

DECEMBER QUARTER

SRX | SIERRA RUTILE HDGS LTD | MINERAL SANDS | RUTILE

PRICE
0.20

TARGET PRICE
0.48
(FROM 0.76)

RECOMMENDATION
SPECULATIVE BUY
(FROM SPECULATIVE BUY)

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Event

SRX recently released December quarter;

Free cash was positive ~A\$2m, less than expected mainly due to cash from some December shipments falling into the March quarter. This follows a disappointing Sept Qtr (negative fcf A\$5m), but a very strong Jun qtr;

The company also released CY23 guidance;

Impact

We have made model changes, and lowered our CY23 earnings estimates due to higher assumed costs;

The stock remains very cheap, although we expect it to always trade below fair value due to perceptions of sovereign risk;

On spot prices, our valuation (83cps) is well above the current share price, and the discount is far too large, in our view;

One catalyst could be clarity on free cash flow generation after two poor (cash basis) reported quarters. An update on cash + irrevocable letter of credit balance at the February result could be a good catalyst to demonstrate the free cash flow potential matches the good operating performance;

Action

We retain our Speculative Buy recommendation. The Sembehun DFS is due at the end of CY23.

Our model assumes lower than spot selling prices, and our base valuation (41cps) also dilutes for new equity to finance Sembehun. The longer spot selling prices remain above our assumptions (similar to sell-side consensus), the more likely the SRX discount to valuation will close;

Catalyst

CY22 Results - February

Q1 quarterly - April

Q2 quarterly - July

1H 23 Result - August

Q3 quarterly - October

Sembehun DFS - end CY23

Share Price	0.20
Price Target	0.48
Valuation	0.41

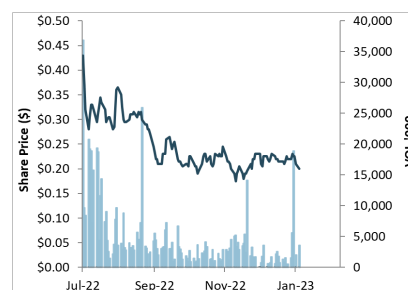
Shares on issue	424
Market Capitalisation	86
Enterprise Value	28
Debt (31 Dec 22a)	0
Cash (31 Dec 22a)	58

Production F'cast	2022F	2023F	2024F
Zircon Conc	28	36	36
Rutile	136	143	143
Ilmenite	59	55	55

Assumptions	2022F	2023F	2024F
Ilmenite	294	290	280
Zircon	1909	1700	1600
Rutile	1559	1388	1350
AUDUSD	0.69	0.69	0.72

Key Financials	2022F	2023F	2024F
Revenue (A\$m)	361	397	366
EBITDA (A\$m)	101	80	50
NPAT (A\$m)	99	75	30
Cashflow (A\$m)	93	67	46
CFPS (Ac)	22	16	9

Performance



Source: Euroz Hartleys

P&L	Dec 22e	Dec 23e	Dec 24e
Net Revenue	360.8	396.9	366.2
Total Costs	-259.4	-316.6	-316.5
EBITDA	101.4	80.3	49.7
- margin	28%	20%	14%
Depreciation/Amort	-2.0	-4.7	-10.9
EBIT	99.3	75.6	38.8
Net Interest	0.0	0.0	-9.0
Pre-Tax Profit	99.3	75.6	29.8
Tax Expense	-0.5	-0.4	-0.1
Normalised NPAT	98.8	75.2	29.6
Abnormal Items	0.0	0.0	0.0
Reported Profit	98.8	75.2	29.6
Minority	0.0	0.0	0.0
Profit Attrib	98.8	75.2	29.6

Area 1 Production Summary	Dec 22e	Dec 23e	Dec 24e
Mining Inventory	60.0	48.0	36.0
Grade	2.7%	2.7%	2.7%
Mill Throughput	10.3	12.0	12.0
HM grade	2.9%	2.7%	2.7%
Zr Con production	28	36	36
Rutile production	136	143	143
Ilmenite production	59	55	55
Revenue US\$m	249	272	264
Cost US\$m	-171	-209	-220
- US\$/t z&r (net ilmenite credits)	-939	-1096	-1146
EBITDA US\$m	78	63	44
Ilmenite	6.7%	4.8%	5.5%
Zircon	21.1%	22.3%	21.6%
Rutile	85.6%	72.9%	72.9%

