



Syrah Resources Ltd (SYR.ASX)

Biting the bullet

Event:

- Equity raising and notes conversion.

Investment Highlights:

- US\$65M equity raise and Series 1 and 3 conversion.** SYR announced a US\$65M equity raising (US\$41M placement and US\$24M 1-for-10.2 rights issue, both underwritten and at \$0.55). AusSuper also agreed to convert the series 1 and 3 notes into equity, the conversion price revised down to \$0.6688 from \$0.96.
- Shoring up balance sheet while uncertainty over timing of catalysts linger.** The equity raise caught us by surprise as we expected the company to finalise the DFC US\$150M loan for Balama in this half. However, a number of factors conspired to prompt SYR to raise equity: 1) Balama remaining in cash burn campaign mode; 2) Continuing uncertainty in graphite markets, including China export controls; and 3) Risk of finalisation the DFC loan being further delayed.
- DFC loan still expected 2Q 2024, but risk of delay now covered.** We still expect the DFC loan to close in 2Q 2024, but there is risk that this could slip past this date and, together with Balama still burning cash if markets do not improve, would result in a poor 3Q with thinning cash. SYR's raise now covers this.
- Notes conversion removes debt question mark.** There had been increasing market nervousness that – as the October 2024 maturity date loomed ever closer, together with the dour state of graphite markets and a depressed share price – AusSuper would change its mind. The conversion addresses this.
- Stronger balance sheet enables better negotiating position.** Pro-forma net debt after equity raise and notes conversion markedly reduces to only US\$54M from US\$195M end December 2023. This gives management more time to focus on advancing projects from an enhanced negotiating position with key parties - US DoE, potential Vidalia and Balama offtakers, and strategics.
- Balama 1Q sales in-line with prior quarter.** Balama is still in campaign mode, SYR estimating 1Q 2024 sales to be in-line with the 17kt of 4Q 2023, lower than the 20kt we had forecast. Production is moderately lower, and average weighted price materially higher, in 1Q 2024 vs 4Q 2023, the latter underpinned by both higher coarse flake prices and sales. We maintain our forecast of similar 2Q performance to 1Q, with improving shipments to begin in 3Q 2024.

Earnings and Valuation:

- SYR reported unaudited FY23 sales of US\$48M (FSBe: US\$47M) and loss of -US\$85M (FSBe: -US\$63M)** but no other detail. We make no material changes to our adjusted NPAT forecasts.
- Risked valuation reduces to \$0.87 from \$0.98 (0.4x NPV₁₀ nominal),** due to dilutive impact of lower note conversion price and equity raising, partially offset by assumed less dilutive future equity for Vidalia Further Expansion.

Recommendation:

- We maintain our Buy, reducing our 12-month price target to \$0.87 from \$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, and Cranport owns 5,000,000 SYR shares. Additionally, holdings may change subject to participation in the March 2024 equity raising. Foster Stockbroking will receive fees from SYR for assisting in the A\$98M equity raise at \$0.55 in March 2024.

Refer end of report for details.

Recommendation	Buy
Previous	Buy
Risk	Medium
Price Target	\$0.87
Previous	\$0.98
Share price (A\$)	\$0.70
ASX code	SYR
52 week low-high	\$0.365-1.85
Valuation - risked (A\$/share)	
Methodology	risked NPV
Capital structure - proforma*	
Shares (M)	1,034
Market cap (A\$M)	724
Net cash (debt) (A\$M)	-54
Performance rights (M)	14
Diluted EV (A\$M)	788
Ave daily volume ('000)	7,660

*Adjusted for equity raise and Series 1 & 3 notes conversion

Earnings US\$M y/e Dec	FY22a	FY23e	FY24e	FY25e
Sales	106	48	72	183
EBITDA adj	-20	-46	-45	20
NPAT reported	-26	-85	-60	2
NPAT adj	-32	-58	-60	2
EPS adj. \$*	-0.05	-0.08	-0.08	0.00
PE x	nm	nm	nm	284x
EV/EBITDA x	nm	nm	nm	14.5x

*Adj =underlying

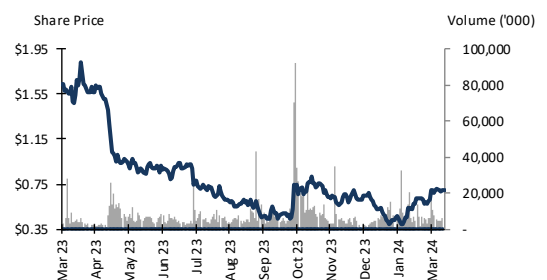
Substantial shareholders

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