



Syrah Resources Ltd (SYR.ASX)

China controls shine torch on supply risk

Event:

- China announces export controls for graphite.

Investment Highlights:

- Permits required for natural graphite.** On Friday China's Ministry of Commerce announced temporary export control measures for graphite products in order to safeguard national security and interest. The control broadens the scope of graphite product restricted earlier in 2006, which now will not allow synthetic and natural graphite to be exported without a permit. Natural graphite products include spherical graphite, a precursor of natural anode used in lithium ion batteries (LiBs). The measures come into effect 1 December 2023.
- Exporting becomes more onerous.** To apply for a permit, exporters must submit - amongst other things - contracts, technical specifications, proof of - and introduction to - users, and legal and management identifications. The Ministry will decide whether a permit is granted or not. It is unclear to what degree material restriction, if any, of China graphite exports will result. Regardless, the risk of global supply has been heightened.
- Motives point to higher supply risk.** We see two interpretations for the controls: securing national supply and geopolitical trade issues. The first arises from interpreting the announcement at face value: the controls are to safeguard national security. As graphite is the single largest mineral consumed in LiBs, and given the large pipeline of China's EV and battery growth projects, protecting its supply of graphite is logical.
- Geopolitical response.** One may argue that this year there has been an excess of graphite capacity, so why the need to place restrictions now? Geopolitics is an obvious answer, given the China trade war with the US and EU, not only over EVs but in other areas such semiconductor chips. What better riposte than tightening exports of graphite which China supplies over 90% of anode, and *all* the precursor for the few other anode makers in Japan and South Korea.
- Both Balama and Vidalia make SYR a clear winner.** The controls are a vivid reminder to the US, EU, and North Asia of their reliance on China graphite. They should also help SYR in its negotiations with offtake: both EVs and batterymakers for Vidalia anode, and merchant anode producers for Balama graphite. It also assists the company in its talks with the US DoE for debt funding. With the expanded Vidalia on the cusp of commissioning, SYR will be the only fully China-independent anode supplier from raw graphite to final product.
- Graphite price weakness likely to stabilise or reverse.** We now see upside risk to graphite prices, including fines concentrate and anode, ahead of 1 December when controls come into force, as buyers may scramble for ample inventory.

Earnings and Valuation:

- No changes to earnings or risked valuation of \$1.12 (0.4x NPV₁₀).

Recommendation:

- We maintain our Buy and 12-month price-target of \$1.12, based on risked valuation. Catalysts include: 1) Further binding offtake; 2) Improving graphite markets; 3) Resumption of 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	Medium
Price Target	\$1.12
Previous	\$1.12
Share price (A\$)	\$0.53
ASX code	SYR
52 week low-high	\$0.42-\$2.69

Valuation - risked (A\$/share)

Methodology	risked NPV
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Capital structure

Shares (M)	676
Market cap (A\$M)	358
Net cash (debt) (A\$M)	-196
Performance rights (M)	14
Diluted EV (A\$M)	562
Ave daily volume ('000)	5,264

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	26.0x
EV/EBITDA x	nm	nm	18.1x	4.9x

* 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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