

MP Materials

Q4'23 EBITDA miss, EPS in-line; first batch of NdPr oxide delivered to customer

Maintain Rating: BUY | PO: 30.00 USD | Price: 15.66 USD

Expects strong operating cash flow at spot NdPr

Last night, MP Materials (MP) reported Q4'23 adjusted EBITDA below BofAe and Visible Alpha (VA) consensus. The miss vs. BofAe was driven by lower pricing and sales volumes of concentrate. Adjusted EPS (\$0.02) was in-line BofAe, as lower EBITDA was offset by higher interest income and lower depreciation. In Q4, MP delivered its first batch of separated NdPr oxide (10 tonnes (t)) to a South Korean customer, with firm purchase commitments in place to sell a significant portion of 2024/25 NdPr production. MP also commenced production of NdPr metal at its JV in Vietnam and a pilot plant in North America. For Q1'24, MP guided to 100t of NdPr sales but flagged mid-teens % QoQ decline in realized concentrate pricing. NdPr prices continue to trend lower (-15% year-to-date; -70% from 2022 peak) on subdued demand from traditional sectors and (more recently) a reset in expectations for EV penetration growth. Given current depressed pricing, MP is maximizing cash flow by balancing concentrate sales vs. incremental Stage II variable costs. At spot prices (\$53/kg), MP expects to generate significant operating cash flow (OCF) to fund significant portion of its capex and end 2024 with a net cash of \$200-250million (mn) vs \$316mn as of year-end 2023. Despite weaker near-term pricing, we remain constructive on the medium to long term outlook for NdPr demand and pricing and see MP as a unique U.S.-based vehicle to gain exposure. Maintain Buy.

Q4'23 EBITDA miss vs. BofAe on lower pricing, volumes

Q4'23 adjusted EBITDA of \$1.3 million (m) was below BofAe at \$3.9m and VA consensus of \$3.5m, but slightly higher than Bloomberg consensus. Rare earth oxide (REO) production at 9.3 thousand tonnes (kt) was 11% lower than BofAe, mainly on 6 days of unplanned outages in December. Sales of 7.2kt were 5% lower than BofAe, on lower production and additional concentrate absorbed by the Stage II circuits. Despite the production challenges, MP produced 150t of separated NdPr in Q4'23 (vs 50t in Q3'23). Majority of the issues and efficiency improvements were addressed in January/February. MP expects NdPr production to be largely flat in Q1'24 and sees major improvement in subsequent quarters (subject to NdPr pricing). The Q4'23 realized REO price of \$5,622/t was down 2% QoQ and was 8% lower than BofAe. REO production costs of \$2,393/t were below BofAe, as part of the Stage II costs were capitalized into inventory.

Stage III to generate positive EBITDA/cash flow in 2024

The Stage III (downstream magnetics) project in Fort Worth, TX, is progressing ahead with production equipment for metal and alloy production being installed. MP expects early revenue and modest EBITDA from the sale of NdPr metal later this year. Importantly, MP expects the cash flow benefit to be more meaningful as hitting certain production targets would trigger product pre-payments from customers. This coupled with U.S. 45X credits and a normalization of working capital is expected to support cash generation in 2024. The "Upstream 60K" project to increase its Stage I production by 50% to 60kt REO within the next four years, continues to advance.

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Stock Data

Price	15.66 USD
Price Objective	30.00 USD
Date Established	8-Jan-2024
Investment Opinion	C-1-9
52-Week Range	14.47 USD - 36.67 USD
Mkt Val (mn) / Shares Out (mn)	2,785 USD / 177.8
Free Float	80.3%
Average Daily Value (mn)	37.91 USD
BofA Ticker / Exchange	MP / NYS
Bloomberg / Reuters	MP US / MP.N
ROE (2023E)	5.3%
Net Dbt to Eqty (Dec-2022A)	-38.4%
ESGMeter™	Medium

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NdPr = Neodymium Praseodymium

REO = rare earth oxide

QoQ = quarter over quarter

Q4'23 results summary

Exhibit 1: MP's Q4'23 results vs. BofAe, Bloomberg consensus, and Visible Alpha (V.A.) consensus

Q4'23 adjusted EBITDA miss BofAe mainly on lower realized pricing and sales volumes. Adjusted EPS was in-line, benefitting from higher interest income and lower depreciation.

(US\$m, US\$/sh)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4 2023E	Var.	Bloomberg Cons.	Var.	VA Cons.	Var.
Sales	41.2	93.2	-56%	52.5	-22%	48.1	-14%	45.5	-9%	45.7	-10%
COGS	23.6	24.5	-4%	22.2	6%	25.2	-6%			20.9	13%
G&A & others	32.0	25.3	26%	29.8	7%	32.0	0%			17.9	78%
Adjusted EBITDA	1.3	55.1	-98%	15.6	-92%	3.9	-66%	1.0	30%	3.5	-62%
Depreciation	18.6	5.6	233%	16.8	11%	20.0	-7%	16.5	13%	16.6	12%
Total taxes	-4.4	-19.9	-78%	-0.2	nm	-4.0	9%				
Adjusted Net earnings	-4.0	78.8	nm	7.0	nm	-3.5	nm	-8.6	nm	-10.6	nm
Adjusted EPS	-0.02	0.42	nm	0.04	nm	-0.02	nm	-0.04	nm	-0.06	nm
Cash flow from operations	-13.8	29.1	nm	11.0	nm	-8.6	nm				
Adjusted FCF to equity holders	-85.0	-83.2	nm	-46.6	nm	-89.6	nm	-67	nm		
Blended realized price of REO (\$/mt)	5,622	8,515	-34%	5,718	-2%	6,140	-8%			5,983	-6%
Total contained REO production (mt)	9,257	10,485	-12%	10,766	-14%	10,451	-11%			9,021	3%
Total contained REO sales (mt)	7,174	10,816	-34%	9,177	-22%	7,567	-5%			7,608	-6%
Production cost of REO (\$/mt)	2,393	1,928	24%	2,020	18%	3,000	-20%			8,172	-71%

Source: BofA Global Research estimates, company reports, Visible Alpha, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

MP Materials (MP)

Our \$30 PO assumes an 15x multiple on our 2024E EBITDA. The 15x multiple assigned is at a discount to its own historical average of 17x to account for our higher (vs. spot) NdPr price forecast of \$110/kg. Our 15x target multiple for MP compares to 14x target multiple used to value Lynas (LYC), its closest peer. We include no value for the Stage III expansion into high-end NdFeB sintered magnet production which represents upside to our estimates. The higher multiple to LYC reflects this yet to be modeled upside.

Upside risks: 1) stronger EV and wind generation demand, 2) scarcity of other rare earths investment vehicles, 3) likely first-mover advantage in the vertical integration opportunity, 4) barriers to entry (Stage I and II), 5) potential for U.S. government financial support, 6) possible collaborations with major EV makers, 7) the possibility that MP could be acquired, 8) higher than expected rare earths pricing and 9) difficulty in determining market prices for MP's concentrate given its uniqueness.

Downside risks: 1) execution of Stage II and cost containment, 2) much higher China supply quotas, 3) new entrants, particularly outside of China., 4) others beating them to Stage III (competition), 5) limited clarity on Stage III profitability, 6) rare earth magnet substitutes, 7) slower EV adoption hurting demand, 8) Shenghe Resources as the sole buyer of concentrate, and 9) difficulty in determining market prices for MP's concentrate given its uniqueness.

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MP Materials (MP) Price Chart



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Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

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Sell	807	22.84%	Sell	383	47.46%

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