

RBC likes rare earths

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THE rare earth sector has got another big tick from a market professional, with RBC Capital Markets pointing out a number of supportive factors in a note on Canadian firm Neo Material Technologies.

While Neo Material is neither a miner nor explorer of rare earths – it in fact is a producer of high-quality rare earth and magnetic powders and as such acts as an intermediary between the mining company and the manufacturer by purchasing rare earth mineral concentrates in China from a number of suppliers – RBC pointed out there had been increased attention on upstream rare earth companies in recent weeks.

“Avalon Rare Metals (AVL), a Canadian junior mineral exploration and development company with a primary focus on the rare metals and minerals has seen their stock price triple in recent weeks,” RBC said. “The company reported that they had ‘nothing to report’, but independent investment newsletters published very bullish commentary on the long-term prospects for rare earths, citing AVL as a way to play the space.

In broad terms, positive comments from RBC in relation to Neo Material are based on both anecdotal and statistical noise suggesting consumer demand and customer de-stocking of rare earths had bottomed and was stabilising at more normal levels.

However, RBC did not make reference to some of the gloomy economic comments publicised in recent days, in particular those made by the World Bank, though other points made by the investment bank indicated it was not assuming the broader economic malaise was over.

Still, over the longer term, RBC is certainly a fan of the sector.

“Long-term, rare earth demand drivers are robust ... (and) we maintain the view that rare-earths will enjoy increasing demand levels,” RBC said. “The properties inherent in these elements make them essential to a wide range of growth segments—small, powerful electric motors (for use in consumer electronic devices, automotive, home appliances, etc.), batteries (for consumer electronics, hybrid cars, etc), automotive catalytic converters, fluorescent light bulbs, etc.”

Major environmental initiatives by a number of governments including the Barack Administration are also supportive (*see also **HighGrade** story on Greenland Minerals and Energy Ltd in this week's edition*).

RBC also noted the reliance of the sector on production from China, where 90% of rare earth output is sourced. This is generally seen as a big positive for non-China developers and miners.

Aside from Greenland Minerals and Energy, other Australian-listed rare earth focused companies include Lynas Corp – whose share price has tripled since March, but whose independence was culled last month when China Nonferrous Metal Mining became a 51.6% owner of the company – and Arafura Resources, which like Lynas has as its major shareholder a Chinese firm (in this case East China Exploration & Development Bureau, which holds 25%). Arafura shares have also been strongly up in recent months.

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