



Syrah Resources Ltd (SYR.ASX)

No new equity as notes can withstand stress-test

Event:

- Stress test of SYR cash flows; Corporate appeal.

Investment Highlights:

- Stress testing SYR cash flows.** Uncertainty hangs over SYR given adverse graphite market conditions which prompted it to moderate Balama production. Adding further complexity is completing the construction of Vidalia Initial Expansion (11.25ktpa) and navigating a course to an FID for its Vidalia Further Expansion (45ktpa). We stress-test cash flows by running a low case scenario.
- Low Case scenario – spot prices flat, 15kt Balama production per quarter.** We run a scenario over the next 18 months – effectively 2H 2023 and full-year 2024 – under grim assumptions: spot graphite prices flat, and Balama production at half-capacity (i.e. 15kt) for only one month per quarter. This is lower than our Base Case of average production of 46kt per quarter over the period. Under the Low Case, we do not assume Vidalia Further Expansion.
- Convertible notes provide ample liquidity over next 18 months.** Under our Low Case scenario Balama would burn US\$18M-25M per half. SYR's cash, currently US\$101M, would fall to US\$69M end December 2023. At end June 2024, cash would actually rise to US\$82M, assuming issue of the Series 6 Note. Finally, cash would fall again in the 2H 2024 to US\$60M at end December 2024, assuming Balama still burning cash and producing only 15kt per quarter with spot benchmark prices.
- Equity only raised for Vidalia Further Expansion and in favourable markets.** Given the ample liquidity provided by the convertible notes, even under the dire outlook of the Low Case scenario, we think SYR will not need to raise any further equity unless for a Vidalia Further Expansion positive FID and if capital market conditions are favourably conducive.
- Corporate appeal to anode producers.** With the commissioning of the Vidalia Initial Expansion nearing, SYR will be the leading domestic anode producer in the US. This – together with its DFS pathway to the Further Expansion - offers corporate appeal to existing major anode producers in 1) Reducing China exposure in the anode production chain and 2) Exploiting commercial incentives of the Inflation Reduction Act.
- Korean connection.** POSCO Future M aims to be the global leading anode producer, targeting 360ktpa anode by 2030. Its customers include the three major Korean battery makers – Samsung SDI, SK On, and LG Energy Solutions. However all three interestingly have MoUs with Vidalia, no doubt attracted to its US location and likely noted by POSCO. Any of these may be potential strategic funding sources for SYR and /or Vidalia (e.g project interest).

Earnings and Valuation:

- No changes to our earnings forecasts or risked SYR share valuation (0.5x NPV₁₀) of \$1.47.

Recommendation:

- We maintain our Buy and 12-month price-target of \$1.47 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 188,000 SYR shares. Cranport owns 1,900,000 SYR shares. Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.47
Previous	\$1.47
Share price (A\$)	\$0.68
ASX code	SYR
52 week low-high	\$0.625-\$2.69
Valuation - risked (A\$/share)	
Methodology	risked NPV
Capital structure	
Shares pro-forma (M)*	790
Market cap (A\$M)*	537
Net cash (debt) pro-forma (A\$M)*	2
Performance rights (M)	16
Diluted EV (A\$M)	546
Ave daily volume ('000)	4,367

*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	26.4x
EV/EBITDA x	nm	nm	13.6x	5.8x

*Adj =underlying

Substantial shareholders

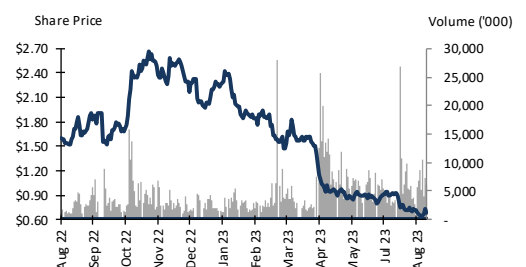
AustralianSuper Pty Ltd*	29%
Paradise Investment Management Pty Ltd	7%
Bruce N Gray	6%

*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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