

February 27, 2023

ADD (no change)

Stock code:	SRX AU
Price:	A\$0.24
12-month target price:	A\$0.55
Previous target price:	A\$0.45
Up/downside to target price:	129.2%
Dividend yield:	0.0%
12-month TSR*:	129.2%
Market cap:	A\$101.8m
Average daily turnover:	A\$0.64m
Index inclusion:	ALL ORDINARIES

* Total stock return – Up/downside to target price + 12-month forward dividend yield.

Price performance

(%)	1M	3M	12M	3Y
Absolute	14.3	-2.1		
Rel ASX/S&P200	17.9	-1.6		



Source: Bloomberg

Financial summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F
Revenue (US\$m)	184.2	254.5	253.6	247.8
EBITDA Norm (US\$m)	20.50	83.25	69.32	63.51
Net Profit (US\$m)	6.10	79.51	55.10	45.32
EPS Norm (US\$)		0.19	0.13	0.11
EPS Growth Norm (%)			-30.7%	-17.7%
P/E Norm (x)		0.86	1.25	1.52
DPS (US\$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
EV/EBITDA (x)	2.86	0.37	-0.03	0.79
Gearing (Net Debt/EBITDA)	-0.49	-0.45	-1.02	-0.29

Source: Company data, Morgans estimates

Related research
[SRX \(ADD - TP A\\$0.45\) - 07 Feb 2023](#)
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Analyst(s) own shares in the following stocks mentioned in this report:

– Sierra Rutile Holdings

Sierra Rutile Holdings

SRX's maiden result delivers improved performance

- A solid FY22 result, driven by a relentless focus on operating performance, maximising life of Area 1, and a constrained rutile market.
- SRX reported revenue of US\$254m (vs MorgE US\$241m), +38% over the prior year, driven by increased production levels and improved rutile prices.
- EBITDA was US\$57.8m (vs MorgE US\$69.7m), +180% vs prior year, and NPAT was US\$75.6m (vs MorgE US\$61.3m), +902% vs prior year. EBITDA trailed our estimate on higher costs, while NPAT outperformed on the impairment reversal.
- Robust operating cashflows of \$44.3m with net tangible asset (NTA) of A\$0.46/share.
- Strong cash position of US\$37.7m as of 31 December, in addition to US\$42.5m rehabilitation trust and no debt.
- Sembahun DFS is on track with outcomes expected in late 2023.
- Our target price moves to A\$0.55/share (from A\$0.45/share). We maintain our Add rating.

Event

- Maiden FY22 result post Iluka demerger.

Analysis

- FY22 witnessed an improved operating performance at Area 1 with an increase in rutile, ilmenite and zircon concentration production. A solid operating performance drove revenue, EBITDA and NPAT on the back of improved rutile prices, while operating costs increased due to inflationary pressures, fuel prices and increased throughput. The result reflects the operational turnaround and ability of the business to operate as a stand-alone entity.
- We view SRX's strategy to maximise cashflows from the remaining Area 1 operations through the pursuit of efficiency gains and mine life extension as sound. This enables SRX to build significant balance sheet strength to help fund the Sembahun development.
- In addition, the reversal of the prior impairment of Sembahun has given an increased level of confidence in the project as Sembahun continues to represent the long-term opportunity for SRX. We will keep a close watch on the Sembahun DFS, due late 2023.

Forecast and valuation update

- We update our near-term forecast on today's results based on improved operational performance, balance sheet strength and improved rutile prices. Our target price transitions to A\$0.55/share (from A\$0.45/share) and we maintain an Add rating.

Investment view

- We see the business as well positioned to generate attractive returns for relatively low risk via development of the Sembahun project. This undervalued business commands a sizable market share (20% to 25%) of the global natural rutile market. In addition, SRX has a sound balance sheet with cash (US\$37.7m) representing ~53% of its market cap (low risk).
- SRX is trading at a sharp discount to our risk adjusted conceptual DCF of A\$0.55/share, highlighting the upside potential of this undervalued business.

Price catalysts

- Area 1 Mine life extension program.
- Updates to resource and reserve statement.
- Sembahun DFS and financing outcomes.

Risks

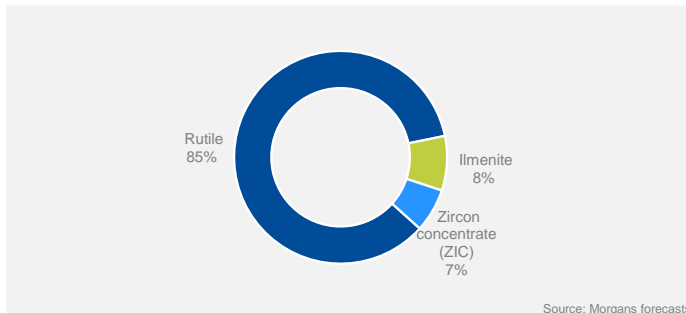
- Sovereign and political risk.
- Commodity price risk.
- Funding risk (securing capital) to develop Sembahun project.
- Operational and execution risk.

