



Syrah Resources Ltd (SYR.ASX)

Some positive signals for Balama, Vidalia DFS draws closer

Event:

- 3Q report review.

Investment Highlights:

- Balama – Positive signals emerging although insufficient for restart.** SYR reported its 3Q result last week which yielded no material surprise. Positive signals for a Balama restart were early stages of easing of COVID-related travel restrictions in Mozambique; continuing growth momentum in global EV sales; and the steel sector showing pockets of improvement. However these were insufficient for SYR to consider a restart given graphite market conditions were unsupportive. China natural anode prices have been flat over last two months.
- Further destocking required.** We believe further destocking of China inventories is required to a position where SYR can realise both reasonable price and volumes to justify a restart with satisfactory margin. We still expect a restart in 1H21. Given its size, we believe Balama's absence from the market is having impact on the destocking phase. We anticipate that when SYR eventually restarts Balama, it will do so in a disciplined and sustainable approach.
- DFS for a 10ktpa active anode plant at Vidalia remains on track for the current quarter.** We expect it to be a catalyst for emphasising SYR's potential as non-China, fully integrated mine to active anode supplier. The company is also on track to install a furnace to achieve small scale production of its own active anode material, which to date has been achieved by toll processing. Product qualification is expected to begin during the current quarter.
- A catalyst for accelerating project momentum.** We expect the Vidalia DFS will support SYR's negotiations surrounding any potential offtake, partnering, financing, and qualification initiatives for Vidalia. We expect global battery manufacturers and EV OEMs seeking long-term non-China supply of active anode with clear sight on ESG and audit all the way to natural graphite source will be interested in engaging with SYR.
- Expenditure during the quarter in-line with company guidance.** Cash outflows during the 3Q were -US\$11M (Balama -US\$7M, Vidalia -US\$2M, Corporate -US\$1M and one-off restructure of -US\$1M) in-line with prior company guidance. Sales of US\$1.4M were achieved during the quarter from 0.47kt of stockpiles at US\$470/t CIF (receipts US\$2.3M). SYR exited the quarter with cash of US\$44M and debt of US\$43M for net cash of US\$1M.

Earnings and Valuation:

- No changes to earnings FY20e-FY22e.
- Our SYR share valuation slightly reduces to \$1.03 from \$1.07 mostly due to the recent upgrade in our A\$ forecasts, with long-term now US\$0.75 vs US\$0.73 previously. We still base our valuation on 0.7x unrisks NPV₁₀.

Recommendation:

- We maintain our Buy recommendation and reduce our 12-month share PT to \$1.03 (prior \$1.07) based on our risked valuation (0.7x NPV).
- 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	Buy			
Risk	High			
Price Target	\$1.03			
Previous	\$1.07			
Share price (A\$)	\$ 0.49			
ASX code	SYR			
52 week low-high	\$0.15-\$0.74			
Valuation - risked (A\$/share)	\$ 1.03			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	415			
Market cap (A\$M)	203			
Net cash (debt) (A\$M)	1			
Performance rights (M)	18			
Options (M)	2			
Diluted EV (A\$M)	212			
Ave daily volume ('000)	4,758			
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

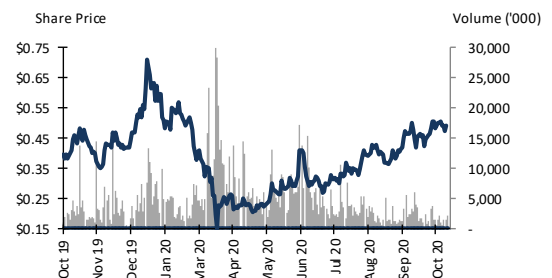
Substantial shareholders

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



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