



## Syrah Resources Ltd (SYR.ASX)

*Frustrating quarter but catalysts ahead*

### Event:

- December quarter review; Earnings and PT changes.

### Investment Highlights:

- As expected, Balama quarter subdued.** Due to mining and logistic disruptions in October from industrial action - flagged previously by SYR - Balama only shipped 28kt and produced 35kt concentrate, below our forecasts of 40kt for each. The period lost was frustrating, given rising demand for graphite, higher pricing, and easing of shipping constraints, all which would have facilitated markedly better performance. Cash end quarter was US\$90M (FSBe US\$111M).
- Increased pricing and revised production outlook the highlights.** Two key positives for Balama: 1) Another new high in the price received: US\$716/ CIF, in-line with our US\$726/t estimate, and 2) Management commenting on increasing production to "at least 20kt/month", a step up from prior commentary which focused on achieving 15kt/month. This is effectively already achievable, Balama producing 19kt in December.
- Updated Balama cost guidance still low.** Due to October's disruption, C1 cost were US\$709/t FOB (FSBe US\$500/t). SYR also updated costs guidance: US\$430-480/t C1 FOB at a 20kt/month rate, up from the prior US\$430-480/t at 15kt/month. Much of the range is due to uncertainty in long-term diesel costs. The commissioning of the solar battery facility in 2Q2023 is assumed, which tempers what could have been higher cost guidance.
- SYR reiterated 11.25ktpa Vidalia Stage 2 on budget and schedule.** US\$150M contracts for installed capital have been awarded, minimising risk of any significant cost overrun. The company stated it will commence draw-down of the US DoE loan (UD\$102M) this quarter for the balance of Stage 2 capex.
- Stage 3 Vidalia 45ktpa – DFS and further offtake discussions progress.** SYR continues discussions with existing MoU parties (LG, Blue Oval SK) and other EV/battery companies for offtake from Vidalia, while the Stage 3 DFS is nearing completion. Finalisation of both activities will be a precursor to Stage 3 FID.

### Earnings and Valuation:

- We cut SYR adj. NPAT for FY22e and FY23e to –US\$37M and US\$33M,** from US\$-13M and US\$51M, from weaker Balama 4QCY22 performance and more conservative Balama FY23e costs of C1 fob US\$484/t (prior US\$423/t) at 293kt production (24kt/month).
- Our SYR risked share valuation reduces to \$2.77 (0.6x NPV<sub>10</sub>) from \$2.94** from higher Balama costs, and factoring greater equity dilution. Due to reduced Balama cash flow, we estimate that SYR will need to raise additional funding (ca. US\$70M 50:50 equity:debt) to partly fund Stage 3 Vidalia 45ktpa expansion, alongside existing cash, US DoE US\$220M grant, and Stage 2 Vidalia cash flow.

### Recommendation:

- We maintain our Buy and lower our 12-month PT to \$2.77 from \$2.94 based on risked valuation.** SYR has a number of catalysts ahead in FY23e, including: 1) Further binding Vidalia Stage offtakes; 2) Improving Balama shipments and cash flow; 3) Commissioning of 11.25ktpa Vidalia Stage 2; 4) DFS on Vidalia 45ktpa; 5) FID for Stage 3 Vidalia 45ktpa; and 6) US DFC loan for Balama.

### Disclosures

The analyst owns 73,690 SYR shares.  
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 477,354 SYR shares.  
Cranport Pty Ltd owns 1,000,000 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			
<b>Price Target</b>	<b>\$2.77</b>			
Previous	\$2.94			
<b>Share price (A\$)</b>	<b>\$2.02</b>			
ASX code	SYR			
52 week low-high	\$1.11-\$2.69			
<b>Valuation - risked (A\$/share)</b>	<b>\$ 2.77</b>			
Methodology	risked NPV			
<b>Capital structure</b>				
Shares on Issue (M)	671			
Market cap (A\$M)	1,355			
Net cash (debt) (A\$M)	28			
Performance rights (M)	17			
Diluted EV (A\$M)	1,362			
Ave daily volume ('000)	3,920			
<b>Earnings (US\$M)</b>	<b>FY21a</b>	<b>FY22e</b>	<b>FY23e</b>	<b>FY24e</b>
Sales	29	108	245	305
EBITDA adj	-36	-26	54	104
NPAT reported	-50	-32	33	68
<b>NPAT adj</b>	<b>-47</b>	<b>-37</b>	<b>33</b>	<b>68</b>
<b>EPS adj. \$*</b>	<b>-0.09</b>	<b>-0.05</b>	<b>0.05</b>	<b>0.09</b>
<b>PE x</b>	<b>nm</b>	<b>nm</b>	<b>31.4</b>	<b>16.2</b>
EV/EBITDA x	nm	nm	18.1	9.4

\* Adj =underlying

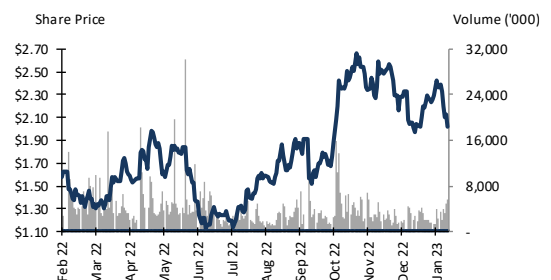
### Substantial shareholders

AustralianSuper Pty Ltd	16.5%
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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