Sierra Rutile Holdings

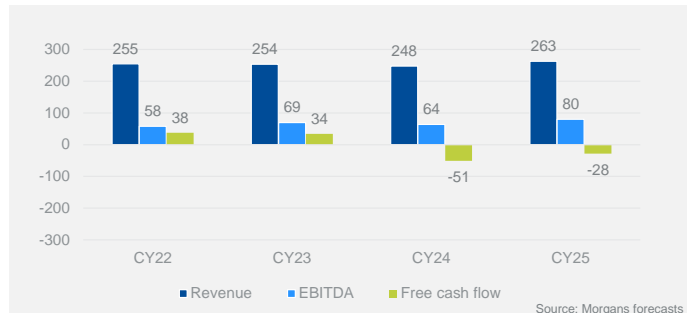
ADD		as at February 27, 2023	
Price (A\$):	0.24	12-month target price (A\$):	0.55
Market cap (A\$m):	101.8	Up/downside to target price (%):	129.2
Free float (%):	100.0	Dividend yield (%):	0.0
Index inclusion:	ALL ORDINARIES	12-month TSR (%):	129.2

Sierra Rutile (SRX), one of the significant natural rutile producers based in Sierra Leone. SRX owns and operates multi-mine mineral sands operation at Area 1 and a development project, Sembahun, 30km from Area 1 operation

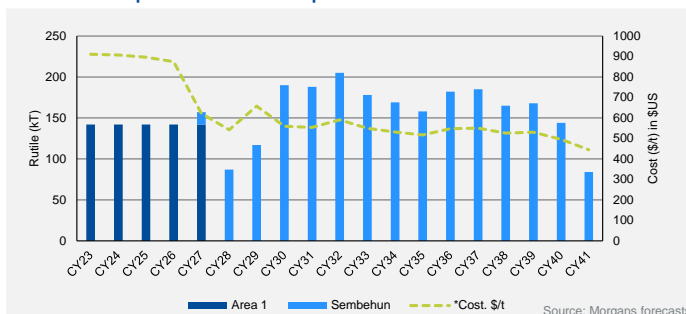
Forecast revenue by commodity - CY23



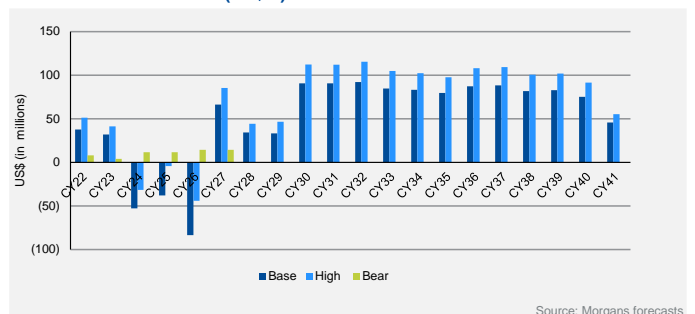
Forecast Revenue, EBITDA, FCF (US\$m)



Forecast rutile production and cost profile



Forecast free cash flows (US\$m)



Bull points



Strategic asset: SRX has world-scale, long life minerals asset. It is a long established producer of high-quality natural rutile for Ti markets. Substantial Sembahun resources support clear extension and expansion upside.

Constrained supply: Supplies 20% to 25% of global natural rutile to Ti pigment and metals market. It has long-standing customer relationships with strong demand for premium natural rutile in declining supply.

Robust financial position and attractive valuation: Cash of US\$37.7m at 25 January and no debt. Trading at a sharp discount, offers capital upside.

Funding growth: Opportunity to generate attractive returns for relatively low risk via development of Sembahun. Low expansion (brownfield) risk.

Bear points



Country risk: While currently stable, Sierra Leone remains a country with social, political, and economic challenges. ASX-listed mining companies tend to see a market discount applied to their African assets.

Funding: Sembahun DFS is in progress, capital structure and funding arrangement to support development of Sembahun is unclear (evolving).

Execution: Mine construction, and associated processing and infrastructure risks, along with engineering and technical uncertainties associated with product qualities, and mineral recoveries.

Pigment market risk: Demand softening influenced by macroeconomic conditions.