Balance Sheet	Dec 22e	Dec 23e	Dec 24e
Cash	58.1	70.7	218.7
Other Current Assets	129.3	149.7	144.2
Total Current Assets	187.4	220.4	362.9
Property, Plant & Equip.	79.0	125.4	261.7
Exploration	4.8	8.6	9.4
Investments/other	61.5	61.5	61.5
Tot Non-Curr. Assets	145.4	195.5	332.6
Total Assets	332.8	415.9	695.5
Short Term Borrowings	0.1	0.1	0.1
Other	47.2	55.0	55.0
Total Curr. Liabilities	47.3	55.2	55.2
Long Term Borrowings	-	-	150.0
Other	74.9	74.9	74.9
Total Non-Curr. Liabil.	74.9	74.9	224.9
Total Liabilities	122.2	130.0	280.0
Net Assets	210.6	285.9	415.5
Net Debt	-58.0	-70.6	-68.6

Sembahun Production Summary	Dec 22e	Dec 23e	Dec 24e
Mining Inventory	187.9	187.9	187.9
VHM Grade	2.4%	2.4%	2.4%
Mill Throughput	0.0	0.0	0.0
VHM grade	-	-	-
Zr Con production	0.0	0.0	0.0
Rutile production	0.0	0.0	0.0
Ilmenite production	0.0	0.0	0.0
Revenue US\$m	-	-	-
Cost US\$m	-	-	-
- US\$/t z&r (net ilmenite credits)	-	-	-
EBITDA US\$m	-	-	-
Ilmenite	-	-	-
Zircon	-	-	-
Rutile / Hi-Ti production	-	-	-

Price Assumptions (at Port)	Dec 22e	Dec 23e	Dec 24e
AUDUSD	0.69	0.69	0.72
Ilmenite	259	255	245
Zircon	1874	1665	1565
Rutile	1524	1353	1315

Cashflow	Dec 22e	Dec 23e	Dec 24e
Operating Cashflow	94.0	67.8	55.2
Income Tax Paid	-0.5	-0.4	-0.1
Interest & Other	0.0	0.0	-9.0
Operating Activities	93.5	67.4	46.0
Property, Plant & Equip.	-43.6	-51.0	-147.3
Exploration and Devel.	-4.8	-3.8	-0.8
Other	0.0	0.0	0.0
Investment Activities	-48.4	-54.8	-148.1
Borrowings	0.0	0.0	150.0
Equity or "tbc capital"	0.0	0.0	100.0
Dividends Paid	0.0	0.0	0.0
Financing Activities	0.0	0.0	250.0
Net Cashflow	45.1	12.6	148.0

Valuation	\$m	/shr
Area 1 (NPV12)	188	0.23
Sembahun (NPV12)	162	0.20
Other Assets/Exploration	80	0.10
Forwards	0	0.00
Corporate Overheads	-138	-0.17
Net Cash (Debt)	58	0.07
Tax (NPV future liability)	-17	-0.02
Options & Other Equity	0	0.00
Total	334	0.41
Spot prices	379	0.83

Shares	Dec 22e	Dec 23e	Dec 24e
Ordinary Shares - End	424	424	824
Ordinary Shares - W'ted	424	424	624
Diluted Shares - W'ted	424	424	624

