



Syrah Resources Ltd (SYR.ASX)

First Balama restart product; Vidalia readies to ship AAM

Event:

- 3Q report; Earnings changes; PT change.

Investment Highlights:

- First product from restart.** SYR's 1Q March report showed first graphite concentrate production from the March restart of 4.7kt (annualised 60ktpa). Shipment of this product is expected in April, while 2.3kt was sold during the quarter from prior inventory. Realised CIF price was US\$567/t for US\$1.6M receipts. Sales were mostly to established customers, highlighting satisfaction with product quality.
- Ramp-up proceeding smoothly - plant availability approaching 100%.** For us the key highlight was management commentary that plant availability was approaching 100%. We understand the restart/ramp-up is running smoothly, facilitated by 97% of new hires being ex-employees. The company is producing on a campaign basis and we expect will move to continuous basis by June 2021, driven by end user demand.
- Sales driven by EV and steelmaking markets.** Sales following the restart will be to China to feed increased anode demand (running at >100% YoY growth) stemming from the rebound in global EV sales. Additionally, strong global steel markets is increasing coarse graphite demand for graphite electrodes/recarburiser. We expect SYR's fines/coarse split to be 80%:20%.
- First Vidalia active anode material (AAM) shipments this quarter.** SYR announced FEED confirmed Vidalia BFS assumptions, and now has moved to detailed engineering. A preferred contractor is to be selected in 2Q. Following installation of furnace in March, the company expects first own anode shipments directly to US and Europe located battery makers and EV OEMs for qualification. SYR quoted tests to date being consistent or superior to benchmark anode materials. FID still expected 2H2021.
- Cash end quarter US\$78M, debt US\$48M.** Gross cash outflows were US\$11.5M in the quarter, with SYR expecting this to increase in the current quarter due to Balama ramp-up/working capital, and Vidalia's detailed engineering.

Earnings and Valuation:

- Earnings upgrade on higher graphite prices.** We have increased our long-term +80, +100, and -100 mesh 95% graphite CIF prices by 8%, 4%, and 8%. We now forecast NPAT of -US\$18M, US\$11M and US\$33M for FY21-FY23e (previously - \$24M, \$12M, and \$27M).
- Valuation increase.** Our SYR risked valuation (0.75x NPV₁₀) increases to \$1.75/share from \$1.71/share due to our graphite price upgrades, partially offset by increasing short term costs.

Recommendation:

- We maintain our Buy and 12-month and increase our 12-month share PT to \$1.75 from \$1.71, in-line with the risked valuation.**
- Share price catalysts include:** 1) First sales of Balama restart product; 2) First shipments of Vidalia active anode material; 2) Ramp up of Balama; 3) Balama positive net cash flow; 4) Offtake/financing progress for Vidalia; and 5) Vidalia FID.

Disclosures

The analyst owns 73,690 SYR shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 482,857 SYR shares.
Cranport Pty Ltd owns 1,750,000 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	\$1.75			
Previous	\$1.71			
Share price (A\$)	\$1.19			
ASX code	SYR			
52 week low-high	\$0.215-\$1.375			
Valuation - risked (A\$/share)	\$ 1.75			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	498			
Market cap (A\$M)	592			
Net cash (debt) (A\$M)	39			
Performance rights (M)	17			
Options (M)	2			
Diluted EV (A\$M)	575			
Ave daily volume ('000)	3,947			
Earnings	FY20a	FY21e	FY22e	FY23e
Sales	11	74	157	214
EBITDA adj	-40	-2	35	70
NPAT reported	-61	-18	11	33
NPAT adj	-56	-18	11	33
EPS adj. \$*	-0.13	-0.04	0.02	0.06
PE x	nm	nm	57.4	19.9
EV/EBITDA x	nm	nm	18.7	9.3

* Adj =underlying

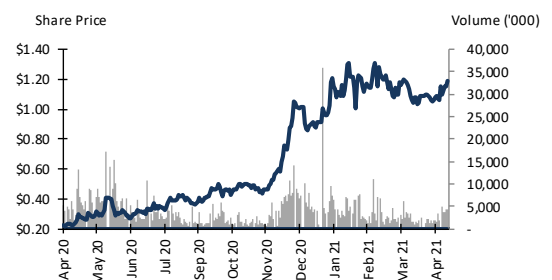
Substantial shareholders

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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