

# Under the Hood with a rare earths' products manufacturer that is consistently profitable and cashed up

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Apparently, my “watchlist” is far too large these days. When I circle around to have a look at some of the names on the list, I’m often shocked by the progress they’ve made since the last time I looked at them. Fortunately, in some cases, I can potentially still purchase the stock at a price comparable to the last time I reviewed it, despite its success in the interim. Today is a great example of this. It’s a stock that I last [wrote about](#) in June 2021. Since that time the Company has continued to grow its revenue and be profitable, increased the cash on its balance sheet, pays a quarterly dividend and yesterday closed 6.5% lower than it was trading at the beginning of last June.

That company is [Neo Performance Materials Inc.](#) (TSX: NEO), which is currently trading at 17x trailing 12-month earnings, has a 2.5% dividend yield and over \$2/share of cash sitting on the balance sheet. These may not seem like outstanding metrics for an industrial stock as compared to its peers but Neo Performance is not like its industrial peers. They are sitting squarely in the driver’s seat of the green revolution. Neo manufactures the building blocks of many modern technologies that enhance efficiency and sustainability. The Company’s advanced industrial materials – magnetic powders and magnets, specialty chemicals, metals, and alloys – are critical to the performance of many everyday products and emerging technologies. Neo’s products are used in numerous end-use applications including micro motors,

traction motors, auto catalysts, water pollution controls, healthcare (such as medical imaging), aerospace, clean energy technologies (such as HEVs and EVs), consumer electronics (such as smartphones and tablets), fiber optics, HDDs and a number of other applications.

Not only is Neo involved in the manufacturing of materials integral to a sustainable future, but there's also the old real estate adage – location, location, location. The Company's Estonian facility is the only commercial producer of rare earths in Europe and one of only two producers of aerospace-grade tantalum and niobium in the EU. A key business focus is to meet the rapidly growing demand for magnetic rare earths in Europe, which are needed by electric vehicles and high-efficiency electric motors. Neo is partnering with industry and government leaders across Europe with an aim toward helping establish production in Europe of sintered neo magnets to help meet demand using rare earth feedstock from North America and elsewhere outside of China. If you are like me and that last sentence is a little over your head, I encourage you to go to the Company's [website](#) and click on all the "Learn More" boxes. It's pretty fascinating stuff, even if I still didn't understand a lot of it.

As bullish as this sounds, coupled with a track record of success and growth over the last couple of years, I can see a couple of things that may account for the uninspired performance of the stock price of late. The first is that 37% of corporate revenue in 2021 came from Chinese customers. With China's zero tolerance COVID policy and lockdown after lockdown making the news headlines, investors may wonder if Q1/22 financials might be impacted. They might, but that is somewhat short sighted in my opinion. Yes, I realize COVID has been annoying us for over 2 years now, but the world is adapting and starting to get on with life. It's possible there could be an impact to Q1 numbers but

if there is, I would simply view that as a buying opportunity if the stock were to sell off (assuming this was the sole reason). Secondly, investors might be concerned that Estonia is a neighbor of Russia and formerly part of the USSR, which Putin seems to want to reunify. However, Estonia is part of NATO (and the EU), and thus not likely to be in Putin's sights anytime soon as I'm pretty sure he doesn't want to stick his hand in that hornet's nest, especially given how poorly things are going for him in Ukraine at present. So without trying to understate the atrocities and humanitarian crisis going on in Ukraine, I personally don't view there to be much, if any, risk to Neo's Estonian assets.

As the market is tending to drift towards value and industrial stocks with the specter of rising interest rates making investors second guess the multiples applied to tech stocks, assuming they even have earnings, one could question why Neo's stock price is trading far closer to its 52 week low instead of its 52 week high. Even if it were considered a "show me" stock, I would suggest looking at the last 4 (or more) quarterly earnings and question what else investors might be looking for. Net income, positive cash flow, virtually no debt and a 2.5% dividend yield put Neo Performance on a pretty good footing. Then consider the upside of the business segment they are involved in and one can make a strong case for taking a closer look at Neo Performance Materials.