



Syrah Resources Ltd (SYR.ASX)

The worst may have passed...

Event:

- September quarterly report; Earnings and price-target changes.

Investment Highlights:

- Return of demand lifts Balama.** External shipments of 23kt during the quarter exceeded our forecast of 16kt and the June quarter's 15kt, due to increased fines demand. Balama mined for only 32 days during the quarter and has continued into October, with SYR guiding to 20kt production in the December quarter if demand is sustained. The worst may be over for SYR after suffering the shock of demand evaporation mid-year due to excess inventory capacity in China, which now appears to be reducing as EV sales outpaces that of anode.
- Costs improvement from initiatives.** C1 costs FOB during campaign mining were US\$484/t for the quarter, below the US\$565/t of the June quarter and our forecast US\$546/t, albeit above the company's targeted US\$378-436/t. The improvement stemmed from successful initiatives previously outlined. Successful commissioning of the solar and battery system should further drive costs down, reducing diesel expenditure by 35%.
- Vidalia capex comprises most of burn.** SYR net operating cash flow was -US\$6M for Balama, and -US\$8M for Vidalia and corporate, while US\$37M capex was principally Vidalia expansion. Cash end September was US\$81M, with both the US\$32M DoE final debt tranche advanced post the quarter and the A\$50M Series 6 Note to be issued in October.
- Fines prices the sticking point.** Weighted average Balama CIF price was US\$528/t, lower than our forecast US\$608/t due to lower fines prices. While China demand may be improving, reported benchmark China fines prices continue falling. We have cut our China graphite -194 FOB price by -5% to US\$732/t in FY23e, -6% to US\$750/t in FY24e, and -6% to US\$800/t in FY25e. Our long-term price is unchanged at US\$875/t.
- Vidalia Initial Expansion (11.25ktpa) commissioning in December quarter.** Inflation pressures saw capex revised up to US\$198M from US\$190M, while unsurprisingly AISC was increased to US\$3,640/t from FID, but lower than what we had forecast. US\$37M of capex remains, which should be completed in current quarter. The company also deferred its FID for Further Vidalia Expansion (45ktpa) to 1H 2024.

Earnings and Valuation:

- Earnings downgrades.** We reduce our forecast SYR NPAT in FY23e and FY24e to -US\$56M and -US\$15M from US\$50M and -US\$8M previously. Our FY25e forecast is unchanged at US\$21M. This is mostly from lowering both our forecast graphite fines prices in 2023-24e and Balama shipments in 4QFY23.
- Risked valuation (0.4x NPV₁₀ nominal) falls to \$1.12 from \$1.47,** from lower graphite prices short-term, lower FY23e shipments, delaying Vidalia Further Expansion FID by six months, and increased capex for the Vidalia 11.25ktpa.

Recommendation:

- We maintain our Buy and cut our 12-month price-target to \$1.12 from \$1.47 based on risked valuation.** Catalysts include: 1) Further binding offtake; 2) Improving graphite markets; 3) Balama continuous operation; 4) Commissioning of 11.25ktpa Vidalia; and 5) Funding and FID for Vidalia 45ktpa.

Disclosures

The analyst owns 73,690 SYR shares, and Foster Stockbroking and other staff own 1,508,000 SYR shares. Cranport owns 4,917,350 SYR shares. Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.12
Previous	\$1.47
Share price (A\$)	\$0.445
ASX code	SYR
52 week low-high	\$0.43-\$2.69

Valuation - risked (A\$/share)

Methodology	risked NPV
Capital structure	
Shares (M)	676
Market cap (A\$M)	301
Net cash (debt) (A\$M)	-196
Performance rights (M)	14
Diluted EV (A\$M)	503
Ave daily volume ('000)	5,160

Earnings US\$M y/e	Dec	FY22a	FY23e	FY24e	FY25e
Sales		106	57	171	229
EBITDA adj		-20	-42	13	47
NPAT reported		-26	-61	-15	21
NPAT adj		-32	-56	-15	21
EPS adj. \$*		-0.05	-0.08	-0.01	0.01
PE x		nm	nm	nm	21.8x
EV/EBITDA x		nm	nm	14.9x	4.1x

* Adj =underlying

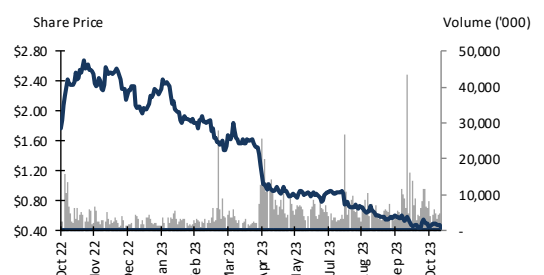
Substantial shareholders

AustralianSuper Pty Ltd	17.1%
Paradice Investment Management Pty Ltd	7.8%
Bruce N Gray	5.3%

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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