



Syrah Resources Ltd (SYR.ASX)

Another step to derisking Vidalia

Event:

- Additional Vidalia offtake for Tesla.

Investment Highlights:

- Additional offtake secured by Tesla.** On 23 December 2022 SYR announced that Tesla had exercised its option to secure 17ktpa active anode material (AAM) offtake from Vidalia, additional to the initial 8ktpa secured in December 2021 and bringing Tesla's total offtake to 25ktpa. Pricing is fixed, with an initial offtake term of no less than four years, subject to Vidalia expanding to 45ktpa. We expect the price will provide an attractive return based on the SYR's feasibility studies to date on Vidalia, accounting for operating costs.
- 56% of cumulative 45ktpa Vidalia offtake now binding.** The Tesla option exercise means that over half of the expanded Vidalia 45ktpa offtake is now binding, a significant derisking factor for FID as well as for the company accessing its US\$220M DoE grant for the expansion to 45ktpa.
- We expect further offtake from another Tier 1 party.** We anticipate SYR will source further offtake for Vidalia from another Tier 1 battery maker or EV OEM besides Tesla. This should both underpin the Stage 2 expansion to 45ktpa FID and facilitate access to the DoE grant, as well as diversifying customer base. The company has already entered into MoUs with Ford/SK On (BlueOval SK JV) for additional offtake (amount undisclosed), and LG Energy (2ktpa AAM from 2025, increasing to 10ktpa upon the 45ktpa expansion).
- SYR had endeavoured to achieve binding offtakes with both LG and Blue Oval SK JV by end December 2022.** While the deadline has passed, we do not view this negatively, given SYR has engaged with other key target customers and that their interest have lengthened negotiations and elevated competitive tension, such that SYR may either extract better offtake terms from BlueOval SK, LG, or both, or finalise offtake with other Tier 1 parties.

Earnings and Valuation:

- No change to earnings forecasts or valuation of \$2.94/share (0.6x NPV₁₀ nominal).**
- Concerns weigh down share price.** SYR share price has fallen -14% vs ASX 200 Materials +5% since the recent Tesla offtake announcement. We believe the marked fall in Tesla share price with perceived negative blowback on SYR, and lapse of the prior deadlines for binding Blue Oval SK and LG offtakes, have caused consternation.
- But big picture intact, inviting buying opportunity.** However we expect that securing binding Vidalia offtake with a non-Tesla party should alleviate the market's concerns, together with expected DFS soon and FID by end 1HCY23. These will further advance the 45ktpa expansion and maintain SYR's position as the leading non-China AAM supplier. Additionally there is improving Balama sales and commissioning of the initial 11.25ktpa Vidalia expansion in 3QCY23.

Recommendation:

- We maintain our Buy and 12-month PT of \$2.94 based on risked valuation.** Catalysts include: 1) Further binding Vidalia offtake; 2) Improving Balama sales and cash flow; 3) Construction progress of 11.25ktpa Vidalia; 4) Commissioning of, and first product from, 11.25ktpa Vidalia; and 5) Vidalia 45ktpa BFS and FID.

Disclosures

The analyst owns 73,690 SYR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 474,354 SYR shares.

Cranport Pty Ltd owns 1,048,835 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	\$2.94
Previous	\$2.94
Share price (A\$)	\$2.02
ASX code	SYR
52 week low-high	\$1.11-\$2.69
Valuation - risked (A\$/share)	\$ 2.94
Methodology	risked NPV

Capital structure

Shares on Issue (M)	671
Market cap (A\$M)	1,355
Net cash (debt) (A\$M)	108
Performance rights (M)	18
Diluted EV (A\$M)	1,284
Ave daily volume ('000)	4,037

Earnings (US\$M)

	FY21a	FY22e	FY23e	FY24e
Sales	29	117	244	311
EBITDA adj	-36	0	73	124
NPAT reported	-50	-8	51	88
NPAT adj	-47	-13	51	88
EPS adj. \$*	-0.09	-0.02	0.07	0.13
PE x	nm	nm	19.9x	11.7x
EV/EBITDA x	nm	nm	13.2x	7.8x

* Adj =underlying

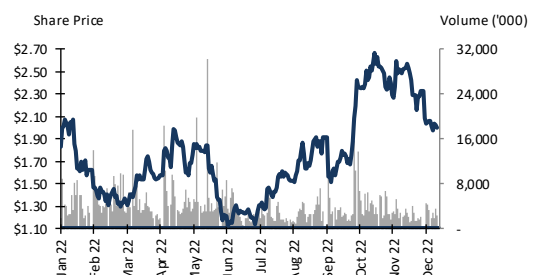
Substantial shareholders

AustralianSuper Pty Ltd	16.5%
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



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