

Lynas defies market to become a super metal heavy weight

It's hard to believe that only a year ago, the fate of Lynas Corporation (ASX: LYC | OTC: LYSDY) ("Lynas") hung in the balance; debts had mounted, Malaysian operations were troubled with opposition, and the market for rare-earth elements (REEs) had never been in worse shape. Today, the company proudly wears the crown of the largest producer outside of China, and as prices begin to recover amid the Chinese crackdown on illicit mining practices, Lynas now reports positive cash flow and record operating efficiency; talk about a turnaround!

The company has been busy undertaking three years of continuous operational improvements and cost management, positioning Lynas to take advantage of the upturn in the rare earths market. This month, the company's quarterly activities report makes for delightful reading, having reached the level of largest supplier of NdPr to the free market with invoiced sales revenue of A\$75.6m for the quarter, and producing their neodymium and praseodymium products at above design rate, with 1,343 tonnes for the quarter, up 17.6% on the June 2016 quarter.

China's asking price for NdPr is being driven higher and higher by continued strong demand for magnetic materials and the effects of the China central government's initiatives to enforce stricter environmental controls. Lynas increased cash flows from operating and investing activities to A\$15.8m from A\$11.6m in the previous quarter, and given that the NdPr price trend is expected to continue in the near term, the company's position should only become stronger throughout 2017.

Neodymium and praseodymium are the company's primary focus. The magnetic elements are experiencing increasing demand due to the rise in the use of magnetic motors in modern

technologies such as electric vehicles and wind turbines; two areas in which significant growth is expected over the next decade. In fact, since many scientific groups began warning that carbon emissions must become negative as a matter of global urgency, interest in wind farming has been fueled even further, and some have even predicted that all new vehicles manufactured will be electric by 2030. It seems that the only way really for Lynas is up.

On top of the critical NdPr product, Lynas also produces cerium and lanthanum products which complement its operations. Lanthanum remained in high demand outside China this year, especially for high performance ferrite magnets and NiMH batteries, and all lanthanum produced by Lynas in this quarter was sold. The company also made significant quality improvements to cerium products, allowing them to increase their share of the catalyst and UV cut glass markets. In addition, Lynas have started developing new customized grades for niche applications in order to attract higher prices.

This continued refinement of practices and products is what has kept the company above water during the harsh times of the last half-decade, and there is nothing to suggest that Lynas will change tracks anytime soon. The company enjoys a rare position in that 100% of its assets are commissioned; nothing is sitting on the back burner. Given the hard-won top-dog status the company has achieved, shares are an absolute bargain right now at only A\$0.10, and looking forward, it appears that the next few years will be far more fortuitous than the last for this miraculous survivor of some the harshest market conditions we've ever witnessed.