



Syrah Resources Ltd (SYR.ASX)

Shipping holds back performance but outlook is rosier

Event:

- September quarterly report; Commodity, earnings, and PT changes.

Investment Highlights:

- Improved performance held back by shipping.** As was pre-reported, Balama shipped only 18kt graphite concentrate during the September quarter, despite producing 25kt, as it was hampered by tight global shipping constraints.
- September month points to improved future performance as costs fall.** While fob C1 costs averaged US\$684/t for the quarter, this was impacted by campaign mining. However the month of September produced 15kt of the quarter's 25kt, with C1 fob costs of US\$430/t. This was at the bottom end of the SYR's target range (US\$430-\$460/t) for this production rate, which is equivalent to half Balama's capacity.
- Pricing lifts.** Weighted average price received was US\$490/t CIF, up on the prior's quarter US\$474/t, reflecting upward move in graphite prices. Sales mix was 86:14 fines:coarse, reflecting fines shipments to China with its strong EV/battery/anode manufacturing chain.
- Vidalia FID reiterated for 4Q21 as customer engagement intensifies.** SYR stated commercial engagement advanced with seven targeted natural graphite anode customers, including for multi-year purchase agreements and financing.
- Demand means acceleration of expansion (40ktpa) considered.** SYR stated that target customer interest meant that an acceleration of expansion beyond 10ktpa to 40ktpa was being considered. It showed this expansion could occur in 2024-25, about one to two years after 10ktpa is commissioned. This is consistent with projected demand suggesting 10ktpa and 40ktpa would translate to only 2% of 12% of anode demand for the US alone.
- Upgrade to graphite prices.** Increasing electricity costs, power disruptions, and supply shortages have translated to rising graphite prices across most categories. We have upgraded our forecast prices, most markedly for fines (-100 mesh) and active anode material (CSPG), up 36% and 9% long-term.

Earnings and Valuation:

- Upgrades to FY22e and FY23e on improved Balama performance.** We now forecast loss for SYR in FY21e of -US\$43M (prior -US\$34M) on lower shipments, while our FY22e and FY23e NPAT forecasts increase to US\$10M and US\$24M on lower Balama unit production costs and higher prices.
- Risked SYR valuation increases to \$1.95/share (0.7x NPV₁₀) from \$1.74.** This is due to our lift in prices and cuts to Balama unit costs, which have more than offset higher forecast costs for Vidalia due to inflation. We assume future equity issued at near current share price. Our unrisks 1.0x NPV₁₀ is \$2.68/share, which assumes no equity dilution.

Recommendation:

- We maintain our Buy recommendation and increase our 12-month PT to \$1.95/share (prior \$1.74) based on risked valuation.** Catalysts include: 1) FID, offtake, and/or financing for Vidalia; 2) Improving Balama shipping, production, and unit costs; 3) Vidalia FID; 4) Rising graphite and anode prices; and 5) Increasing EV sales.

Disclosures

The analyst owns 73,690 SYR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,157,857 SYR shares.

Cranport Pty Ltd owns 1,625,112 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	\$1.95			
Previous	\$1.74			
Share price (A\$)	\$1.310			
ASX code	SYR			
52 week low-high	\$0.46-\$1.61			
Valuation - risked (A\$/share)	\$ 1.95			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	499			
Market cap (A\$M)	653			
Net cash (debt) (A\$M)	8			
Performance rights (M)	18			
Options (M)	1			
Diluted EV (A\$M)	670			
Ave daily volume ('000)	3,497			
Earnings	FY20a	FY21e	FY22e	FY23e
Sales	11	42	146	198
EBITDA adj	-41	-31	28	54
NPAT reported	-61	-43	10	24
NPAT adj	-56	-43	10	24
EPS adj. \$*	-0.13	-0.08	0.02	0.04
PE x	nm	nm	57.6x	23.0x
EV/EBITDA x	nm	nm	18.3x	9.6x
* Adj =underlying				
Substantial shareholders				
AustralianSuper Pty Ltd				17%
Bruce N Gray				9%
Paradise Investment Management Pty Ltd				9%

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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