



FYI Resources Ltd (FYI.ASX)

Alcoa-Backed High-Margin Emerging HPA Developer

Event:

- We initiate research coverage on FYI Resources Ltd (FYI.ASX).

Investment Highlights:

- FYI Resources Ltd (FYI)** is an ASX listed company developing its Cadoux Kaolin HPA project in WA (100% interest), comprising the Cadoux mine and proposed HPA refinery at Kwinana. FYI aims to be a single source integrated producer of high quality HPA with supply provenance wholly from a tier 1 mining jurisdiction.
- Massive, long life, high grade HPA asset:** DFS contemplates a 25-year project life comfortably underpinned by only 47% of Reserve, the total of which potentially supports a 55-year project. Resources could support a 175-year project, if fully converted to Reserve. JORC Reserve contains 3.2Mt at 24.8% Al₂O₃, while the Resource stands at 11.3Mt at 22.5% Al₂O₃.
- Robust economics in high-margin project:** DFS (released March 2020) highlights include NPV₁₀ US\$543M and IRR of 46%. Attractive capital intensity with modest capex of US\$189M for 8ktpa of 4N HPA product. Swift payback of 3.6 years. High margin project with low operating cost of US\$6,217/t. Shallow, low-lying, high grade deposit with campaign mining facilitates negligible mining cost.
- Alcoa MOU offers potential finance flexibility.** The joint pilot plant has now commenced after recently signed MOU with Alcoa offers possible pathway to JV as well as potential balance sheet access to assist with project financing.
- Demand from LIB separators and LEDs to drive HPA supply deficit.** Forecast CAGR of almost 20% for HPA demand as market expected to enter deficit from 2025 with increased demand from EVs to drive demand for LIB separators.
- Cash of \$8M at following recent raise and no debt.** Secured equity finance of A\$80M significantly reduces funding risk. FYI is negotiating with Alcoa to progress Cadoux as a JV, which we suspect will come with balance sheet access to reduce project risk further.

Earnings and Valuation:

- We forecast commissioning and ramp in FY23e with **first full year of production in FY24e to deliver earnings of \$94M.**
- We have derived a risked valuation of \$0.68 per FYI share (0.65x NPV).** Our valuation is underpinned by an unrisks NPV₁₀ of A\$770M for Cadoux in the base, assuming first production in FY23e, twelve-month ramp, and HPA price of US\$24,000/t.
- Considerable valuation upside potential:** we note further drivers of value in the Cadoux project include life extension, potential production capacity upgrade, and/or inclusion of by-product revenue, deliberately omitted by the DFS.

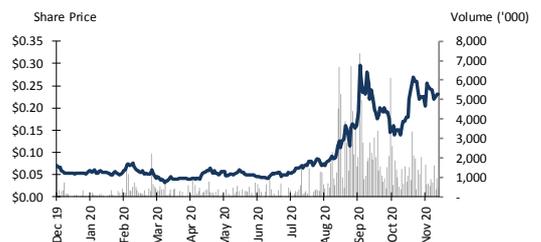
Recommendation:

- We initiate coverage of FYI with a **Buy recommendation and price target of \$0.68/share**, due to its long life, high grade kaolin asset, and low-cost processing HPA refinery project.
- Catalysts for the stock** include: 1) FEED and FID decisions and commencement of the Cadoux HPA project; 2) customer offtake MOUs and marketing relationships; 3) updates on financing arrangements; 4) updates on the Alcoa JV; and 5) updates on LOM extension, capacity upgrade, and/or by-products.

Disclosure

The analyst does not own FYI securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,406,815 FYI shares. Cranport Pty Ltd owns 796,250 FYI shares and 750,000 FYI options with \$0.10 exercise price and July 2021 expiry. **Foster Stockbroking acted as Sole Lead Manager to the \$6M placement of 30M FYI shares at \$0.20 in December 2020 and to the \$2.7M placement of 45M FYI shares at \$0.06 in August 2020. Foster Stockbroking received fees for these services.** Refer to end of report for details.

Recommendation	Buy			
Previous	N/A			
Risk	High			
Price Target (A\$/share, risked)	\$0.68			
Previous	N/A			
Share Price (A\$)	\$0.225			
ASX Code	FYI			
52 week low - high (A\$)	0.033-0.295			
Capital structure				
Shares on Issue (M)	300.8			
Market Cap, undil. (A\$M)	68			
Net Cash/(Debt) (A\$M)	8			
EV (A\$M)	60			
12mth Av Daily Volume ('000)	762			
Y/e Jun A\$	FY20a	FY21e	FY22e	FY23e
Sales, \$M	0.0	0.0	0.0	76.5
EBITDA adj. \$M	-2.6	-2.5	-4.9	52.1
NPAT adj. \$M	-2.1	-2.8	-10.6	28.3
EPS adj c	-1.0	-0.1	-0.5	1.4
PER (x)	nm	nm	nm	nm
Dividend c	0.0	0.0	0.0	0.0
Board				
Edmund Babington				Non-Executive Chairman
David Sergeant				Non-Executive Director
Adrian Jessup				Non-Executive Director
Roland Hill				Managing Director
Major Shareholders				
A Spinks				9.9%
Regal Funds				9.0%
Share Price Graph				



Matthew Chen, CFA
matthew.chen@fostock.com.au

+61 2 9993 8130