



## Syrah Resources Ltd (SYR.ASX)

### A prudent decision

#### Event:

- Issue of Series 3 convertible notes.

#### Investment Highlights:

- US\$22M Series 3 convertible notes to be issued.** Syrah Resources (SYR) has announced its decision to issue the A\$28M (US\$22M) Series 3 Convertible notes, in which it had an option to do so from its December 2020 agreement with AustralianSuper, the subscriber.
- Desire to be prudent.** While we had assumed that the notes would not be issued, the company's decision reflects a desire to be prudent and maintain a strong balance sheet. The current ramp-up and associated working capital requirement of Balama, and creeping uncertainty in equity markets especially regarding inflation, made the notes an attractive instrument to utilise at this point.
- Maintains focus and momentum on Balama restart/Vidalia FID.** The note issue increases SYR's cash position to A\$104M (US\$81M) end June. We believe this provides a significant cash buffer for SYR to navigate both the restart of Balama as it ramps up to the initial target of 15ktpa and positive cash flow, as well as advancing Vidalia detailed design and FEED and eventual FID.
- Cash burn of US\$19M in quarter slightly above our forecast US\$16M.** The forecast June cash balance post the note issue implies a net cash burn of US\$19M for the June quarter, slightly above our forecast US\$16M. We expect that most of this was consumed in the Balama ramp-up (US\$14M) with Vidalia (US\$4M) and corporate costs (US\$1M) the balance.
- Cash burn to improve, EV and steel markets still rosy.** SYR's customer markets remain ebullient, and we expect improved Balama graphite production and September quarter, which will be the first quarter with Balama fully in production. We expect the near term target of 15ktpa to be reached beginning 3QCY21. We understand the ramp up to date has been smooth with no plant or workforce issues.

#### Earnings and Valuation:

- Minor earnings change.** Forecast FY21e NPAT is unchanged at US-\$18M while we slightly reduce NPAT for FY22 to US\$10M from US\$11M, and for FY23e to US\$32M from US\$33M on higher interest costs.
- Valuation slight change.** Our SYR risked share valuation (0.75x NPV<sub>10</sub>) reduces to \$1.74 (prior \$1.75) on the higher 2Q cash burn.

#### Recommendation:

- We maintain our Buy and our 12-month share PT is \$1.74 (prior \$1.75) based on our risked valuation.**
- Share price catalysts include:** 1) First sales of Balama restart product; 2) First shipments of Vidalia active anode material; 3) Ramp up of Balama; 4) Balama positive net cash flow; 5) Offtake/financing progress for Vidalia; and 6) Vidalia FID.

#### Disclosures

The analyst owns 73,690 SYR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 582,857 SYR shares.

Cranport Pty Ltd owns 1,400,000 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.**

<b>Recommendation</b>	Buy
Previous	Buy
Risk	High
<b>Price Target</b>	<b>\$1.74</b>
Previous	\$1.75
<b>Share price (A\$)</b>	<b>\$1.09</b>
ASX code	SYR
52 week low-high	\$0.27-\$1.375
<b>Valuation - risked (A\$/share)</b>	<b>\$ 1.74</b>
Methodology	risked NPV

#### Capital structure

Shares on Issue (M)	498
Market cap (A\$M)	540
Net cash (debt) (A\$M)	39
Performance rights (M)	19
Options (M)	2
Diluted EV (A\$M)	523
Ave daily volume ('000)	3,507

Earnings	FY20a	FY21e	FY22e	FY23e
Sales	11	74	157	214
EBITDA adj	-40	-2	35	70
NPAT reported	-61	-18	10	32
<b>NPAT adj</b>	<b>-56</b>	<b>-18</b>	<b>10</b>	<b>32</b>
<b>EPS adj. \$*</b>	<b>-0.13</b>	<b>-0.04</b>	<b>0.02</b>	<b>0.06</b>
<b>PE x</b>	<b>nm</b>	<b>nm</b>	<b>57.4</b>	<b>19.9</b>
<b>EV/EBITDA x</b>	<b>nm</b>	<b>nm</b>	<b>18.7</b>	<b>9.3</b>

\* Adj =underlying

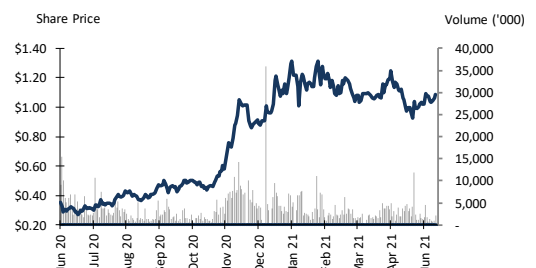
#### Substantial shareholders

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



Analyst: Mark Fichera  
[mark.fichera@fostock.com.au](mailto:mark.fichera@fostock.com.au)

+612 9993 8162