



Syrah Resources Ltd (SYR.ASX)

Graphite grim, but cash from DFC and Tesla on horizon

Event:

- 4Q 2023 report.

Investment Highlights:

- Balama dour as expected.** With the turmoil in battery metals markets, it was unsurprising Balama had a lacklustre quarter. Third-party sales of 17kt, average sale price of US\$490/t CIF, and C1 FOB costs - when operating - of US\$534/t respectively underperformed our estimates of 20kt, US\$582/t, and US\$477/t.
- Balama bleeds as market dictates campaign mode.** We estimate Balama EBITDA was -US\$11M during the 4Q 2023, with effectively one-month campaign mining and two months non-operating (fixed costs US\$4M/month). We expect further one-month campaigns in both quarters of 1H 2024, with continuous mining resuming in 2H 2024 by which time we expect China destocking of anode and graphite to have mostly run their course.
- Vidalia a more positive note as production "imminent".** More positive was Vidalia progress, with production of active anode imminent (we anticipate this month), after a slight delay and final capex rising to US\$209M from US\$198M.
- Market will focus on Tesla revenues.** Vidalia anode will be shipped for Tesla under the binding offtake agreement, with SYR receiving payments after passing qualification tests. While no specific timing has been provided, we expect this will take several months, and expect first payments in 3Q 2024.
- DFC loan expected 1H 2024.** SYR received conditional commitment for US\$150M loan from the DFC for Balama in September 2023. We expect high probability of it going binding, with SYR targeting completion in 1H 2024.
- DFC loan can alleviate Balama funding pressures.** Cash end 4Q 2023 was US\$85M (FSBe: US\$90M), of which US\$38M was restricted for Vidalia. This leaves US\$47M for funding Balama and Corporate, which would necessitate SYR seeking funding in latter 2024, should current graphite market and Balama operating conditions persist. However completion of the DFC Balama loan, together with expected improving graphite markets, would address this.
- Restricted cash to fund Vidalia working capital.** We expect the US\$38M will be sufficient to fund Vidalia working capital until first Tesla revenues.

Earnings and Valuation:

- Earnings downgrade.** We cut forecast SYR NPAT to -US\$62M and US\$2M in FY24e and FY25e, from US\$15M and US\$21M previously, based on reduced production and prices for Balama, the downturn in graphite markets persisting longer than we previously expected.
- Risked valuation cut to \$0.98 (0.4x NPV₁₀) from \$1.12 previously,** based on Balama downgrade, as well as deferring first anode production from the Further Expansion (45ktpa) to beginning FY28 from mid-FY27 previously.

Recommendation:

- We maintain our Buy and reduce 12-month price-target to \$0.98 from \$1.12, based on risked valuation.** Catalysts include: 1) Binding offtakes for Balama and Vidalia; 2) Improving graphite markets; 3) Resumption of Balama continuous operation; 4) First receipts from Tesla; 5) DoE and DFC loans; Funding and FID for Vidalia 45ktpa; and 6) Corporate activity.

Disclosures

The analyst owns 73,690 SYR shares. Foster Stockbroking and other staff own 1,060,000 SYR shares. Cranport owns 5,135,955 SYR shares. Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	Medium
Price Target	\$0.98
Previous	\$1.12
Share price (A\$)	\$0.42

ASX code	SYR
52 week low-high	\$0.365-2.035

Valuation - risked (A\$/share)	risked NPV
Methodology	risked NPV

Capital structure	
Shares (M)	676
Market cap (A\$M)	284
Net cash (debt) (A\$M)	-196
Performance rights (M)	14
Diluted EV (A\$M)	486
Ave daily volume ('000)	7,249

Earnings US\$M y/e Dec	FY22a	FY23e	FY24e	FY25e
Sales	106	47	74	183
EBITDA adj	-20	-46	-46	20
NPAT reported	-26	-63	-62	2
NPAT adj	-32	-58	-62	2
EPS adj. \$*	-0.05	-0.08	-0.08	0.00
PE x	nm	nm	nm	103.9x
EV/EBITDA x	nm	nm	nm	8.2x

* Adj = underlying

Substantial shareholders	
AustralianSuper Pty Ltd	17.1%
Paradise Investment Management Pty Ltd	7.8%
JP Morgan Chase & Co & affiliates	7.4%
Citigroup Goba Markets Australia Pty Ltd	5.5%
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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