



Syrah Resources Ltd (SYR.ASX)

Posco sees the elephant

Event:

- Posco Future M contract.

Investment Highlights:

- Posco Future M (Posco) signs binding offtake from Balama.** The contract is for up to 2kt per month (24ktpa) of flake graphite, commencing the year after commissioning of Posco's anode plant, and becomes 2kt to 5kt per month (60ktpa) from the second year at Posco's option. Term is six years and conditional on contract commencing by end December 2025.
- Posco plant underway to take Balama offtake.** Posco is a leading non-China anode producer but reliant on China for all its natural graphite precursor, importing spherical graphite and processing it into anode. However, Posco is constructing a facility that can accept flake graphite and produce anode – similar to Vidalia. This is to wean itself off China dependency, motivated by China export controls and US foreign-entity-of-concern (FEOC) guidelines.
- Volumes may still grow.** We view the offtake as a first step, expecting upside risk to volumes as the SYR-Posco relationship progresses, EV demand continues, and some future natural graphite supply – mines to be developed, some that Posco Holdings has MoUs with - are delayed or not developed at all.
- Large graphite needs.** Posco produced 74kt natural anode in 2023 and is targeting 182kt in 2030, equating to about 148kt flake graphite consumption increasing to 364kt by 2030. To put this in perspective, the latter is above Balama's full capacity of 350ktpa.
- Strategic possibilities?** While the offtake is about Balama, it's hard not to ignore other mutually beneficial opportunities: SYR's Vidalia anode-producing plant in the US with IRA-conferred tax credits where Posco has none, and SYR's plans for an expanded Vidalia and Posco's balance sheet.
- Indonesia anode another offtake opportunity.** SYR has sold a trial shipment to an Indonesia anode facility under construction. While not named we presume it is owned by China's BTR New Material Group (BTR), the world's leading natural graphite anode producer. Scale of the facility is 80ktpa anode, equivalent to around 160ktpa natural flake. We rate BTR as strong potential to be long-term offtaker, attracted by Balama's scale.
- 40% Balama capacity accounted for by Vidalia and third-parties.** The 11.25ktpa anode Vidalia Initial Expansion (21ktpa natural graphite feed), Posco (60ktpa), Graphex (30ktpa), and Westwater Phase I (25ktpa) agreements all add to 136ktpa or around 40% of Balama 350ktpa capacity. Further opportunities such as Indonesia and Vidalia Further expansion can quickly soak up more Balama capacity.

Earnings and Valuation:

- No change to earnings or valuation.

Recommendation:

- We maintain our Buy and price-target of \$0.98, based on risked valuation. Catalysts include: 1) Further offtakes for Balama and Vidalia; 2) First receipts from Tesla; 3) Improving graphite markets; 4) Increasing Balama sales; 5) DoE and DFC loans; 6) Funding and FID for Vidalia 45ktpa; and 7) Corporate activity.

Disclosures

The analyst owns 73,690 SYR shares. Foster Stockbroking and other staff own 1,358,560 SYR shares. Cranport owns 5,000,000 SYR shares. Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	Medium
Price Target	\$0.98
Previous	\$0.98
Share price (A\$)	\$0.69

ASX code	SYR
52 week low-high	\$0.365-1.95

Valuation - risked (A\$/share)

Methodology	risked NPV
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Capital structure

Shares (M)	676
Market cap (A\$M)	466
Net cash (debt) (A\$M)	-196
Performance rights (M)	19
Diluted EV (A\$M)	676
Ave daily volume ('000)	7,594

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	182x
EV/EBITDA x	nm	nm	nm	14x

* Adj =underlying

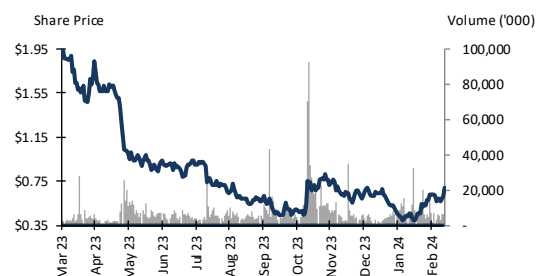
Substantial shareholders

AustralianSuper Pty Ltd	17.1%
Paradise Investment Management Pty Ltd	7.8%
JP Morgan Chase & Co & affiliates	7.4%
Citigroup Gobl 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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