



## Syrah Resources Ltd (SYR.ASX)

*Balama ramps up, Vidalia long-lead items to be secured*

### Event:

- SYR June quarterly update.

### Investment Highlights:

- **Balama produced 29kt graphite concentrate, nearing initial 15kt/month target.** Balama averaged 10kt product per month in June quarter, approaching SYR's initial target of 15kt/month. Key highlight was recovery averaging 76% (vs mid-to-high 60s prior to suspension), with 80% achieved for June, indicating smooth restart. C1 costs were US\$537/t fob, with plant operating only 1/3 capacity. SYR stated C1 costs on trend to US\$430-460/t at the 15kt/month rate.
- **Global shipping constraints impact sales.** Global shortages of vessels and containers impacted Balama sales, constraining shipments to only 15kt for the quarter. However product inventory of 20kt is wholly contracted for, and SYR expect sales to improve in 3Q. We anticipate logistic pressures to gradually ease over remainder of 2HCY21. Average price achieved was US\$474/ vs US\$576/t in the March quarter, primarily due to fines comprising 90% of sales vs 80% previously. Company expects more coarse material in current quarter sales.
- **Vidalia capex beginning 2H signals confidence and maintains momentum.** SYR flagged US\$10M capex on Vidalia long-lead and critical items to be spent over 2HCY21 and 1QCY22, ensuring project momentum is maintained. Importantly, we think this signals confidence in a positive FID, which is till guided for 2HCY21.
- **10ktpa anode material not the end game, but a first step.** On conference call management emphasised that the initial Vidalia at 10ktpa of active anode material is not the end game, given it will represent only 3% of USA anode capacity in 2025. We expect expansion to 40tpka will follow not long afterwards. SYR has engaged with more than ten battery makers and auto OEMs, including qualifying Vidalia product, and we expect some of these parties will be involved in subsequent offtake agreements.
- **US\$85M cash end June supports Balama ramp-up and Vidalia spend.** Cash outflows were US\$13M and SYR expects this increasing in 3Q, with Vidalia spend US\$8M and Balama working capital rising as production increases further.
- **Graphite prices flat, but we anticipate move up over next 12 months.** Graphite prices have been relatively flat over past few months as China capacity has responded to increasing EV demand. However we expect price uplift as incremental supply additions will be more limited going forward.

### Valuation and earnings:

- **We downgrade earnings in FY21e-FY24e on higher fines vs coarse mix (80:20 vs 70:30 prior), while upgrading NPAT from FY25e on higher long-term Balama production (350ktpa vs 290ktpa prior) due to stronger EV demand.**
- **No net impact on our share valuation of \$1.74 (0.76x NPV<sub>10</sub>).**

### Recommendation:

- **We maintain our Buy and our 12-month share PT is unchanged at \$1.74, based on our risked valuation (0.76x NPV<sub>10</sub>).**
- **Share price catalysts include:** 1) Ramp-up of Balama; 2) Balama positive net cash flow; 3) Award of construction for Vidalia; 4) Offtake and 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 582,857 SYR shares.

Cranport Pty Ltd owns 1,200,000 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	\$1.74
Previous	\$1.74
Share price (A\$)	\$1.255
ASX code	SYR
52 week low-high	\$0.325-\$1.375
Valuation - risked (A\$/share)	\$ 1.74
Methodology	risked NPV

### Capital structure

Shares on Issue (M)	498
Market cap (A\$M)	625
Net cash (debt) (A\$M)	21
Performance rights (M)	19
Options (M)	1
Diluted EV (A\$M)	628
Ave daily volume ('000)	3,224

Earnings	FY20a	FY21e	FY22e	FY23e
Sales	11	51	144	196
EBITDA adj	-40	-22	20	51
NPAT reported	-61	-34	6	32
<b>NPAT adj</b>	<b>-56</b>	<b>-34</b>	<b>6</b>	<b>32</b>
<b>EPS adj. \$*</b>	<b>-0.13</b>	<b>-0.07</b>	<b>0.01</b>	<b>0.04</b>
<b>PE x</b>	<b>nm</b>	<b>nm</b>	<b>108x</b>	<b>19.2x</b>
EV/EBITDA x	nm	nm	19.6x	7.8x

\* Adj =underlying

### Substantial shareholders

AustralianSuper Pty Ltd	17%
Bruce N Gray	9%
Paradice 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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