 2021 Neo Performance Materials stock price is [up 62%](#) compared to Tesla [up 46%](#).

The other key difference is Neo trades on a PE of [14.8](#) compared to Tesla on a PE of [302](#). Both stocks are being supported by the booming EV trend, just one is many multiples cheaper (based on current PE ratios).

Investors would be wise to take a deeper look at Neo Performance Materials especially now while they trade on a reasonable multiple and look set to expand in Estonia.