



Syrah Resources Ltd (SYR.ASX)

Restart!

Event:

- Decision to restart graphite production; Valuation & PT change.

Investment Highlights:

- SYR to restart Balama as positive trends abound.** SYR announced yesterday its intention to restart graphite production at its Balama mine. Key factors building over the past few months coalesced to bring the company to this point, including 1) Increasing global EV sales; 2) Rising graphite prices; 3) Increased demand for alternative to China graphite supply; 4) Positive regulatory, pricing, and demand trends for both EVs and raw material supplies; and 5) Enhanced mobility of goods and people in Mozambique.
- First production expected in 2-3 months.** SYR expects first production with 2-3 months (April-May 2021), which is ahead of our prior expectation of end June/beginning July. The company however did not provide guidance on volumes, pricing, or contracts. We currently forecast initial restart production – once fully ramped up - over the first 18 months to be 215ktpa graphite concentrate vs ca. 350ktpa design capacity, due to SYR re-entering the market in a disciplined manner.
- Most product to be sold to China.** In its last quarterly SYR stated it received increased enquiry from China. Given that China is currently the sole commercial global source of purified spherical graphite (PSG), and that Balama's product is mostly fines (the favoured raw material for PSG), we expect this is where most of Balama product will be shipped to.
- Well funded for restart.** We estimate SYR had US\$89M (A\$113M) in cash post the SPP in January, more than adequate to cover working capital and associated costs at Balama (FSBe A\$26M), plus Vidalia and corporate costs (FSBe A\$10M), prior to Balama generating cash flow. We therefore still view it unlikely that the company will need to issue the proposed convertible notes (subject to shareholder vote) to manage liquidity for the restart.
- Next major catalyst - Vidalia furnace commissioning.** We expect the next major catalyst for SYR to be commissioning of the coating furnace at Vidalia by end March, allowing SYR to produce its own active anode material.

Earnings and Valuation:

- No changes to earnings.** While the restart is slightly ahead of prior timeline, we make no changes to Balama volumes at this stage, factoring in some conservatism for mine ramp-up.
- SYR risked valuation increases to \$1.71/share (0.75x NPV₁₀) from \$1.64.** This is due to increasing Balama valuation to 0.95x NPV from 0.90x given the restart decision, while that of Vidalia remains unchanged at 0.60x.

Recommendation:

- We maintain our Buy and increase the 12-month PT to \$1.71/share (prior \$1.64) in-line with the 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

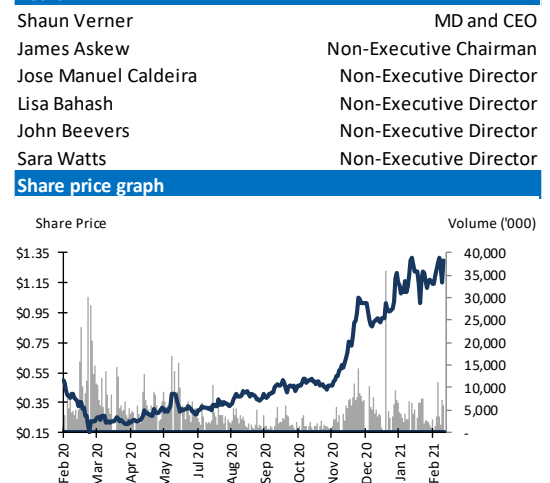
The analyst owns 51,340 SYR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 528,507 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	\$1.71			
Previous	\$1.64			
Share price (A\$)	\$ 1.28			
ASX code	SYR			
52 week low-high	\$0.15-\$1.375			
Valuation - risked (A\$/share)	\$ 1.71			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	497			
Market cap (A\$M)	636			
Net cash (debt) (A\$M)	54			
Performance rights (M)	18			
Options (M)	2			
Diluted EV (A\$M)	607			
Ave daily volume ('000)	5,042			
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	42.4x
EV/EBITDA x	nm	nm	nm	13.2x
* 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
Sara Watts				Non-Executive Director

Share price graph



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