

Mkango Resources Ltd

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Discerning investors could book huge gains as China puts the squeeze on rare earths

Shares in Lynas Corporation (ASX:LYC) jumped by more than 15% on the Australian Securities exchange in frenzied trading on Wednesday, as Chinese officials ratcheted up their trade war rhetoric with explicit reference to rare earths.

China accounts for between 70% and 80% of global rare earths supply and is a key global price setter.

Conversely, the USA has no current domestic rare earth production, and recently passed the McCain Act, which further complicated the picture by banning the import of certain types of rare earth magnets from countries it wishes to steer clear of, most notably Iran, but also North Korea and China.

US strategists have long recognised the lack of domestic rare earth production as a potential weakness in the country's economy, but thus far have relied on market correctives to supply the remedy.

It's widely known, for example, that in spite of the name, rare earths aren't actually that rare. Neodymium and praseodymium, two of the most widely used rare earths, rank 28th and 40th respectively in terms of their abundance amongst elements in the earth's crust, ahead of tin, uranium, tantalum, molybdenum and silver.

So, if demand increases, the thinking goes, then the supply should be available to meet it.

But it's not quite so simple as that.

No quick fix

First off, lead times in the mining industry tend to be long. So if the Chinese precipitate a disruption to the rare earths supply, the response is likely to take several years as new sources have to be located, and new mines have to be planned, built, tested, and brought into production.

Second, there's every likelihood that if China is putting the squeeze on rare earths as part of a negotiating tactic in its trade war with President Trump, once that war is over, or at least a truce is called, all the Chinese supply will flood back into the market. That would likely render any new mines uneconomic, and the market knows this.

So for now, developing new, higher cost, lower grade mines remains an unappealing proposition.

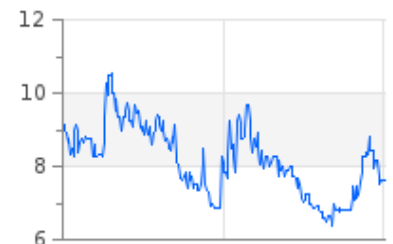
Lynas shares increasingly well supported
And that's where companies like Lynas come in.

Lynas is already well established as arguable the most significant rare earths producer outside of China, with mines in Australia and Malaysia. Its share price had already strengthened considerably before the latest Chinese sabre rattling in

Price: 7.22

Market Cap: £9.6 m

1 Year Share Price Graph



October 2018 May 2019 November 20

Share Information

Code: MKA

Listing: LSE

52 week	High	Low
	11.5	6

Sector: Rare earths & specialist minerals

Website: www.mkango.ca

Company Synopsis:

Mkango Resources Ltd. (TSX-V / AIM: MKA) is a Canadian dual TSX-V and AIM listed mineral exploration and development company focused on rare earth elements (REE) and associated minerals in the Republic of Malawi, a country whose hospitable people have earned it a reputation as "the warm heart of Africa".

action@proactiveinvestors.com

response to a A\$1.5bn offer tabled by giant Australian conglomerate Wesfarmers (ASX:WES).

Lynas's board turned down the offer, and it already looks to have been right to do so. Wesfarmers bid A\$2.25, and the shares are now trading at A\$2.76. If the trade war rhetoric ramps up further, or worse still for the global economy, an outgoing blockade on rare earth exports is imposed by China, then the shares look likely to go still higher.

Other rare earth companies set to benefit

But it's not only Lynas that's benefitting. Shares in Mkango Resources (LON:MKA), which has a rare earths project under development in Malawi, also ticked up. The market was somewhat more cautious in bidding for Mkango, because it isn't in production yet. But then the more speculative-minded of investors might reckon that that makes the upside still more attractive.

Elsewhere, Rainbow Rare Earths (LON:RBW), a company with a producing mine in Burundi, and more exploration to boot, jumped by nearly 19% to 4p. And over on the ASX again, Greenland Minerals and Energy (ASX:GGG) was up by a similar percentage, on the back of optimism in regard to its long-standing Kvanjefeld resource.

And Pensana Metals (ASX:PM8) rose by an even more impressive 22%, even though its Longonjo asset is in politically dicey Angola.

Other options for investors to cast their slide rules over include Peak Resources, Alkane, Arafura, Molycorp and Hastings.

All these companies present the advantage that in spite of a relatively weak recent pricing environment they are moving forward with established projects. If a crunch does come, then investors will move on these companies first. After that, blue sky projects will come into play, and that, as we've seen is a much longer proposition.

But why does it all matter so much? After all, the US may not have any domestic supply, but in dollar terms its imports don't amount to much either.

Rare earths increasingly important in the technology of tomorrow

The answer lies in the future. Rare earths, and in particular rare earths magnets, are likely to be in increasing demand as the world moves away from traditional sources of energy and towards renewables. Rare earths are used in wind turbines and lithium ion batteries, in consumer electronics and in air conditioning units.

That makes them crucial both to power generation and to transport and, in the context of the pledge of Germany, for example, to cut all coal power generation by 2038, highly strategic.

An added twist is that some forecasters were expecting the Chinese to become net importers of rare earths anyway in 2020, as the country moves to clean up or shut down polluting mines, and domestic demand rises.

Whatever happens, the medium-term structural outlook for rare earths is looking increasingly robust. Outside of China that means a handful of companies are set to reap all the benefits. Watch this space.

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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