



Syrah Resources Ltd (SYR.ASX)

Pole position

Event:

- **Binding offtake agreement with Tesla; Earnings and PT changes.**

Investment Highlights:

- **Binding active anode material (AAM) offtake with Tesla.** On 23 December SYR announced a binding offtake agreement with EV maker Tesla for AAM from Vidalia, being for 8ktpa of the initial 10ktpa expansion. Pricing is fixed and not disclosed, although we expect it will be profitable and at least in-line with that assumed by the Vidalia DFS. Term is four years and subject to final qualification.
- **Validates AAM performance, scale, ESG, and non-China supply attributes.** The Tesla agreement validates a number of attributes that we – and SYR – have argued: 1) Scale and long-term supply underpinned by Balama; 2) Performance of Vidalia anode in qualification tests to date; 3) ESG-compliant, transparent, and auditable trail back to raw material source; and 4) US downstream supply with upstream wholly independent of China, reducing geopolitical risks.
- **Option for 40ktpa offtake, other agreements likely.** Tesla also has an option for additional Vidalia offtake subject to expansion beyond 10ktpa, such as the 40ktpa case. We estimate that 8ktpa represents ca. 6% of Tesla's anode requirement for 2023, assuming industry estimates it will ship 2M EVs that year. This highlights the ample capacity for Vidalia to secure further offtake from Tesla or other EV OEMs. SYR is advancing engagements with other target customers for offtake and we expect at least one to two other agreements.
- **10ktpa expansion FID targeted for January 2022.** We envisage a mix of equity and debt to fund Vidalia. We expect financing finalised and construction to start by June 2022, leading to commissioning 10ktpa in mid-2023.
- **Leader of the pack.** SYR's offtake agreement is the first by a graphite/AAM developer or producer (ex-China/Japan/S. Korea) with an EV OEM or battery manufacturer that is of scale, multi-year, and binding. It highlights SYR's leading position a fully integrated producer with 100% custody from ore to AAM.
- **Graphite prices rising as supply concerns escalate, demand increases.** China spot -194 fines graphite FOB is US\$805/t, up 59% over the past seven months. Regulatory crackdown on polluters and power shortages have crimped China graphite and anode production, boding well for both Balama and Vidalia.

Earnings and Valuation:

- **We upgrade FY21e NPAT to -US\$41M (prior -US\$43M) on mark-to-market 4Q graphite prices, and FY23e to US\$31M (prior US\$24M) on bringing forward Vidalia production to mid-FY23e from early FY24e.** We also bring forward 40ktpa expansion to mid-FY25e from early FY26e.
- **Risked SYR share valuation increases to \$2.27 (0.8x NPV₁₀) from \$1.95 on reducing our discounting of Vidalia, lowering dilutive impact of future equity, and bringing forward Vidalia production.** Our unrisks 1.0x NPV₁₀ is now \$2.90/share (prior \$2.68).

Recommendation:

- **We maintain our Buy and increase our 12-month PT to \$2.27 (prior \$1.95) based on risked valuation.** Catalysts include: 1) Vidalia FID and financing; 2) Further offtakes; 3) Improving Balama performance; and 4) LCA results.

Disclosures

The analyst owns 73,690 SYR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,387,857 SYR shares.

Cranport Pty Ltd owns 2,400,000 SYR shares.

Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$2.27
Previous	\$1.95
Share price (A\$)	\$1.765
ASX code	SYR
52 week low-high	\$0.925-\$1.995
Valuation - risked (A\$/share)	\$ 2.27
Methodology	risked NPV
Capital structure	
Shares on Issue (M)	499
Market cap (A\$M)	880
Net cash (debt) (A\$M)	8
Performance rights (M)	18
Options (M)	1
Diluted EV (A\$M)	905
Ave daily volume ('000)	3,128

Earnings	FY20a	FY21e	FY22e	FY23e
Sales	11	44	146	214
EBITDA adj	-41	-30	28	69
NPAT reported	-61	-41	10	31
NPAT adj	-56	-41	10	31
EPS adj. \$*	-0.13	-0.08	0.02	0.06
PE x	nm	nm	77.7x	24.2x
EV/EBITDA x	nm	nm	24.3x	10.0x

* Adj =underlying

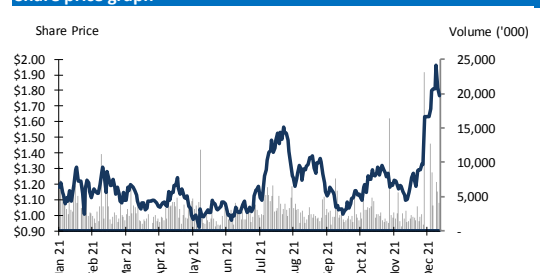
Substantial shareholders

AustralianSuper Pty Ltd	17%
Bruce N Gray	9%
Paradice 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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