



Syrah Resources Ltd (SYR.ASX)

Restart edges closer as markets improve

Event:

- December quarterly report; Commodity, earnings, and PT changes.

Investment Highlights:

- Quarterly commentary more positive surrounding Balama restart.** For us the key highlight from the quarterly was the company's comment that "[it] is assessing a potential restart of production at Balama" and "increased enquiry" with consideration "of improved natural market balance". This was in contrast to the prior quarterly's comments that market conditions "remained unsupportive" of a restart. Restart lead time remains 2-3 months.
- EV market indicators on the rise.** Underpinning SYR's greater optimism were EV indicators moving in the right direction, including rising graphite prices and increasing EV sales growth. Graphite prices reported by *AsianMetals* have increased over the past month, also reflected in *Benchmark Minerals'* Flake Graphite Index. SYR expects positive EV and price trends to continue in FY21.
- Increased enquiry mostly from China.** Increasing global EV sales is resulting in higher battery anode demand, and given that China is the world's sole commercial supplier of spherical purified graphite anode precursor, we believe this is where increased enquiry cited by SYR is emanating from.
- Vidalia progresses – furnace to be commissioned in current quarter.** SYR's downstream strategy progressed with qualification tests of its anode precursor material. The company is on track to commission its own furnace at Vidalia this quarter, allowing it to produce its own active anode material - coated purified spherical graphite - for testing.
- Cash in-line at quarter end.** SYR finished December 2020 with cash of US\$75M and debt of US\$47M for net cash of US\$28M. This included the December US\$42M equity placement but excludes the US\$14M SPP. Operating and investing cash out flows were US\$9.4M in-line with prior guidance. Receipts of \$1.7M reflected September quarter sales.
- Upgrade to graphite prices.** On the back of an improved graphite market, we have upgraded most of our graphite price forecasts. Our nominal long-term price for fines (-100 mesh, 95%, CIF) prices is now US\$560/t, up 7% from US\$523/t previously, while that for active anode (purified coated spherical graphite) is US\$5,860/t, also up 7% vs US\$5,476/t prior.

Earnings and Valuation:

- We have reduced our forecast loss for FY21e to **–US\$24M from –US\$28M**, and increased FY22e NPAT to **US\$12M from US\$7M**, with earnings from FY23e also rising on higher graphite prices.
- Risked share valuation increases to **\$1.64/share** (0.7x NPV₁₀) from \$1.50 mostly due to higher graphite prices. Our unrisks 1.0x NPV₁₀ is \$2.27/share.

Recommendation:

- We maintain our **Buy recommendation and increase our 12-month PT to \$1.64/share** (prior \$1.50) 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; 4) Rising graphite prices; and 5) Increasing EV sales.

Disclosures

The analyst owns 48,200 SYR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 310,471 SYR shares.

Cranport Pty Ltd owns 2,000,000 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 received fees.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$1.64			
Previous	\$1.50			
Share price (A\$)	\$ 1.22			
ASX code	SYR			
52 week low-high	\$0.15-\$1.34			
Valuation - risked (A\$/share)	\$ 1.64			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	497			
Market cap (A\$M)	606			
Net cash (debt) (A\$M)	54			
Performance rights (M)	18			
Options (M)	2			
Diluted EV (A\$M)	577			
Ave daily volume ('000)	5,004			
Earnings				
	FY19a	FY20e	FY21e	FY22e
Sales	72	11	69	148
EBITDA adj	-42	-33	-9	34
NPAT reported	-132	-48	-24	12
NPAT adj	-55	-44	-24	12
EPS adj. \$*	-0.15	-0.10	-0.05	0.02
PE x	nm	nm	nm	40.4x
EV/EBITDA x	nm	nm	nm	12.5x

* Adj =underlying

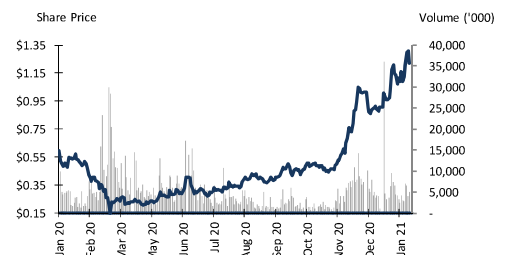
Substantial shareholders				
AustralianSuper Pty Ltd				17%
Bruce N Gray				9%
Paradise Investment Management Pty Ltd				8%
Board				
Shaun Verner				MD and CEO
James Askew				Non-Executive Chairman
Jose Manuel Caldeira				Non-Executive Director
Lisa Bahash				Non-Executive Director
John Beevers				Non-Executive Director
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Share price graph



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