

# Lifton on Molycorp rumors and 'zombie' investors

Molycorp, a symbol of the great awakening of Rare Earths in the American domestic market, has now run into a perfect storm of "bad stuff" that threatens to potentially blast the cause of Rare Earths production back by a decade rather than expedite Western independence from Chinese dominance. In retrospect we can say that the very foreseeable consequence of globalization of Western economies, and expediency in the assessment of what minerals are deemed strategic, has been this sorry pass. The main losers will be the domestic economy and the strategic interests of the US and the West.

The company made, in my humble opinion, a timely appearance on the scene just as the genuine fears for American economic and military security were soaring. This gave it the opportunity to play the critical resource card at the most fevered point in that game. The very foreseeable negative consequences on our domestic economy from the current wave of globalization is the 'concern' that Molycorp may be in for another bout of highly disruptive, and potentially transformative, debt restructuring negotiations, as reported by Debtwire on the 21<sup>st</sup> of January. Hot on the heels of this S&P downgraded its debt to CCC, from CCC+, on the view that the company has an unsustainable capital structure and that its liquidity position will continue to erode over the next 12 months. Ominously the outlook was revised to negative, from developing.

Far be it for us to say that the Molycorp house of cards will fold (or be reshuffled). We can only go on the fact that a seemingly endless series of quarters with sizeable losses have gone by, and the company is saddled with debt that many deem to be beyond any rational level of being able to be repaid

from revenues if the current earnings trend persists. Meanwhile, the company's share price has lost 99.5% of its "value" created since its high point in the speculative manufactured rare earths price boom of 2011.

Molycorp the core asset of which is a hugely expensive mining operation (for what it is and what it can produce) and a vastly oversized processing plant has run out of reasons to keep its doors open by continuing to produce products (lanthanum and cerium in particular) that are available at lower prices elsewhere.

The right size for any business is the one where the break-even number, the lowest revenue at which it can still make a profit, is consistent with its share of the market in the worst of times. The only survival technique for a company is to deliver on time, to spec, the quantities ordered at the price agreed. Any deviation from this simple procurement officer's mantra makes a company an unreliable supplier to be given no slack if it is even given a second chance.

Like all natural resource markets the rare earths' markets (the key words here are earths and markets, distinct and plural markets!) grow rapidly when and where the GDPs of the industrialized or industrializing countries that use them grow in the same fashion. Overall world markets for anything grow in proportion to the growth of the overall world economy. This simple observation seems to have been overlooked by most individual investors in the case of the rare earths, but I believe that it was not helped by the marketing departments of investment banks that did not know much about Rare Earths, let alone the arcane subject of the mining and processing thereof. The seal of approval for the business plan for incoming investors was that its existing major shareholders (in its private guise) were impeccable financial institutions and a large trading house that attempted to re-create the Molycorp of 1984. Alas they were did not have amongst their abilities the wherewithal to recreate the global marketplace of 1984.

When a bubble is forming much of the analysis is of the “this time it’s different” type only. Billions of dollars, on paper, were made by those investing millions of dollars ostensibly to restore American self-sufficiency in the production of the rare earths and in that way to support the security of the supply of these materials to American domestic manufacturers. It is a struggle to give a Hail Mary Pass to the original promoters in saying that they did not understand either the rare earths markets or the rare earths supply chain.

Now that the American investing public has noticed just how complex the rare earths markets are and how little firepower is brought to the global resource agenda by a lightweight such as Molycorp Wall Street’s carnival barkers are pulling the act from their big top.

I do not really care who lost money in the Molycorp “game.” I do care about those few remaining professionally managed junior mining ventures trying to produce the necessary and critical rare earths to re-lay the foundation of an American, European, and (non-Chinese) Asian domestic rare earth supply chain by profitably producing the right rare earths in quantities the market needs and will need in the near to mid-term when that market is measured by global GDP and by a supply and supply chain secure enough to allow long term planning of industrial production.

My advice is forget instant riches made by daily stock trading; the game is rigged. Secure a long term return by smart investing.

My choices of companies with the highest probability of going into production profitably and staying in business producing the rare earths outside of China are informed by what I know from experience in the rare earths markets and what I have followed intensively for the last decade. If a company is not on my list it means that either I do not consider it viable or that I do not consider it at all, because I know nothing about

it. The latter category covers those companies in regions of the world that I have not visited (Kazakhstan, for example) or that I simply am not aware of.

My choices are skewed towards ventures that have as a goal the production of the critical rare earths, primarily beginning with praseodymium. I think that the light rare earths, cerium and lanthanum, truly belong to the class of commodity technology metals not of rare technology metals. This means that I think that they are plentiful and in oversupply even now. Additionally, I place value on long term issues such as choice of downstream process technologies; choice of entry point downstream into the market; and target markets and individual target market companies. My choices include the professionalism of management and are quality picks in the rare earth markets if profitable production and continuing production is the long term goal.

Note also that light rare earths, if ever additional supplies are needed to be produced outside of China, will be produced by existing senior mining companies from their current deposits.

If you think you can get rich quick by "smart" trading in the shares of dead companies and you are not an elite with access to other people's money then you are a zombie lover, and I personally have nothing to say to you and nothing at all in common with you.

Now as to lithium and graphite...*we'll save those topics for next week.*