



Syrah Resources Ltd (SYR.ASX)

Still waiting for recovery

Event:

- Release of Independent Expert Report; Earnings and PT changes.

Investment Highlights:

- Balama on pause as inventories weigh.** The Independent Expert Report re issue of convertible notes revealed Balama production has been halted since the beginning of May, not altogether surprising given the commentary surprising moderation of production and the soft anode and graphite markets, weighed by inventory concerns. Prices may be stabilising for Balama, although material demand has yet to emerge that would justify a restart.
- Vidalia 11.25ktpa capex now US\$190M.** Capex increased US\$10M from the previously flagged US\$180M in the March quarterly. The DoE requires that any capex surplus to the initial US\$176M estimate is required to be fully funded by the company.
- Series 4 provides lifeline given negative cash flow.** SYR cash was US\$117M at 31 May, with the unrestricted portion up only US\$6M from 31 March, or down US\$27M if the Series 4 Note (issued 12 May) is excluded, due to Balama working capital, TSF capex, and Vidalia capex.
- Likely intention to issue Series 5 Note.** Given the Balama pause and the still soft graphite markets, SYR stated it would likely issue the Series 5 Note soon after the 28 July meeting if resolutions are approved and conditions do not improve.

Earnings and Valuation:

- We downgrade FY23e and FY24e adj NPAT to -US\$33M and -US\$3M (prior -US\$32M and US\$21M)** mostly due to lower Balama shipments and lower graphite flake prices, as we anticipate a slower course of destocking of graphite and anode inventories, retarding the recovery in price and demand.
- Risked SYR share valuation falls to \$1.62 (0.5x NPV₁₀) from \$1.99.** Our cut in valuation is due to lower SYR earnings, as well as greater dilution. We now assume no cash flows from Vidalia 11.25ktpa or Balama to partly fund the 45ktpa expansion. Instead we increase our estimate of fresh equity required for to US\$180M from US\$70M. We also assume both Series 5 and 6 Notes (A\$100M, or US\$66M) will be issued but redeemed with Series 4 in 2028, not converted. We still assume a new US DoE loan of US\$290M.
- FID delay an option** We note SYR may defer its FID beyond December 2023, should its shareprice or graphite markets, or both, not exhibit a major recovery, and depending on how sizeable a DoE loan and attractive/strategic an offtake it can secure. A deferral would allow it to accumulate a cash buffer from potential cash flows generated from Balama and Vidalia 11.25ktpa, minimising new equity required and restoring investor confidence.

Recommendation:

- We maintain our Buy and lower our 12-month PT to \$1.62 from 1.99 based on risked valuation.** While enduring a tumultuous 1H2023, the long-term outlook remains favourable and SYR remains a leader in the non-China dependent supply of anode, being well positioned to capitalise on any turnaround. Catalysts include: 1) Further binding offtake; 2) Improving graphite markets and Balama restart; 3) Commissioning of 11.25ktpa Vidalia; 4) Funding for Vidalia 45ktpa; and 5) Vidalia 45ktpa FID.

Disclosures

The analyst owns 73,690 SYR shares, and Foster Stockbroking and other staff own 251,000 SYR shares. Cranport owns 1,200,000 SYR shares. Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.62
Previous	\$1.99
Share price (A\$)	\$0.87
ASX code	SYR
52 week low-high	\$0.78-\$2.69
Valuation - risked (A\$/share)	\$ 1.62
Methodology	risked NPV
Capital structure	
Shares pro-forma (M)*	790
Market cap (A\$M)	687
Net cash (debt) pro-forma (A\$M)*	94
Performance rights (M)	16
Diluted EV (A\$M)	607
Ave daily volume ('000)	3,914

*Assumes conversion of Series 1 and 3 notes

Earnings US\$M y/e Dec	FY22a	FY23e	FY24e	FY25e
Sales	106	90	190	245
EBITDA adj	-20	-16	26	52
NPAT reported	-26	-33	-3	21
NPAT adj	-32	-33	-3	21
EPS adj. \$*	-0.05	-0.04	0.00	0.02
PE x	nm	nm	nm	33.3x
EV/EBITDA x	nm	nm	15.2x	7.6x

*Adj =underlying

Substantial shareholders

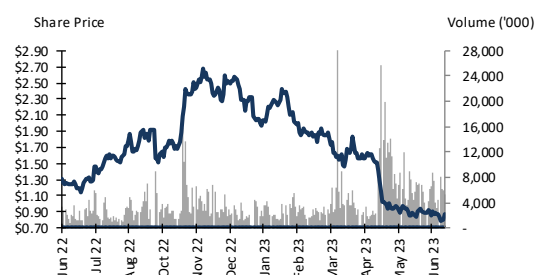
AustralianSuper Pty Ltd*	29%
Paradise Investment Management Pty Ltd	7%
Bruce N Gray	6%

*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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