



Resources Stocks Down Under

📖 *Smart idea, grounded on exhaustive research,
followed by a big bet. 📖*

- Julian Robertson (1932-2022), Hedge fund manager

SYRAH RESOURCES

Still looking solid

SYRAH RESOURCES

Still looking solid

Stocks Down Under rating: ★★★★★

ASX: SYR
Market cap: A\$1.2BN

52-week range: A\$0.98 / A\$2.13
Share price: A\$1.78

It's been a few months since we've looked at any graphite plays, but we haven't forgotten about that valuable black stuff. Nor have we forgotten about Syrah Resources (ASX: SYR), which we've covered and given four stars twice before with our call being right on both occasions. In February 2020, it was 53.5 cents and despite the Corona Crash ended up running hot over the next two years to reach \$1.33 in March this year. Now it's over \$1.50 and we think there's more growth to come.

Share price chart



Source: Tradingview

The ASX's pre-eminent graphite play

For the sake of our newer readers, let's quickly recap the story. Syrah's original company maker was a graphite mine in Mozambique called Balama which it began working on in 2012 and brought into production in late 2017. Its 108mt reserve at 16% TGC (Total Graphitic Content) made it the biggest graphite mine in the world. Unfortunately, the company suspended production for 12 months as a result of COVID-19. By the time production re-commenced, graphite prices had failed to recover and production levels were not the same.

But Syrah had another trick up its sleeve, in the form of an Active Anode Material (AAM) plant that it proposes to build in the US state of Louisiana. Graphite is a core ingredient in the anodes of lithium-ion batteries, including for Electric Vehicles but also for steelmaking, iron casting and lubricants.

Although progress on EVs has been slower than you would've thought a few years ago, sales are now taking off with consistent growth in recent months. Syrah has timed its run perfectly. It expects the Vidalia plant (so-called 'Vidalia' after the town in Louisiana's Concordia Parish where it's located) to start producing in roughly 12 months' time and Tesla will be one of its customers, having signed a binding offtake agreement for the majority of the 10,000-tonne per annum project just before Christmas last year.

Backed by Tesla, but that's just the beginning

The Tesla tie up was just the beginning for Vidalia. In July, Syrah entered into a non-binding MOU with Ford to potentially use graphite from Vidalia in that famous company's future EV offering. Ford can have Vidalia graphite in any colour it likes, so long as it is black...But seriously, folks, no sooner had the Ford announcement gone out but Syrah received a US\$102m (A\$146m) binding loan from the US Department of Energy for the initial expansion of Vidalia to a 11.25ktpa capacity. This was granted under the DOE's Advanced Technology Vehicles Manufacturing loan program, which has US\$15.1bn in loan authority to support the manufacturing of EVs and other advanced technology vehicles in the USA.

Would you agree that Syrah is in fair company here, with Ford, Nissan and Tesla among the other recipients? The first loan advance is anticipated for the December quarter, subject to satisfaction of customary conditions. This will allow Syrah to use its existing cash to accelerate its growth strategy in the near term.

It's all well and good for deals to be announced but the Vidalia project needs to have a solid economic case overall. Thankfully, it does. The company's economic assessments have found that a plant making 10,000 tonnes of AAM per annum could make the product for an All-In Sustaining Cost (AISC) of about US\$3,150. Not bad considering the reported selling price for Chinese AAM recently was about US\$5,500. But with a 40,000 tonne capacity, the AISC drops to US\$2,700.

Your best graphite bet

If you want exposure to battery metals, you could argue Syrah has some competitors that likewise have contracts with Tesla, are producers or soon to be. But looking specifically at graphite, Syrah is unrivalled in our view. It is the only operating vertically integrated natural graphite AAM supplier outside of China. And bear in mind the graphite boom is barely beginning, unlike lithium that has been on the run for some time now. Of course, it's easy to forget about Balama, but we think it still has potential for the future. After all, production and sales were only constrained by shipping delays, not operations or customer demand.

Are there any risks with Syrah? We think the biggest risk to the company is sovereign risk given its exposure to Mozambique through Balama. A report issued by Basel Institute on Governance in 2019 found that of 125 countries assessed, Mozambique had the highest risk associated with corruption, money laundering and terrorism financing. Other risks include commodity prices and typical operation risks associated with the resources sector. You could argue the Vidalia plant is de-risked due to the deal with Tesla and we accept that. However, as Twitter can attest to, Elon Musk has been known to try and walk away from deals that no longer suit him. And if he does, the share price will inevitably be punished.

Keep in mind, as well, that Tesla is going to have to 'validate' the Vidalia product before it can be used in its gigafactories. That's going to take a little while. But assuming the deal with Tesla holds, that more EV aspirants sign on the dotted line for more graphite, and that Balama can return to the pre-COVID glory days, we think Syrah will well and truly earn our ongoing four star recommendation.

Pitt Street Research Pty Ltd

3 Spring Street, Sydney, NSW 2000, Australia

Stocks Down Under gives you an information advantage to better invest and trade in ASX-listed stocks!

Stocks Down Under (Pitt Street Research AFSL 1265112) provides actionable investment ideas on ASX-listed stocks. The Content is financial advice but is not (and cannot be construed or relied upon as) personal financial advice. No investment objectives, financial circumstances or needs of any individual have been taken into consideration in the preparation of the Content. Please make sure that investing in such products is suitable for your circumstances, and ensure you obtain, read and understand any applicable offer document.

Financial products are complex, entail risk of loss, may rise and fall, and are impacted by a range of unpredictable market and economic factors.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission from Pitt Street Research Ltd Pty. All intellectual property relating to the Content vests with Pitt Street Research/ Stocks Down Under unless otherwise noted.

Stocks Down Under/Pitt Street Research directors and staff may own shares in the companies mentioned in our articles, videos, reports and analyses.

You are receiving this email because you subscribed to our newsletter.

