

Sierra Rutile Ltd

(SRX \$0.21) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	31 st October 2022	\$0.76/sh

Volatile quarter...but on track for good profit year

Event

SRX reported Sept quarter production and revised guidance;

Impact

Production guidance revised down (we were already below);

Cost guidance increased (we were already above guidance);

Capex guidance revised down (we have left our estimate unchanged);

Our earnings estimates are barely changed;

Action

We have a Speculative Buy recommendation.

Company was highly free cash flow positive in the June quarter, and now negative in the Sept quarter, and then should rebound based on guidance...so basically there is a fair bit of volatility but over time SRX can generate good free cash on current rutile prices to fund the capital required in Sembehun.

Key Catalysts

- Dec Qtr - January
- FY22 result - February
- Sembehun DFS - end CY23

Sierra Rutile Ltd	Year End 30 June	
Share Price	0.21	A\$/sh
Price Target	0.76	A\$/sh
Valuation	0.59	A\$/sh
	npv (8.0%)	

Shares on issue	424m, diluted *
Market Capitalisation	95 A\$m
Enterprise Value	39 A\$m
Debt (30 Sep 22a)	0 A\$m
Cash (30 Sep 22a)	56 A\$m
Largest Shareholder	Perpetual

Production F/Cast	2022F	2023F	2024F
Zircon	19	33	33
Rutile / HiTi	137	131	131
Ilmenite	60	57	55

Assumptions	2022F	2023F	2024F
Ilmenite	294	290	280
Zircon	1909	1700	1600
Rutile	1559	1375	1350
AUDUSD	0.69	0.69	0.72

Key Financials	2022F	2023F	2024F
Revenue (A\$m)	340	352	337
EBITDA (A\$m)	104	93	78
NPAT (A\$m)	102	88	58
Cashflow (A\$m)	103	88	72

CFPS (Ac)	24	21	13
P/CFPS (x)	0.9	1.0	1.6

EPS (Ac)	24	21	9
EPS growth (%)	0%	0%	-55%
PER (x)	0.9	1.0	2.3

EV:EBITDA (x)	1.0	0.8	0.6
EV:EBIT (x)	1.0	0.8	0.7

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	nm	nm	nm
Interest Cover (x)	-	-	7.5

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Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Sierra Rutile Ltd during the last year. Euroz Hartleys has received a fee for these services.

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Analysis

We have made the following model changes

	CY22			CY23			CY24		
	Old	New	% change	Old	New	% change	Old	New	% change
Rutile Prod	135.0	136.7	1%	131.0	131.2	0%	131.0	131.2	0%
- guidance		135-137							
Cash Costs US\$	-1001	-941	-6%	-1015	-990	-2%	-1012	-1037	3%
- guidance		-890-960							
Below is in A\$m									
Revenue	323.7	339.6	5%	275.1	352.4	28%	271.6	337.4	24%
Total Costs	-228.3	-235.5	3%	-220.7	-259.2	17%	-220.7	-259.1	17%
EBITDA	95.3	104.1	9%	54.4	93.2	71%	50.9	78.3	54%
- margin	29%	31%	4%	20%	26%	34%	19%	23%	22%
Depreciation/Amort	-2.0	-2.0	3%	-4.5	-4.7	4%	-10.6	-10.9	3%
EBIT	93.4	102.1	9%	49.9	88.6	78%	40.3	67.3	67%
Net Interest	0.0	0.0	0%	0.0	0.0	0%	-9.0	-9.0	0%
Pre-Tax Profit	93.3	102.1	9%	49.9	88.5	78%	31.3	58.3	86%
Tax Expense	-0.5	-0.5	9%	-0.2	-0.4	78%	-0.2	-0.3	46%
Normalised NPAT	92.9	101.6	9%	49.6	88.1	78%	31.2	58.0	86%
Reported Profit	92.9	101.6	9%	49.6	88.1	78%	31.2	58.0	86%
Profit Attrib	92.9	101.6	9%	49.6	88.1	78%	31.2	58.0	86%
Capex	-46.2	-48.4	5%	-53.0	-54.8	3%	-145.0	-148.1	2%
- guidance		US\$27-30m							
Net Debt (Cash)	-64.0	-67.1	5%	-75.0	-100.3	34%	-73.0	-123.8	70%

