



Syrah Resources Ltd (SYR.ASX)

Capex rise and soft market, but Vidalia 11.25ktpa on-track

Event:

- March quarterly; Vidalia 45ktpa DFS; Earnings and PT changes.

Investment Highlights:

- Soft demand and operational issues subdue Balama.** Production was only 41kt, below our 55kt estimate, while shipments of 30kt were also under our 55kt forecast. Balama experienced soft sales to China, SYR citing rise in anode and cell inventories combined with slowdown in growth rate of EVs. Realised price fell to US\$636/t from 4Q's US\$716/t. Further exacerbating woes were operating issues, with C1 FOB costs of US\$668/t above our US\$524/t estimate.
- Balama production to moderate beginning this month.** This will be until market conditions improve. Unfortunately visibility on such a timeline is unclear. We expect recovery potentially early in the 2HFY23e.
- Vidalia 45Ktpa DFS shows significant capex increase.** Capex for the expansion is US\$539M - higher than our estimate of US\$445M and the US\$440M implied from the DoE grant. Mid-case NPV₁₀ post-tax was US\$503M vs our estimate of US\$755M. Both real mid-point anode real price (US\$6,000/t) and all-in-cost (US\$3,023/t) were in-line with our forecasts, the drag on NPV being capex.
- Funding for 45ktpa being reassessed, including scoping new DoE loan.** SYR stated it has commenced negotiations for a new DoE loan that is "materially" higher than the US\$220M DoE grant it had been conditionally approved for. The need for greater funding is due to higher capex and the grant being taxable. FID is targeted for end 2023, along with finalising funding and offtake balance then.
- The good news - 11.25ktpa Vidalia on budget and schedule.** Initial expansion is on track for 3QFY23e commissioning, with capex updated to US\$180M (initially US\$176M) and potentially to US\$186M, the change immaterial.
- New convertible notes to ease tight cash position.** Due to moderation of Balama, need to maintain momentum on both Vidalia initial expansion commissioning and achieving 45ktpa FID, SYR is issuing AustralianSuper US\$33M. An additional US\$66M in notes may be issued subject to shareholder approval. Meanwhile the existing US\$73M notes will convert also subject to shareholder approval. We had previously assumed these to be redeemed.

Earnings and Valuation:

- We downgrade FY23e and FY24e adj NPAT to -US\$32M and US\$21M (prior US\$33M and US\$68M)** mostly due to lower Balama production in FY23e and lower graphite concentrate prices and higher costs in both years.
- Our risked SYR share valuation falls to \$1.99 (0.6x NPV₁₀) from \$2.77.** This results from 1) Lower Balama earnings; 2) Higher Vidalia 45ktpa capex; 3) Dilution from conversion of existing convertible notes; and 4) Greater dilution from future equity. Our valuation assumes further equity of US\$70M and a new DoE loan of US\$270M, replacing the DoE grant.

Recommendation:

- We maintain our Buy and lower our 12-month PT to \$1.99 from \$2.77 based on risked valuation.** Catalysts include: 1) Further binding offtake; 2) Improving graphite markets and Balama shipments; 3) Commissioning of 11.25ktpa Vidalia; 4) Funding for Vidalia 45ktpa; and 5) Vidalia 45ktpa FID.

Disclosures

The analyst owns 73,690 SYR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 657,690 SYR shares.

Cranport Pty Ltd owns 1,200,000 SYR shares.

Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.99
Previous	\$2.77
Share price (A\$)	\$1.03
ASX code	SYR
52 week low-high	\$1.015-\$2.69
Valuation - risked (A\$/share)	\$ 1.99
Methodology	risked NPV
Capital structure	
Shares pro-forma (M)*	782
Market cap (A\$M)	805
Net cash (debt) pro-forma (A\$M)*	94
Performance rights (M)	16
Diluted EV (A\$M)	728
Ave daily volume ('000)	3,713

*Assumes conversion of Series 1 and 3 notes

Earnings US\$M y/e	Dec	FY22a	FY23e	FY24e	FY25e
Sales		106	116	263	301
EBITDA adj		-20	-14	54	76
NPAT reported		-26	-32	21	42
NPAT adj		-32	-32	21	42
EPS adj. \$*		-0.05	-0.04	0.02	0.05
PE x		nm	nm	61.2	30.1
EV/EBITDA x		nm	nm	17.5	12.3

*Adj =underlying

Substantial shareholders

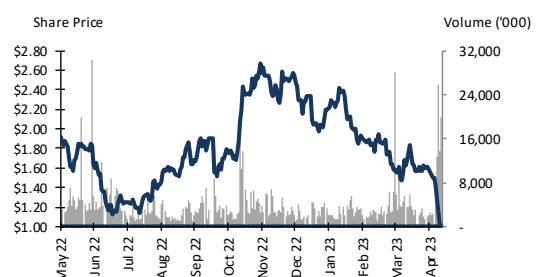
AustralianSuper Pty Ltd*	28%
Bruce N Gray	9%
Paradice Investment Management Pty Ltd	8%

*Assumes conversion of Series 1 and 3 notes

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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