



FYI Resources Ltd (FYI.ASX)

Outstanding Pilot Plant Results

Event:

- Pilot plant results.

Investment Highlights:

- FYI Resources Ltd (FYI) recently released from results its joint pilot plant trial with Alcoa.** Highlights include successful production of samples with average purity of five nines (5N) Al₂O₃, validation for the flowsheet, and satisfying a key condition of the Alcoa JV MOU.
- Five nines purity in product sample surpasses expectations:** trial results produced samples with 99.999% Al₂O₃, and an average of 99.9986% Al₂O₃ purity, both higher than anticipated. We see the potential for the latest results to improve project economics for commercial production with 5N product (priced up to US\$50,000/t) attracting a material premium to 4N product; we note the original project contemplates an 8ktpa 4N HPA project.
- Validation of flowsheet and pilot plant, satisfaction of Alcoa JV MOU condition precedent.** The successful trial results not only validate the innovative flowsheet and metallurgical process, but also the end-to-end operation of the pilot plant, which operated continuously over seven days. Critically, the operation and demonstration satisfy one of the Alcoa JV MOU conditions.
- Trial samples to undergo further product qualification in end use markets.** Trial samples will be delivered to potential offtake parties for further product qualification, including in the LiB and LED lighting markets.
- Cash of \$6.8M and no debt.** We note FYI continues to negotiate 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 have unchanged earnings and continue forecasting commissioning and ramp in FY23e with **first full year of production in FY24e to deliver earnings of \$94M.**
- We have an unchanged risked valuation of \$0.68 per FYI share (0.65x NPV).** Our valuation is underpinned by an unrisked 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. We maintain our view Cadoux is a high-grade, long life asset with modest capital intensity and attractive high margin economics.
- Considerable valuation upside potential:** we note further drivers of value in the Cadoux project include life extension, potential production capacity upgrade, emerging scope for 5N product and/or inclusion of by-product revenue, deliberately omitted by the DFS.

Recommendation:

- We continue to recommend FYI as a **Buy with an unchanged 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 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; 5) updates on LOM extension, capacity upgrade, 5N products, and/or by-products; and 6) optimised DFS in 1H21e.

Disclosure

The analyst does not own FYI securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,575,315 FYI shares and 4,000,000 FYI options with \$0.30 exercise price and December 2022 expiry. Cranport Pty Ltd owns 350,000 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	Buy
Risk	High
Price Target (A\$/share, risked)	\$0.68
Previous	\$0.68
Share Price (A\$)	\$0.48
ASX Code	FYI
52 week low - high (A\$)	0.033-0.505

Capital structure

Shares on Issue (M)	301.5
Market Cap, undil. (A\$M)	145
Net Cash/(Debt) (A\$M)	7
EV (A\$M)	138
12mth Av Daily Volume ('000)	1,171

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	-11.8	27.3
EPS adj c	-1.0	-0.9	-3.9	8.9
PER (x)	nm	nm	nm	5.4
Dividend c	0.0	0.0	0.0	0.0

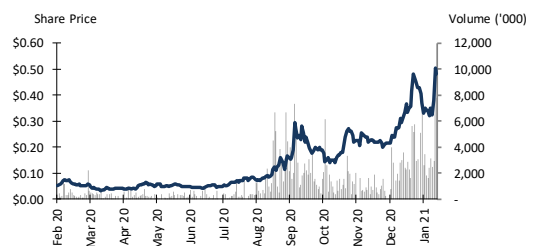
Board

Edmund Babington	Non-Executive Chairman
David Sergeant	Non-Executive Director
Adrian Jessup	Non-Executive Director
Roland Hill	Managing Director

Major Shareholders

A Spinks	8.8%
Regal Funds	7.7%

Share Price Graph



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