Figure 1: Financial summary

Year to 31 Dec (US\$m)					
Income statement	2021A	2022A	2023F	2024F	2025F
Revenue	184.2	254.5	253.6	247.8	262.7
Other Income	2.1	0.2	-	-	-
Total Operating Costs	-165.8	-188.8	-178.0	-178.0	-176.0
Other Costs	0.0	-7.9	-5.0	-5.0	-5.0
EBITDA	20.5	57.8	69.3	63.5	80.3
D&A	-32.1	-2.5	-12.9	-12.9	-7.6
Net interest	-0.5	0.0	0.0	-4.0	-12.0
Impairment reversal	0.0	23.4	0.0	0.0	0.0
Financing	0.0	-1.8	0.0	0.0	0.0
Tax expense	-3.4	-1.2	-1.3	-1.3	-1.3
Underlying NPAT	6.1	75.6	55.1	45.3	59.4
Abnormals - post-tax	0.0	0.0	0.0	0.0	0.0
Reported NPAT	6.1	75.6	55.1	45.3	59.4
Cash flow statement					
Cash receipts	20.5	248.3	253.6	247.8	262.7
Payments to suppliers	0.0	-204.1	-183.0	-183.0	-181.0
Net interest	-0.5	0.7	0.0	-4.0	-12.0
Income tax paid	-3.4	-1.2	-1.3	-1.3	-1.3
Operating cash flow	16.6	43.3	69.3	59.5	68.3
Purchase of PP&E	-16.0	-17.3	-34.0	-109.0	-95.0
Sale of PP&E	0.0	0.0	0.0	0.0	0.0
Other Investing Cash Flow (0.0	-47.5	-2.5	-2.5	-2.5
Investing cash flow	-16.0	-64.8	-36.5	-111.5	-97.5
Issue of share proceeds	0.0	45.0	0.0	0.0	0.0
Debt raised	0.0	0.0	0.0	25.0	50.0
Debt paid	0.0	0.0	0.0	0.0	0.0
Dividend paid	0.0	0.0	0.0	0.0	0.0
Financing Cash flow	0.0	33.4	0.0	25.0	50.0
Cash at beginning		25.8	37.7	70.5	43.5
Inc/(decr) cash at end	9.4	37.7	70.5	43.5	64.4
Balance sheet					
Cash & deposits	9.4	37.7	70.5	43.5	64.4
Receivables	43.4	53.9	53.9	53.9	53.9
Inventories	40.5	35.0	35.0	35.0	35.0
Fixed assets	26.9	24.0	70.9	192.8	295.4
Total Assets	166.3	223.5	276.3	371.2	494.6
Payables	22.8	29.0	29.0	29.0	29.0
Interest bearing debt	0.0	0.0	0.0	25.0	50.0
Total Liabilities	84.8	88.4	80.7	105.7	130.7
Share capital	545.4	135.0	195.6	265.5	364.0
Other reserves	0.0	0.0	0.0	0.0	0.0
Retained earnings	0.0	0.0	0.0	0.0	0.0
Minority interest	21.6	204.1	281.5	273.0	256.0
Total Equity	80.5	135.0	195.6	265.5	364.0

	Unrisked	Unrisked	Risked	Risked
Valuation summary	A\$m	A\$ps	A\$m	A\$ps
Area 1	246	0.41	246	0.41
Sembahun (50% risked)	58	0.10	29	0.05
Total operations	304	0.51	275	0.46
Net Cash (/Debt)	53.80	0.09	53.80	0.09
Total valuation	304	0.60	328	0.55
WACC				14%
Price target (A\$)				0.55
AUD (DCF)				0.70
Production & Costs				
	2022A	2023F	2024F	2025F
Rutile - kt	136	142	142	142
Ilmenite - kt	59	55	55	55
Zircon in concentrate (ZIC) - kt	34	35	35	35
Total Product sales - kt	229	232	232	232
Rut. Cost : US\$/t net co-products	941.5	987.5	983.6	969.5
Assumed Benchmark pricing				
	2022F	2023F	2024F	2025F
Rutile - US\$/t FOB	1500	1520	1475	1580
Ilmenite - US\$/t FOB	290	290	305	315
Zircon in concentrate (ZIC) - US\$/t l	600	600	600	600
AUD	0.77	0.77	0.74	0.73
Per share data				
	2022A	2023F	2024F	2025F
No. shares	424.2	424.2	424.2	424.2
EPS (normalised, US\$ cps)	0.19	0.13	0.11	0.14
DPS (cps)	0.0	0	0	0
Dividend yield (%)	0	0	0	0
Operating performance				
	2022A	2023F	2024F	2025F
EBITDA margin (%)	32.7%	27.3%	25.6%	30.6%
EBIT margin (%)	31.7%	22.2%	20.4%	27.7%
EV/ EBITDA	1.2	2.1	2.3	1.9
Revenue to cost	1.24	1.21	1.18	1.27

Source: Morgans estimates, company data

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Analyst owns shares in the following mentioned company(ies): Sierra Rutile Holdings

Morgans Corporate Limited was engaged as an adviser by Sierra Rutile in relation to the proposed scheme of arrangement and demerger from Iluka Resources and may receive fees in this regard.

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