



Syrah Resources Ltd (SYR.ASX)

On the fast track to battery anode material

Event:

- Capital raising; Earnings, valuation, and PT changes.

Investment Highlights:

- Capital raising to accelerate Vidalia development and prepare for Balama restart.** SYR announced a A\$68M equity raising (A\$56M placement completed and A\$12M SPP) together with A\$56M convertible note issue at SYR's option.
- Vidalia progressing to FID 2HCY21.** A\$23M of the equity raise will be used for FEED, design, and product development including qualification. This should ensure SYR is in a position for FID 2HCY21.
- Raising implies Balama restart nearing closer.** The company stated that most of new equity issued, A\$45M, will be used to provide liquidity surrounding timing of Balama restart decision. Additionally, the option of the convertible note provides a back stop in ensuring ample funds should the time until a restart decision be prolonged.
- Improving indicators for Balama restart improving.** The momentum for a Balama restart has been activated by improving EV market conditions, such as improving sales and a positive read-through for graphite demand. Additionally, the easing of travel restrictions within Mozambique facilitates restart logistics. We still expect a restart decision by the end of 1HCY21.
- DFS shows Vidalia economics are sound in addition to qualification, increasing attraction to potential partners.** The DFS demonstrates attractive economics of Vidalia, which together with technical product performance, should accelerate discussions with potential partners (offtake, financing, strategic). We estimate EBITDA of US\$28M and US\$126M and NPV₁₀ of A\$108M and A\$488M for the 10ktpa and 40ktpa plant options at our LT price of US\$5,369/t.
- Additionally, SYR possesses environmental, geopolitical, and governance positives** such as greener natural graphite source (vs synthetic); wholly independent of China across raw material-to-final product chain; US location; and public company transparency.

Earnings and Valuation:

- Upgrade to long-term earnings.** We have upgraded our long-term earnings for SYR after accounting for the metrics of the Vidalia DFS. This is primarily as a result of AISC being lower than our prior forecasts, more than offsetting higher capex.
- Valuation increases also - now \$1.50/share.** Our risked SYR share valuation (0.7x NPV₁₀) has increased to \$1.50 from \$1.03, as a result of lower Vidalia costs, reduced discounting of Vidalia valuation; and a less dilutive equity raise factored due to recent increase in the share price. Our unrisks 1.0x NPV of SYR has increased to \$2.07/share from \$1.56/share.

Recommendation:

- We maintain our Buy recommendation and increase our 12-month PT to \$1.50/share (prior \$1.03) based on our risked valuation.**
- Catalysts for the share price include:** 1) Installation of furnace for coating of spherical graphite 1QFY21; 2) Restart of Balama production; 3) Offtake and/or financing partner for Vidalia; 4) Vidalia FID; and 4) Rising graphite prices.

Disclosures

The analyst owns 48,200 SYR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 483,367 SYR shares.

Cranport Pty Ltd owns 2,493,182 SYR shares.

Refer details end of report.

Foster Stockbroking acted as Joint Lead Manager to the A\$56M placement of 62.2M SYR shares at \$0.90 in December 2020, for which it will receive fees.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.50
Previous	\$1.03
Share price (A\$)	\$ 0.85
ASX code	SYR
52 week low-high	\$0.15-\$1.09
Valuation - risked (A\$/share)	\$ 1.50
Methodology	risked NPV
Capital structure	
Shares on Issue pro-forma (M)	490
Market cap (A\$M)	417
Net cash (debt) pro-forma (A\$M)	69
Performance rights (M)	18
Options (M)	2
Diluted EV (A\$M)	365
Ave daily volume ('000)	4,877

Pro-forma assumes completed & allotted Placement & SPP

Earnings	FY19a	FY20e	FY21e	FY22e
Sales	72	10	61	179
EBITDA adj	-41	-41	-15	46
NPAT reported	-131	-60	-31	19
NPAT adj	-55	-48	-28	7
EPS adj. \$*	-0.15	-0.11	-0.06	0.01
PE x	nm	nm	nm	49.0
EV/EBITDA x	nm	nm	nm	10.6

*Adj =underlying

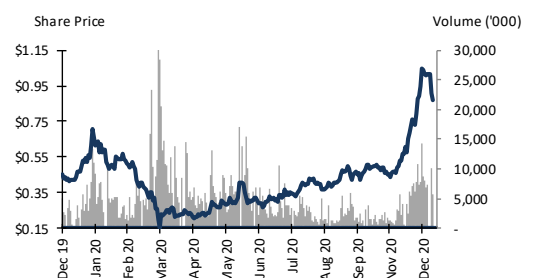
Substantial shareholders

AustralianSuper Pty Ltd	17%
Bruce N Gray	9%
Paradise Investment Management Pty Ltd	6%

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