



Syrah Resources Ltd (SYR.ASX)

Doing it tough

Event:

- June Quarterly Report; Earnings and PT changes.

Investment Highlights:

- Challenging times for Balama.** 15kt concentrate was produced in April and 15kt shipped to customers plus 2kt to Vidalia, with nil production in May and June as flagged previously. Continuous restart is dependent on demand and pricing but SYR expects at least one month of campaign mining at ≥ 10 kt during the September quarter to satisfy some contracts.
- Aiming to be profitable during campaigns.** Balama achieved US\$585/t C1 FOB costs during April - an improvement from the 1Q's US\$688/t. SYR is guiding C1 costs of US\$580-620/t at 10kt/month and US\$378-426/t at 20kt/month when campaign mining, and US\$4M/month during shutdown periods. Medium-term guidance is US\$430-480/t at 20kt/month, with US\$350-390/t at full capacity.
- Working capital timing exacerbates cash outflows.** Gross operating cash flow burn was -US\$40M (or -US\$30M net of receipts), larger than our -US\$15M estimate and that implied from new costs guidance (-US\$18M). Reason was working capital re payments timing, with SYR expecting a reduction in the 3Q.
- Reached the nadir?** SYR notes customer feedback suggesting China fines market improving, and spherical graphite processing utilization increasing.
- Merchant anode opportunity.** SYR is in discussions with ex-China anode projects to supply them with Balama graphite. It is a logical step given surplus Balama capacity to the requirements of a 45ktpa expanded Vidalia. These projects would underpin greater Balama production and reduce both parties China exposure. SYR has commercial arrangements with two such projects.
- Vidalia production delayed.** First anode from the initial Vidalia 11.25ktpa expansion is now expected in the December quarter vs September previously, due to delay in piping for the purification circuit. Capex was reiterated at US\$190M. Discussions with potential offtakers and DoE for debt continue for the 45ktpa expansion.
- Series 5 Note to be issued in August.** Cash was US\$101M and debt US\$172M (US\$66M DoE debt and US\$106M notes) end June. SYR will issue the A\$50M (US\$34M) Series 5 note in August post shareholder approval which, together with Series 1 and 3 note conversions, would result in pro-forma cash of US\$135M and debt US\$133M.

Earnings and Valuation:

- We downgrade FY23e and FY24e adj NPAT to -US\$50M and -US\$8M (prior -US\$33M and -US\$3M)** mostly due to higher Balama costs and delay in Vidalia 11.25ktpa. Earnings from FY25e and onwards are largely unchanged.
- Risked SYR share valuation (0.5x NPV₁₀) falls to \$1.47 from \$1.62**, due to cut to FY23-FY24e earnings and lower than expected cash position end June.

Recommendation:

- We maintain our Buy, lowering our 12-month PT to \$1.47 from \$1.62 based on risked valuation.** Catalysts include: 1) Further binding offtake; 2) Improving graphite markets; 3) Balama restart; 3) Commissioning of 11.25ktpa Vidalia; and 4) Funding and FID for Vidalia 45ktpa.

Disclosures

The analyst owns 73,690 SYR shares, and Foster Stockbroking and other staff own 199,000 SYR shares. Cranport owns 1,200,000 SYR shares. Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.47
Previous	\$1.62
Share price (A\$)	\$0.78

ASX code	SYR
52 week low-high	\$0.7225-\$2.69

Valuation - risked (A\$/share)	risked NPV
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Capital structure	
Shares pro-forma (M)*	790
Market cap (A\$M)*	616
Net cash (debt) pro-forma (A\$M)*	2
Performance rights (M)	16
Diluted EV (A\$M)	627
Ave daily volume ('000)	4,146

*Assumes conversion of Series 1 and 3 notes

Earnings US\$M y/e	Dec	FY22a	FY23e	FY24e	FY25e
Sales		106	71	185	245
EBITDA adj		-20	-37	22	52
NPAT reported		-26	-50	-8	21
NPAT adj		-32	-50	-8	21
EPS adj. \$*		-0.05	-0.06	-0.01	0.02
PE x		nm	nm	nm	30.3x
EV/EBITDA x		nm	nm	15.2x	6.7x

*Adj =underlying

Substantial shareholders

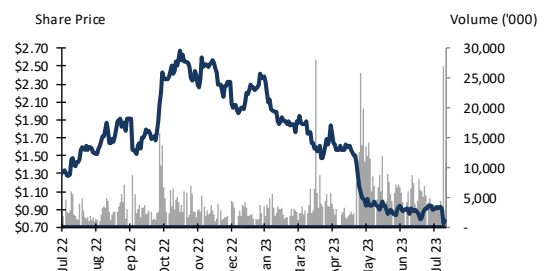
AustralianSuper Pty Ltd*	29%
Paradise Investment Management Pty Ltd	7%
Bruce N Gray	6%

*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



Analyst: Mark Fichera
mark.fichera@fostock.com.au

+612 9993 8162