

Diversification and Dividend Paying, a Winning Strategy for Critical Minerals Leader Neo Performance Materials

Perhaps the most fundamental idea in the world of finance is diversification. Every financial planner in North America will tell you it's the key to a healthy portfolio since more diversification equals less risk.

In fact, the simple concept of diversification explains why venture capitalists are among the wealthiest people you know. Although they tout their ability to pick "winners," their real competitive edge is diversification. They invest in 100 companies, watch 90% fail, and make lots of money on the other 10%.

Wouldn't it be great if we could apply this same concept to the critical minerals world? That is, diversify our bets across dozens of companies, dozens of metals, and dozens of applications.

It turns out that this can be done. There is in fact a company that could potentially allow us to ride the projected growth in critical mineral demand, and to benefit from the associated rise in prices... but also remain highly diversified.

Enter Neo Performance Materials Inc. (TSX: NEO), a mature, profitable, dividend-paying company that is a standout, for many reasons, in the critical minerals space.

First, consider this financial profile of the company as of Q1 2022:

Ticker	Mkt Cap	Cash	Operating Inc	P/E	Dividend Yld
NEO	\$498m	\$62m	\$38m	7.96	.4%

Wow... a real company with real profits and a real balance sheet. Plus, it pays a dividend and trades at a bargain P/E ratio. This could be love!

What does NEO do to generate this sort of financial performance? In layman's terms, they process unrefined rare earths into high value, separated, rare earth chemicals, which are then used to produce metals, alloys, and "bonded" rare earth permanent magnets (a bonded magnet is one that includes a bonding agent, which allows the molding of magnetic powder into unique shapes).

These activities are carried on through three business units: Magnequench, which focuses on neodymium-iron-boron magnets; Chemicals and Oxides, which manufactures and distributes a range of specialized industrial materials; and Rare Metals, which sources, refines and produces high-temperature metals including tantalum, niobium, hafnium, and rhenium, and electronic metals such as gallium and indium.

Between these three business units, NEO has a broad and diverse customer base spread around the world, including manufacturers of hybrid and electric vehicles, motors of all types, consumer electronics, jet engines, medical imaging equipment, LED lighting, batteries, solar panels, and many more.

And while this understanding of the company's structure is important, it's the financial statements that really capture the imagination. The annotated version is that the company is growing like crazy, and as they do, operating leverage is helping them become more profitable. Consider these statistics for FY 2021:

Division	Revenue	Operating Income	EBITDA
Magnequench	+72.4%	+91.8%	+60.4%
Chemicals & Oxides	+48.4%	+170%	+197.6%

These are numbers that stock market dreams are made of.

Although our discussion thus far focuses on NEO's operations, it leaves out an important detail. NEO is the only company in the world that operates dual supply chains inside and outside of China for rare earth element separation and advanced materials, and owns the only operating commercial rare earth separation facility in Europe.

This means the company is at the very heart of the West's scramble to wean itself from China's dominance in critical minerals, a strategic perch that creates a unique intangible: the entire western world would like to see it succeed.

At the end of the day, NEO brings together some very powerful competitive strengths. Perhaps the biggest is that although it will benefit on the margin from rising rare earth prices, its real leverage is in rising *volumes in rare earth processing*. Between the scramble away from China and the projected demand for rare earths in the green economy, a bet on rising processing volume may be about as good as it gets.

As for investors, NEO's most attractive feature may also be the simplest – diversification. Their exposure to hundreds of customers around the world, dozens of different critical minerals, and dozens of applications for those minerals diversify away both business risk and market risk. Think of NEO as a prudent investor's bet on the future of critical minerals.