- SRX produced 28kt of Rutile in Sept qtr (sales 33kt);
- Net operating cashflow of US\$1.5m. Capex was US\$8.7m. Net cash -A\$55m (-13cps), down from -A\$60m at end June;
- Realised rutile price of \$1,535/t FOB. Unit cash production costs of US\$1,464/t (already pre-flagged on 17 Oct), high due to rainfall and with no concentrate by product sales;
- Looking ahead, Q4 will be helped by sale of zircon by-product stock built up since mid-Q2.
- The company has revised down rutile guidance to 135-137kt - we were already at 135kt;
- Cash cost guidance has increased to US\$890-960t net of Zr credits. Capex guidance has been reduced;

	Demerger Booklet	New Guidance
Rutile production (kt)	144	135 - 137
Cash costs of production (\$m)	145	158-165
Unit cash production cost (\$/t R)	970	1150-1220
Unit cash production cost (net of co-product credits) (\$/t R)	892	890 - 960
Capital expenditure (\$m)	41	27 - 30

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Summary	Units	Sep Qtr 2021	Mar Qtr 2022	Jun Qtr 2022	Sep Qtr 2022	YTD 2022
Revenue & Cash Costs						
Revenue - Rutile	US\$m	54	58	40	51	149
Unit price - Rutile	US\$/t	1,233	1,462	1,458	1,535	1,485
Revenue - Ilmenite/ZIC/GIC	US\$m	2	4	18	2	24
Operating Costs	US\$m	35	36	42	43	121
Net Operating Cash Costs - Rutile	US\$m	33	32	24	41	97
Unit Operating Cash Costs - Rutile	US\$/t	947	1,014	1,159	1,531	1,212
Net Unit Operating Cash Costs - Rutile	US\$/t	894	900	664	1,464	973

Note: ZIC/GIC refer to zircon-in-concentrate and garnet-in-concentrate

Price Target

Our price target is unchanged at 0.76/sh

Price Target Methodology	Weighting	Spot	12 mth out
NPV ₁₂ consensus prices	45%	\$0.59	\$0.65
NPV ₁₂ at spot commodity and fx prices	15%	\$1.71	\$1.94
NPV ₈ consensus prices	15%	\$0.66	\$0.71
NPV ₈ at spot commodity and fx prices	3%	\$1.98	\$2.14
Net cash backing	22%	\$0.13	\$0.13
Risk weighted composite		\$0.71	
12 Months Price Target		\$0.76	
Shareprice - Last		\$0.21	
12 mth total return		260%	

