



Syrah Resources Ltd (SYR.ASX)

Improvements all round for Balama

Event:

- **March quarter; Commodity upgrades; Earnings and PT changes.**

Investment Highlights:

- **Improvement in key Balama metrics the standout in 1QFY22** - across shipments, production, costs, and pricing. Operating cash flow was still negative, given build of working capital due to shipping still lagging production.
- **Shipments of 35kt bettered prior quarter's 19kt**, due to utilising Pemba for a 10kt breakbulk shipment and Nacala also improving. Production was 46kt for the quarter, markedly up on the 13kt of prior quarter, and in-line with the company's short-term objective of 15ktpm.
- **C1 costs FOB were US\$464/t markedly below US\$1,159/t of the prior quarter**, and importantly within the US\$430-470/t range guided by company for the 15ktpm rate.
- **Pricing also lifted, although not as sharply as the other metrics.** Balama basket weighted average CIF was US\$573/t, up on the prior quarter of US\$530/t. However March realised pricing was US\$590/t, and SYR stated new contracts being entered into are at materially higher prices.
- **Vidalia – new commentary with company expecting to secure offtake at pricing consistent with or better than that assumed in FID.** Timelines for closing DoE loan, securing further offtake, completing 11.25kpa plant construction and commissioning reiterated.
- **Cash end March was US\$205M, after net operating and investing outflow of – US\$24M**, which we estimate comprised -US\$2M corporate, -US\$14M Vidalia (mostly capex), and –US\$7.5M Balama operations (working capital build).
- **Outlook is positive based on EV sales and anode production growth, and rising graphite prices.** Key uncertainty is global shipping conditions, which are proving the constraint on Balama shipments.
- **Upgrades to graphite fines prices.** We have made changes to our graphite forecasts, including increasing our long-term China flake -194 FOB by 4% to US\$880/t.

Earnings and Valuation:

- **Downgrade to FY22e earnings; Increase from FY23 onwards.** FY22e downgraded on lower Balama shipments. We still expect improving sales over remaining quarters, but at lesser rate than previous forecast due to global shipping uncertainties. Earnings from FY23e and going forward upgraded on higher Balama pricing, as well as lower unit costs.
- **Risked SYR share valuation increases to \$2.60 (0.8x NPV₁₀) from \$2.37 due to:** 1) Post FY22e earnings upgrade; 2) Roll-forward of DCF; and 3) Lower future equity dilution which more than offset reduced FY22e earnings.

Recommendation:

- **We maintain our Buy and increase our 12-month PT to \$2.60 (prior \$2.37) based on risked valuation.** Catalysts include: 1) Further offtakes; 2) Improving Balama shipments and cash flow; 3) Securing DOE loan; 4) Construction progress of Vidalia; and 5) Vidalia 45ktpa BFS.

Disclosures

The analyst owns 73,690 SYR shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 874,262 SYR shares.
Cranport Pty Ltd owns 2,000,000 SYR shares.
Refer details end of report.

Foster Stockbroking acted as Co-Lead Manager to the underwritten \$250M placement and entitlement offer of 169M SYR shares at \$1.48 in February 2022, for which it received fees.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$2.60
Previous	\$2.37
Share price (A\$)	\$1.985
ASX code	SYR
52 week low-high	\$0.91-\$2.13
Valuation - risked (A\$/share)	\$ 2.60
Methodology	risked NPV

Capital structure

Shares on Issue (M)	669
Market cap (A\$M)	1,328
Net cash (debt) (A\$M)	185
Performance rights (M)	18
Options (M)	1
Diluted EV (A\$M)	1,180
Ave daily volume ('000)	3,677

Earnings (US\$M)	FY21a	FY22e	FY23e	FY24e
Sales	29	134	246	306
EBITDA adj	-38	20	91	124
NPAT reported	-53	11	75	94
NPAT adj	-48	10	72	90
EPS adj. \$*	-0.09	0.01	0.10	0.12
PE x	nm	98.5x	14.0x	11.7
EV/EBITDA x	nm	48.4x	10.4x	7.7x

* Adj =underlying

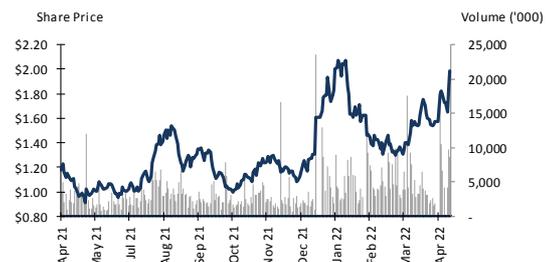
Substantial shareholders

AustralianSuper Pty Ltd	16.5%
Bruce N Gray	9%
Paradise Investment Management Pty Ltd	6%

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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