Thinking about MP/Lynas? Think about Studebaker-Packard

written by Jack Lifton | April 24, 2024

The last great shaking out of the American car-making industry occurred between 1950 and 1960. Nineteen nameplates were extant in 1950 and just 11 in 1959. Among the nameplates that bit the dust were Packard, Hudson, Cord, Nash, Kaiser-Fraser, and Studebaker. You probably don't remember any of them, but I do. My uncle Sam had a 1947 Hudson and my father bought a wrecked 1956 Packard and restored it as a wedding present for my sister. Did I mention that the first car I remember was my dad's 1937 LaSalle sedan, which we (he) drove from Detroit to Winnipeg in 1946,? (General Motors (GM) absorbed the LaSalle brand name into Cadillac just before the war)

Just after Pearl Harbor, President Roosevelt called William S Knudsen, an outstanding manufacturing engineer who was then the CEO of General Motors, to Washington and asked him if he could build trucks, tanks, artillery, and machine guns for the U.S. Army. Knudsen gave the same answer to the President that businessmen had given to their political masters for thousands of years: "What specifications, how many, when do you need them, and how do we get paid? Roosevelt answered, the Army will work with you on the specs, we need as many as you can make, we need them as soon as possible, and we will work out a cost-plus arrangement. Knudsen said, "O.K.," and as he was leaving he said, "Oh, and we'll need priority on critical raw materials."

U.S. Steel, Alcoa, and Kennecot were soon in the picture. Those were simpler times, at least for critical war materials, indeed.

Roosevelt shortly after saw Henry J. Kaiser (merchant ships), and Edsel Ford (bomber aircraft) and set in motion the greatest volume of war materiel construction in history.

The statesmen and engineer-managers, who understood the importance and the dynamics of material supply chains of that day, are long gone, and the pathetic wannabes of today in business, finance, and government are not even remotely capable of such deeds, but they talk as if they are. Do you honestly think that Joe Biden, Bill Gates, or Jamie Dimon understand the details and choke-points of the supply chains for cars, much less for computer "chips."

So, what's this got to do with the American need for secure supplies of rare earths for magnet manufacturing?

Just this analogy: When the going got tough for the car makers in the 1950s, who had built vast overcapacity in the belief/hope that the postwar demand for cars would just continue indefinitely, they soon discovered that merging companies with overcapacity and inability to create new product (innovate) or understand the markets didn't work.

The paradigm example of this was the Studebaker-Packard merger, which resulted in the death of both companies primarily due to management incompetence as well as market rejection for lack of value in their product when compared to the competition.

So, with that in mind, let me be brief in my ***opinion***:

I don't think that it is a good idea for MP Materials Corp. (NYSE: MP) and Lynas Rare Earths Ltd. (ASX: LYC) to merge.

Both companies are run by CEOs who came from the finance sector with no education or experience in mining or processing.

Both companies have too much capacity for the market(s) in which they compete

One of the companies doesn't have downstream operational experience and is putting the magnet cart before the necessary feedstock horse.

The ore bodies mined by the separate companies are distinct and of different types of ore and mineral composition – i.e., the operations of one could not process the ore of the other without very expensive and extensive engineering changes.

The idea, put forward in the latest earnings call of one of them, of third party tolling is just nuts (aka, not practical), or are they admitting that their own operations cannot supply enough material, economically, for their own capacity. At least their CEO is honest when she says that there are issues with radioactive components and byproducts when processing the monazite ore that feeds Lynas, but not MP.

The combined company, Lynas/MP or MP/Lynas would have excess capacity (If MP can get Project Phoenix revived) or only capacity for monazite (Lynas). Third party bastnaesite (MP) feed is very unlikely to develop, other than ultimately from scrap magnets and processing that will require substantial volumes of scrap – that are not available economically today – and substantial front end chemical engineering in a separate expensive recycling circuit, it does not make sense to dedicate capacity to recycling at Lynas or MP.

The subject matter illiterates who populate the rare earth analytical space confuse announcements with deeds. This is of course always how juniors raise capital, but we are talking here about producing miners confusing the "expert" analysts.

Of course, if a third party merged the two companies then the CEOs of both Lynas and MP would get enormous payouts.

But, for financializers the goal is to help their respective countries, right?