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Market Statistics				Year End 30 June			
Share Price	\$0.210	A\$/sh	Directors				
Issued Capital	424.2	m	Greg Martin	NE	Chair		
Options	0.0	m	Theuns de Bruyn	MD			
Fully diluted	424.2	m	Martin Alciaturi	ED			
Fully dil. & financed	824.2	m	Graham Davidson	NE			
			Joanne Palmer	NE			
Mkt Capital'n (dil.)	89.1	\$m	Shareholders				
Enterprise Value	32.8	\$m	Perpetual	14.4%			
Debt	0.0	\$m	Tribecca	7.1%			
Cash	56.3	\$m	Yarra	6.7%			
EV post capex	72.8	\$m					
Asset Valuation				A\$m	A\$/sh		
Area 1 (NPV12)			273	0.33			
Sembahun (NPV12)			150	0.18			
Other Assets/Exploration			80	0.10			
Forwards			0	0.00			
Corporate Overheads			-52	-0.06			
Net Cash (Debt)			56	0.07			
Tax (NPV future liability)			-24	-0.03			
Options & Other Equity			0	0.00			
Total			484	0.59			
Spot fx 0.65, S. Ilm. cfr \$440/t, Zir. \$2050/t, Rut. \$1500/t.			379	1.71			
Area 1 Production Summary				2021A	2022F	2023F	2024F
Mining Inventory	Mt	69.9	60.0	48.0	36.0		
Grade	%	2.7%	2.7%	2.7%	2.7%		
Mill Throughput	Mt	12.3	9.9	12.0	12.0		
HM grade	%	3.1%	3.1%	2.7%	2.7%		
Zr production	kt	4	19	33	33		
Rutile production	kt	129	137	131	131		
Ilmenite production	kt	46	60	57	55		
Revenue	US\$m	184	234	241	243		
Cost	US\$m	-142	-161	-176	-185		
-/t z&r (net ilmenite credits)	US\$/t	-1047	-941	-990	-1037		
EBITDA	US\$m	42	74	66	58		
Ilmenite	% rev.	6.2%	6.2%	5.5%	6.0%		
Zircon	% rev.	11.8%	11.8%	19.6%	21.2%		
Rutile	% rev.	91.1%	91.1%	74.8%	72.8%		
Ratio Analysis (A\$m)				2021A	2022F	2023F	2024F
CF (A\$m)		2	103	88	81		
CF / Sh (Ac/sh)		0	24	21	13		
CF Ratio (x)		70	1	1	2		
Earnings (A\$m)		8	102	88	58		
EPS (Ac/sh)		1	24	21	9		
EPS Growth (%)					-55%		
Earnings Ratio (x)		16	1	1	2		
E'prise Val. (A\$m) full funded		160	106	73	49		
EV : EBITDA (x)		6	1	1	1		
EV : EBIT (x)		nm	1	1	1		
Net Debt / ND+Eq (%)		nm	nm	nm	nm		
Interest Cover (x)		-	-	-	7.5		
EBIT Margin (%)		-6%	30%	25%	20%		
ROE (%)		14%	62%	34%	15%		
ROA (%)		7%	36%	23%	10%		
Div. (Ac/sh)		-	-	-	-		
Div. payout ratio (x)		-	-	-	-		
Div. Yield (%)		0.0%	0.0%	0.0%	0.0%		
Div. Franking (%)		100%	100%	100%	100%		
Profit and Loss (A\$m)				2021A	2022F	2023F	2024F
Net Revenue		255.8	339.6	352.4	337.4		
Total Costs		-227.4	-235.5	-259.2	-259.1		
EBITDA		28.5	104.1	93.2	78.3		
- margin		11%	31%	26%	23%		
Depreciation/Amort		-44.6	-2.0	-4.7	-10.9		
EBIT		-16.1	102.1	88.6	67.3		
Net Interest		-0.7	0.0	0.0	-9.0		
Pre-Tax Profit		13.2	102.1	88.5	58.3		
Tax Expense		-4.7	-0.5	-0.4	-0.3		
Normalised NPAT		8.5	101.6	88.1	58.0		
Abnormal Items		0.0	0.0	0.0	0.0		
Reported Profit		8.5	101.6	88.1	58.0		
Minority		0.0	0.0	0.0	0.0		
Profit Attrib		8.5	101.6	88.1	58.0		
Cash Flow (A\$m)				2021A	2022F	2023F	2024F
Operating Cashflow		1.9	103.1	88.4	80.9		
Income Tax Paid		-5.3	-0.5	-0.4	-0.3		
Interest & Other		-0.3	0.0	0.0	-9.0		
Operating Activities		-3.6	102.5	88.0	71.6		
Property, Plant & Equip.		0.0	-43.6	-51.0	-147.3		
Exploration and Devel.		0.0	-4.8	-3.8	-0.8		
Other		0.0	0.0	0.0	0.0		
Investment Activities		0.0	-48.4	-54.8	-148.1		
Borrowings		0.0	0.0	0.0	150.0		
Equity or "tbc capital"		0.0	0.0	0.0	100.0		
Dividends Paid		0.0	0.0	0.0	0.0		
Financing Activities		0.0	0.0	0.0	250.0		
Net Cashflow		-3.6	54.2	33.2	173.6		
Balance Sheet (A\$m)				2021A	2022F	2023F	2024F
Cash		13.1	67.2	100.4	274.0		
Other Current Assets		117.5	119.7	127.7	125.1		
Total Current Assets		130.6	186.9	228.1	399.0		
Property, Plant & Equip.		37.5	79.0	125.4	261.7		
Exploration		0.0	4.8	8.6	9.4		
Investments/other		61.5	61.5	61.5	61.5		
Tot Non-Curr. Assets		99.0	145.4	195.5	332.6		
Total Assets		229.6	332.3	423.7	731.7		
Short Term Borrowings		0.1	0.1	0.1	0.1		
Other		42.8	43.9	47.2	47.1		
Total Curr. Liabilities		42.9	44.0	47.3	47.3		
Long Term Borrowings		-	-	-	150.0		
Other		74.9	74.9	74.9	74.9		
Total Non-Curr. Liabil.		74.9	74.9	74.9	224.9		
Total Liabilities		117.8	118.9	122.2	272.1		
Net Assets		111.8	213.4	301.5	459.5		
Net Debt		-12.9	-67.1	-100.3	-123.8		
Reserves and Resources				VHM Grade	Rutile	Ilmenite	Zircon
Total Resource		1.8%	59.2%	35.2%	5.5%		
Area 1 (Sierra Leone)		1.6%	63%	31%	6%		
Sembahun (Sierra Leone)		1.9%	58%	37%	5%		
Other							
Total Reserve		2.4%	61.0%	34.9%	4.1%		
Area 1 (Sierra Leone)		2.1%	67%	29%	5%		
Sembahun (Sierra Leone)		2.5%	60%	36%	4%		
Other							

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