



Syrah Resources Ltd (SYR.ASX)

Becoming a leading mine-to-natural anode material supplier

Event:

- We initiate research coverage on Syrah Resources (SYR).

Investment Highlights:

- SYR owns the Balama graphite mine in Mozambique and Vidalia active anode material project in Louisiana, USA.** Balama is a 50+ year mine based on JORC Reserves and produces a mix of fine to jumbo flake concentrate. Vidalia has a plant of sufficient scale demonstrating capability of producing final active anode material for qualification in the lithium ion battery (LIB) supply chain.
- Strategic intent to become first non-China integrated mine-to-active anode material supplier.** Currently all anode precursor (purified spherical graphite) is made in China. The US meanwhile imports 100% of its natural graphite and anode material. Given Sino-American geopolitics, we believe SYR is attractively positioned vs peers to become the first non-China integrated supplier of natural graphite active anode material to battery manufacturers and EV OEMs.
- Benchmarking to date show SYR's active anode material equivalent or superior to existing suppliers and aspiring entrants.** SYR has reported positive tests on the electrochemical performance of its anode material. Compared to some of the aspiring anode producers its performance is at least equivalent or superior
- SYR's suspension of production to rebalance market.** Balama production was curtailed late 2019 and suspended in 2Q20. Its scale (we estimate 30% of market at 274ktpa) allows SYR to influence supply-demand and deter new entrants.
- A new Balama required every year.** We expect a restart in CY21 as the graphite market rebalances and EV growth continues, with forecast CAGR to 2030 of >22% for LIB, implying an additional 2.9Mtpa of natural graphite required by then, or 260ktpa – approximately equivalent to a new Balama each year.
- Piedmont Lithium (PLL) - parallel themes.** We note some parallels between SYR and PLL – both first movers in becoming key suppliers located in US battery/EV market, China-independent, and integrated mine-to-processed material. This is attractive for large EV/battery offtakers seeking to audit the EV chain including battery raw materials including environmental compliance.

Earnings and Valuation:

- We forecast a loss of -US\$55M in FY20e, reducing to -US\$31M in FY21e as Balama restarts, and US\$19M NPAT in FY22e once Balama at full capacity.** Conservatively, we expect an expanded 10ktpa anode plant in Vidalia to be commissioned in FY24, and a 40ktpa plant two years later. **We forecast Vidalia at 40ktpa to triple SYR's earnings vs relying on Balama alone.**
- We value SYR at \$1.07/share, based on 0.7x unrisks NPV, using 10% WACC.** We risk Vidalia by 50% and assume a future equity for its partial funding.

Recommendation:

- We initiate with a Buy recommendation and \$1.07/share 12-month price target based on our risked valuation (0.7x NPV).** We include Vidalia risked at 50% and include assumption of future equity to partly fund plant expansion.
- Catalysts for the share price include:** 1) DFS for expanded Vidalia 4QFY20; 2) Installation of furnace for coating 1QFY21; 3) Restart of Balama production; 4) Rising graphite prices.

Disclosures

The analyst does not own SYR securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 200,000 SYR shares. Cranport Pty Ltd owns 2,704,468 SYR shares. Refer details end of report.

Recommendation	Buy
Previous	n/a
Risk	High
Price Target	\$1.07
Previous	n/a
Share price (A\$)	\$ 0.46
ASX code	SYR
52 week low-high	\$0.15-\$0.74
Valuation - risked (A\$/share)	\$ 1.07
Methodology	risked NPV

Capital structure

Shares on Issue (M)	415
Market cap (A\$M)	191
Net cash (debt) (A\$M)	16
Performance rights (M)	18
Options (M)	2
Diluted EV (A\$M)	184
Ave daily volume ('000)	4,833

Earnings y/e Dec US\$M	FY19a	FY20e	FY21e	FY22e
Sales	72	10	61	179
EBITDA adj	-41	-41	-15	46
NPAT reported	-131	-60	-31	19
NPAT adj	-54	-55	-31	19
EPS adj. \$*	-0.14	-0.13	-0.07	0.04
PE x	nm	nm	nm	7.5
EV/EBITDA x	nm	nm	nm	2.5

* Adj = underlying

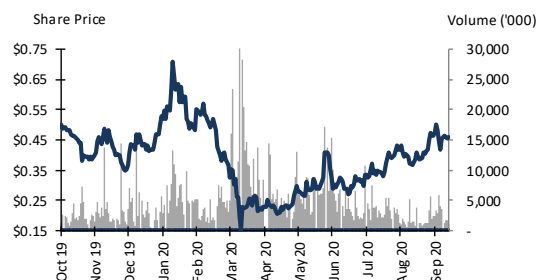
Substantial shareholders

AustralianSuper Pty Ltd	17%
Bruce N Gray	9%

Board

Shaun Verner	MD and CEO
James Askew	Non-Executive Chairman
Jose Manuel Caldeira	Non-Executive Director
Lisa Bahash	Non-Executive Director
John Beevers	Non-Executive Director
Sara Watts	Non-Executive Director

Share price graph



Analyst: Mark Fichera
mark.fichera@fostock.com.au

+612 9993 8162