

Neo Performance Materials Acquisition Positions it to Benefit from European Rare Earth Magnet Demand

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If you believe some of the strategic minds at [Tesla](#) (NASDAQ: TSLA), then rare earths may no longer be required in future EV motors. At last month's investor day, Franz Von Holzhausen, Lead Design Executive at Tesla Motors, announced that its next generation of electric motors would not use rare earth materials. The motivation is understandable as Tesla looks to avoid processes with potential environmental and health risks, as well as keep costs down by reducing or eliminating commodities that can be at risk of wild price swings. But let's face it, the whole reason for moving towards EVs is to end the carbon-emitting, fossil fuel consuming internal combustion engine's (ICE) impact on the environment. And despite what anyone says, we are still a long way from achieving that goal. Additionally, as Jack Lifton pointed out in [this article](#), Tesla is not the driver of the global demand for rare earths.

Neo Performance Materials

Suffice it to say, I don't think we need to worry that the trajectory for rare earths demand is going to change anytime soon. It might someday in the future, but I suspect you could potentially be missing out on many opportunities as an investor if you take Tesla's prognostication to heart and abandon all exposure to rare earth investments right now. And one of those opportunities can be found in the form of [Neo Performance](#)

[Materials Inc.](#) (TSX: NEO).

Neo plays a key role in the supply chain for rare earths magnet powders and various high-tech metals including the only operating commercial rare earth separation facility in Europe (Estonia). The Company manufactures the building blocks of many modern technologies that enhance efficiency and sustainability including magnetic powders and magnets, specialty chemicals, metals, and alloys.

Neo to Acquire Leading European Magnet Manufacturer

Coming off another [record year for annual revenue](#) since Neo's re-emergence as a public company in 2017, the Company recently [announced an acquisition](#) that will allow Neo to move further along the value chain and expand its specialty manufacturing footprint in Europe. Neo is acquiring a controlling interest in [SG Technologies Group Limited](#) (SGTec), one of Europe's leading advanced, specialty manufacturers of rare earths based and other high-performance magnets for industrial and commercial markets. Neo acquired a 90% interest in SGTec by paying £10.8 million (US\$13.4 million) plus future considerations of up to £5.4 million (US\$6.7 million) based on Adjusted EBITDA performance over SGTec's fiscal years 2024 through 2026. The remaining 10% of SGTec will continue to be owned by members of SGTec's senior management team.

This tuck-in acquisition is very complimentary to Neo's stated plans to invest in a new venture to manufacture and distribute sintered rare earth magnets in Europe. In a [recent interview](#) with InvestorIntel at PDAC 2023, CEO and Director of Neo Performance Materials, Constantine Karayannopoulos, discusses the Company's strong relationships with big-name clients in the electronics and automotive industries, including Tier 1

suppliers and original equipment manufacturers (OEMs) who have asked Neo to turn the existing rare earths production into magnets for motors for drive trains. Neo expects to launch Phase 1 production of 2,000 tonnes/year of neodymium-iron-boron (NdFeB) magnet block in Estonia starting in 2025.

There are primarily two types of rare earths magnets, sintered and bonded, based on the differences in the production processes. Bonded magnets are formed by injection molding, while sintered magnets magnet are formed by high-temperature heating.

Given that SGTec is a recognized leader in the production of fully dense bonded NdFeB magnets, soft magnetic composites (used in high-speed solenoids and electric motor applications), and other high-performance magnets it's not a surprise that Neo made this acquisition to help expand its magnet manufacturing and product development in Europe. SGTec is also known in the industry for its decades-long track record of R&D commercialization and reputation for its exceptional product quality, technical skill, creativity, and product innovation. This acquisition should help Neo increase its exposure to new markets and high-growth applications.

All this speaks to an interesting future for Neo Performance Materials but the question is when does all this promise flow through to the bottom line? Despite [record revenues in 2022](#), income and profit margins were down slightly year over year, primarily due to higher cost of sales and a decline in sales volumes in the Company's key Magnequench segment.

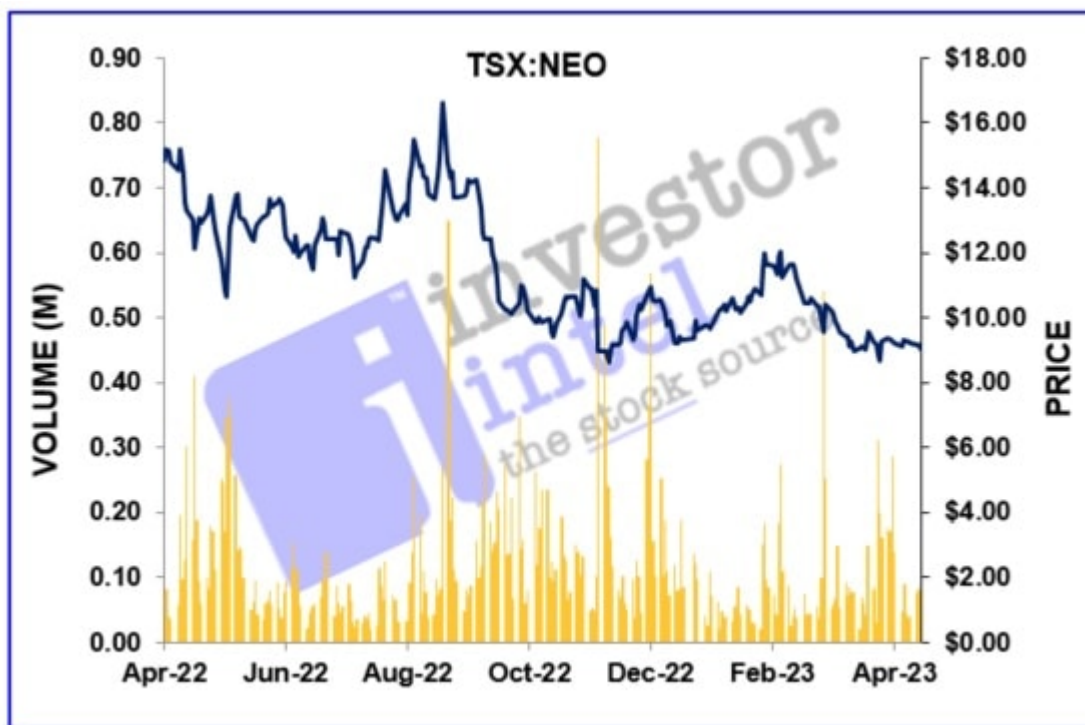
Final thoughts

Is there going to be a recession in the U.S. and other developed countries? Is China turning the corner post-COVID lockdowns?

The Company is well financed at present with US\$147 million in

cash and cash equivalents as of December 31, 2022 (less the US\$13.4 million to acquire SGTec). Technically, the stock is trading close to its 52-week low (currently C\$9.04 versus C\$8.31 low) and appears to be putting in a solid base between C\$8.75 and C\$9.00. Some of the fundamental headwinds (higher cost feedstock inventory) seem to be dissipating. And the reality is, if Europe gets as aggressive as the U.S. when it comes to the source of materials for its EV market, Neo is pretty much the only game in town. Plus, you are getting a 4.4% dividend yield while you wait for Neo to unlock and monetize some of these opportunities. Sure it's not as safe as a GIC/CD, but there could be a whole lot more upside.

NEO Performance – 1-Year Stock Chart



Source: S&P Capital IQ