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Licence to crow over Lynas's rock-solid support

TIM BOREHAM THE AUSTRALIAN SEPTEMBER 06, 2012 12:00AM

THE rare-earths producer's shares are set for an atomic-strength boost this morning after the Malaysian government issued a long-awaited licence for Lynas to crank up its controversial processing plant for material imported from its Mount Weld mine in Western Australia.

Lynas Corp (LYC) 59.5c

"We are expecting to seed the plant with its first concentrate in October," chairman Nick Curtis says.

Lynas shares had slumped amid fears the government, which faces an election, would not give the go-ahead, despite the plant already being approved by the Malaysian Atomic Energy Licensing Board and also a parliamentary scrutiny procedure.

The plant has been bitterly opposed by environmentalists and community groups.

Given that Lynas has spent $900 million on the completed plant, rejection would been a major blow -- perhaps a fatal one.

Fearing the worst, once-supportive brokers deserted the stock, but your columnist can crow that he was a rock of (qualified) support through the saga.

Lynas plans to produce 11,000 tonnes a year in the first phase, worth $3.3 billion at current prices. First cashflow is expected from the December quarter.

Curtis insists it would be impossible for a new government to change the law in order to stymie the plant down the track.

Hastings Rare Metals (HAS) 13c

LYNAS'S Curtis says: "We believe there is a net shortage into the future of rare-earths."

Mind you, some experts think the rare-earths boom has run its race, a notion this WA junior is keen to rebut. On the back of a scoping study, Hastings yesterday declared a "strong business case" for its eponymous project in the Kimberley region.

According to chief executive Alastair Metcalf, the project would account for 6 per cent of the world's yttrium and 10 per cent of dysprosium (used for making magnets stronger). Dysprosium is a 1300-tonnes-a-year market, dominated by China.

The dysprosium price stands at $US950 a kilogram, well off the 2009 peak of $US2000, but much better than 2008 prices.

The study costs the project at $720m, plus a $96m contingency.

"It's a fair amount of money but we think we've got something very special," Metcalf says.

Unlike with iron ore, the Chinese (which account for 95 per cent of rare-earths production) are cutting back exports and stockpiling. And it wasn't too long ago they were capturing Japanese fishing boats in a high-seas dispute relating to rare-earths access.

Investors have to be wary about treating the sector as a whole because there are light rare-earths (the stuff Lynas plans to produce) and the heavy variety, which is meant to be even rarer than the light material. In the wake of the sector's strong run, some experts believe both varieties are not as rare as the proponents want us to believe.

Our spec buy call on Hastings at 35c in March last year looks a bit sickly, but true believers should hold for a rare treat.

Dart Mining (DTM) 9.8c

CRITERION is loath to resort to cliche, but you learn something new every day, and yesterday's lesson was that the steel-hardening ingredient molybdenum is a form of rare-earth.

As with other rare-earths, the moly market is tight at about 250,000 tonnes a year. At $US12.50 a kilogram, the moly price is well off its peak but has fared relatively well.

Dart yesterday said it had doubled the resource at its Mount Unicorn prospect -- just out of the northern Vic town of Corryong - to 203 million tonnes, half of which is in the most reliable measured category.

"We now have a resource which gives us the size and substance to be around for 20-plus years," chief executive Lindsay Ward says.

Of course, there's a few bridges to cross, notably funding the $300m-$330m development costs aimed at an operation of 5-10 million tonnes a year, producing 2800-3200t of moly and also silver and copper.

Ward claims Unicorn would be relatively low cost because of a low strip ratio and a cheaper workforce relative to bloated WA standards. Funding aside, a key obstacle is government planning approval in a state that is far more densely populated than WA.

Given Fortescue's experience with a $US120a tonne "floor" price, we're reluctant to mention moly support levels, but Ward reckons $US12-$US13kg is the level where marginal producers exit.

Speculative buy.

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