



Syrah Resources Ltd (SYR.ASX)

Restart ahead of schedule, ramp-up underway

Event:

- Production resumes at Balama.

Investment Highlights:

- Restart ahead of previous guidance.** SYR announced yesterday it had restarted production at Balama, being one-to-two months ahead of the guidance provided in February (which had implied a March-April restart).
- Product “on-specification” – ready for sales.** The company stated that product was consistently on-specification, which we understand meets the minimum 95% fixed carbon concentrate grade desired by customers, and therefore ready for shipment. We expect customers for Balama’s predominantly fines product to be China anode precursor and active anode manufacturers, driven by growing EV demand, while the coarser flake product will be mostly for the steel sector, driven by growing steel production, across various regions.
- Ramp-up of production underway.** SYR stated it is continuing to mobilise labour and increase plant utilisation. While no short-term production target or ramp-up time has been provided, we expect within the next two-to-three months that production should be at the company’s desired steady state for the short-term. Our own forecasts assume Balama reaching an 18kt per month production run-rate (216ktpa) by end June 2021.
- Likelihood of new convertible notes drawdown unlikely.** In our opinion the restart of Balama ahead of schedule makes it more unlikely that the SYR will exercise its option to issue the new convertible notes, as does the current share price relative to the notes’ conversion price. We retain our assumption that the new notes will not be issued.
- 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 it to produce its own active anode material.

Earnings and Valuation:

- No changes to earnings.** While the restart is ahead of prior timeline, we make no changes to Balama volumes at this stage, factoring in some conservatism for the mine ramp-up period.
- Valuation unchanged.** Our SYR risked valuation remains \$1.71/share (0.75x NPV₁₀).

Recommendation:

- We maintain our Buy and 12-month PT of \$1.71/share, in-line with the risked valuation.**
- Catalysts for the share price include:** 1) Installation of furnace for coating of spherical graphite 1QFY21; 2) Ramp up of Balama production; 3) Generation of positive net cash flow by Balama; 4) Offtake and/or financing partner for Vidalia; and 5) Vidalia FID; 6) Rising graphite prices; and 7) Increasing EV sales.

Disclosures

The analyst owns 73,690 SYR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 555,857 SYR shares.

Cranport Pty Ltd owns 2,100,000 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	\$1.71
Share price (A\$)	\$1.20
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)	597
Net cash (debt) (A\$M)	54
Performance rights (M)	17
Options (M)	2
Diluted EV (A\$M)	565
Ave daily volume ('000)	4,773

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	39.7x
EV/EBITDA x	nm	nm	nm	12.3x

* Adj =underlying

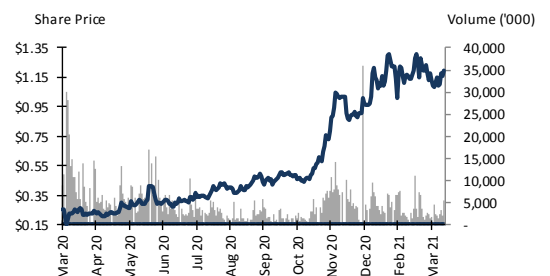
Substantial shareholders

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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