Figure 1: Earnings Changes

A\$	CY22			CY23			CY24		
	Old	New	% change	Old	New	% change	Old	New	% change
Rutile Price (US\$)	1524	1502	-1%	1340	1353	1%	1315	1315	0%
Rutile Prod kt	136.7	136.4	0%	131.2	142.6	9%	131.2	142.6	9%
- guidance					140 -144				
Cash Costs US\$	-941	-939	0%	-990	-1096	11%	-1037	-1146	10%
- guidance					-950-1025				
Below is in A\$m									
Revenue	339.6	360.8	6%	352.4	396.9	13%	337.4	366.2	9%
Total Costs	-235.5	-259.4	10%	-259.2	-316.6	22%	-259.1	-316.5	22%
EBITDA	104.1	101.4	-3%	93.2	80.3	-14%	78.3	49.7	-36%
- margin	31%	28%	-8%	26%	20%	-24%	23%	14%	-41%
Depreciation/Amort	-2.0	-2.0	0%	-4.7	-4.7	0%	-10.9	-10.9	0%
EBIT	102.1	99.3	-3%	88.6	75.6	-15%	67.3	38.8	-42%
Net Interest	0.0	0.0	0%	0.0	0.0	0%	-9.0	-9.0	0%
Pre-Tax Profit	102.1	99.3	-3%	88.5	75.6	-15%	58.3	29.8	-49%
Tax Expense	-0.5	-0.5	-3%	-0.4	-0.4	-15%	-0.3	-0.1	-49%
Normalised NPAT	101.6	98.8	-3%	88.1	75.2	-15%	58.0	29.6	-49%
Reported Profit	101.6	98.8	-3%	88.1	75.2	-15%	58.0	29.6	-49%
Profit Attrib	101.6	98.8	-3%	88.1	75.2	-15%	58.0	29.6	-49%
Capex	-48.4	-48.4	0%	-54.8	-54.8	0%	-148.1	-148.1	0%
- guidance					US\$32-36m				
Net Debt (Cash)	-67.1	-58.0	-14%	-100.3	-70.6	-30%	-123.8	-68.6	-45%

Source: Euroz Hartleys

Figure 2: CY23 guidance

Outlook

Sierra Rutile provides the following guidance for 2023:

	2022 Actual	2023 Guidance	Comments
Rutile production (kt)	136	140 - 144	~12kt per month
Operating cash costs (\$m)	163	165 - 180	Increased ore mined and haulage distances
Unit operating cash costs (\$/t R)	1,198	1200 - 1275	As above
Unit operating cash costs (net of by-product credits) \$/t R)	939	950 - 1,025	Reduced by-product pricing
Capital expenditure (\$m)	20	32 - 36	See below

Footnote 1: 2022 actual data is unaudited

Source: SRX

Figure 3: Sembehun PFS

Operational/Financial Highlights

Ore Reserves ¹	▲ 174Mt @ 1.45% Rutile
Mineral Resources ¹	▲ 508Mt @ 1.10% Rutile
Mine Life	▲ >13 years
Mining Method	▲ Dry mining (truck & excavator)
Processing	▲ Mineral concentrate from Sembehun will be processed in a magnetic separation circuit (to be constructed) and proceed to the company's existing mineral separation plant, which includes a feed preparation plant and dry plant
Project Net Present Value (8%, post tax real) ²	▲ US\$318m
Project Internal rate of return (post tax real) ²	▲ 24%
Capital cost (US\$m real)	▲ Total: US\$337m • Phase 1: US\$284m Phase 2: US\$52m
Steady state average unit cash costs of production (US\$/t Z/R, real)	▲ US\$726/t rutile and zircon produced (excluding royalties and rehabilitation)
Steady state average unit cash costs of production, net of co-product credits (US\$/t R, real) ³	▲ US\$535/t rutile produced (excluding royalties and rehabilitation)

Source: SRX

Our price target is lowered to 48cps (from 76cps)

Figure 4: Price Target

Price Target Methodology	Weighting	Spot	12 mth out
NPV ₁₂ consensus prices	45%	\$0.41	\$0.44
NPV ₁₂ at spot commodity and fx prices	15%	\$0.83	\$0.90
NPV ₈ consensus prices	15%	\$0.52	\$0.56
NPV ₈ at spot commodity and fx prices	3%	\$1.03	\$1.11
Net cash backing	22%	\$0.14	\$0.14
Risk weighted composite		\$0.45	
12 Months Price Target		\$0.48	
Shareprice - Last		\$0.200	
12 mth total return		140%	

Source: Euroz Hartleys

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