

Rumors of a Molycorp takeover make for interesting Speculation

☒ Molycorp was no doubt anxious to welcome the New Year. 2012 was not kind to the Company, whose market value dropped by more than 60%. In January 2012, investors had to pay USD\$ 30 for one share Molycorp (NYSE: MCP). On New Year's Eve 2012, that same share was worth less than USD\$ 10. That last value does not even represent the bottom: far from it. The lowest value of the year for MCP was USD\$ 5.75. If the stock prices were disappointing, MCP also had to confront higher than expected mine construction costs and SEC investigation and the 'resignation' of its highly visible CEO Mark Smith under unclear circumstances. Nevertheless, Molycorp is still operational and it has an opportunity to gain ground in the Chinese magnet market itself thanks to its control of the Magnequench patent, which enables it to use rare earths powder to produce neodymium-iron-boron magnets. Molycorp can therefore benefit from markets associated with downstream finished products used in hybrid vehicle motors and batteries, wind power generators, rocket guidance systems and several known and as yet unknown applications.

Molycorp, moreover, is still one of the principal rare earths players in the 'West'. This alone makes it valuable and there are many companies interested in reducing their dependence on Chinese suppliers of rare earth materials. Accordingly, some analysts have suggested, notably in an article published on January 2 ([click here](#)), that Molycorp is ripe for a takeover. Wall Street appears to have considered this suggestion with interest, because Molycorp's shares gained some ground on January 2, jumping to USD\$ 11.35/share at opening and closing at USD\$ 10.25. Molycorp detractors and Molycorp takeover skeptics might bring up the fact that Molycorp is not yet a

'ripe' enough fruit for the picking. Molycorp is still developing its mine; it has not proven being capable of producing heavy rare earths and it is still experimenting or refining a new rare earths processing technology. In other words, MCP might present more risk than opportunity.

The market, nevertheless, has spoken with its own voice, boosting the stock value, indicating that the takeover rumors should not be dismissed and that the suggestion has some merit. Indeed, problems and all, Molycorp has valuable assets that are worth more than its current market value thanks to the Mountain Pass mine in California and the former Neo Material Technologies processing facility that MCP bought at a price of over USD\$ 1 billion. The buyer might consider the logic that at present stock market values, Molycorp is twice as sophisticated as it was two years ago, when its share price was six times the current one, at less than half the value that it was last year. Some big companies with revenues rivaling the GDP of a small European country might even consider Molycorp a bargain.

Among the companies seen as interested in taking over Molycorp are Nissan, Hyundai and Siemens. There have not been any rumors from Nissan on the matter, nor has Siemens commented; nevertheless, if Siemens were interested, why not General Electric or even one of the large defense contractor, especially those involved in manufacturing guided missiles such as Raytheon? Meanwhile, the dark horse might be Hyundai, the world's fifth-biggest automobile manufacturer. The Company's articles of incorporation state a deliberate goal to develop and build eco-friendly and fuel efficient vehicles. Hyundai has targeted weight reduction as one of its main approaches to achieve this goal and in 2011 it advised its intention to "vigorously secure rare earths and other rare resources".

Hyundai sells hybrid models in the United States and is aiming to build and sell full electric vehicles in 2013, using its

'BlueOn' technology. Hyundai's competitor Toyota (through its trading arm Toyota Tsusho Corp) has already partnered with the Indian government to build a rare earth processing plant in India, securing some 3,000 to 4,000 tons or REE's a year, needed to make batteries and other components. Hyundai has a research facility in California, not 160 miles from Mountain Pass. A Hyundai – Molycorp union would make sense after all. Of course, this is all conjecture for the time being, but there is sufficient evidence to warrant the speculation, making Molycorp one of the big plays to watch this year.