Neo Performance Materials manufactures high performance materials including very valuable rare earth magnetic powders

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High performance materials, especially those involving rare earths magnet powders, are about to experience a huge demand as several massive macro trends develop this decade. Two of the biggest trends will be electric vehicles (EVs) and renewable energy (notably solar and wind). An important component for the best electric motors is powerful rare earth magnets.

Did you know?

- By 2030, global demand for the two main rare earth metals (neodymium and dysprosium) used in wind turbines and electric vehicles is forecast to grow by 2.1x (that's over 100% growth).
- In a 100% EV world the demand for rare earths is forecast to grow by 655%.

Whilst China dominates rare earths processing and end products, there is one 'Western' company that is globally diversified and not fully dependent upon China.

Neo Performance Materials Inc. (TSX: NEO) manufactures the building blocks of everyday products and emerging technologies, including very valuable rare earth magnetic powders. The Company is headquartered in Canada but has operations in China, U.S., Germany, U.K., Canada, Thailand, South Korea, Singapore, and

Estonia. Neo has over 1,800 staff. Neo is positioned to benefit from key macro trends including vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and greater use of superalloys.

Macro trends that drive demand for Neo's advanced industrial materials

Source: Company investor presentation

Neo's materials deliver a range of powerful properties to the products in which they are used, including magnetic, catalytic, luminescent, electrochemical, thermal stability, and superconductive.

Neo's three main operational segments (with revenue % in brackets) are:

- Magnequench (42%) – Production of magnetic powders used in bonded and hot deformed fully dense magnets.
- Chemicals and Oxides (35%) – Distributes a broad range of light and heavy rare earth functional materials.
- Rare Metals (23%) – Sources, produces, reclaims, refines and markets high value metals and their compounds, such as tantalum, niobium, hafnium, rhenium, gallium and indium.

Neo has a balanced and well-diversified customer base that includes large industrial, consumer electronics and chemical processing companies. A significant portion of revenue contribution is from customers who have been with Neo for 10+ years. As western companies look to diversify their supply chains away from China Neo stands to be a potential winner.

Neo Performance Materials has a diversified and long standing

customer base

Source: Company investor presentation

Neo is a profitable, dividend-paying company with a strong balance sheet and robust cash-flow generation. As you can see in the chart below revenue was impacted negatively in 2019 and so far in 2020 due to the global slowdown from the trade war and COVID-19 pandemic. Naturally the stock price was also impacted; however this is the opportunity for investors.

The current market cap is C$326 million. 2021 and 2022 revenues and margins are forecast to improve on 2020. 2021 forecast PE looks attractive at 14.0 and 2022 is 12.8. Analyst's consensus is an 'outperform' with a price target of C$10.42, representing ~20% upside. Risks revolve around the length of the current global slowdown, demand for Neo's specialty products, and Chinese competition.

Neo Performance Materials revenue breakdown

Source: Company investor presentation

Closing remarks

Neo Performance Materials offers investors a safe jurisdiction and exposure to some of the biggest macro trends ahead this decade.

The EV boom is set to take off this decade and so is renewable energy which includes wind turbines and numerous energy efficient products, as well as superalloy and other high performance materials. Added to this there will be a surge in

demand for auto catalysts to reduce air pollution. Neo supplies the specialty materials for all these areas.

Investors can consider buying Neo during the current market lull knowing that once the global demand for Neo’s materials picks up, the Company will also pick up. Neo Performance Materials is somewhat under the investment radar, but this could well change soon once word gets out and revenues start to turn higher again.