

PUBLISHED ON 28 FEBRUARY 2023

SRX: CY23 is key to financing Sembehun

SRX.ASX | SIERRA RUTILE HOLDINGS LIMITED | MINERAL SANDS | RUTILE
PRICE
A\$ 0.24 /sh
TARGET PRICE
A\$ 0.48 /sh
 (UNCHANGED)

RECOMMENDATION
SPECULATIVE BUY
 (UNCHANGED)

ANALYST
TRENT BARNETT
 TBARNETT@EUROZHARTLEYS.COM

Event

SRX reported CY22 EBITDA of US\$57.8m. No DPS declared (none expected);

The company maintained CY23 production and cost guidance;

Impact

Cash expenses in 2H were high, but are expected to fall significantly based on CY23 cash cost guidance;

On our base estimates, 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 (\$1.31/shr) is well above the current share price, and the discount is far too large, in our view;

Cashflow remains a key risk in order to generate the equity to build Sembehun. Our model assumes new equity and debt to build Sembehun, given we model lower rutile prices. Our fully funded peak EV estimate at 24cps is ~A\$250m to generate ~A\$100m EBITDA base rutile prices, increasing to ~A\$200m EBITDA on spot prices in CY26. The fully funded EV depends on the selling prices modelled and mine life of Area 1 (we model another 5 years of mining at Area 1);

Action

We maintain 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 (44cps) 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

Area 1 reserve/resource update - March

Q1 quarterly - April

Sierra Leone elections - 24 June

Q2 quarterly - July

1H 23 Result - August

Q3 quarterly - October

Sembehun DFS - end CY23

Share Price	0.24	A\$/sh
Price Target	0.48	A\$/sh
Valuation	0.44	A\$/sh

Shares on issue	424	m, dil
Market Capitalisation	102	A\$m
Enterprise Value	44	A\$m
Debt (31 Dec 22a)	0	A\$m
Cash (31 Dec 22a)	58	A\$m

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

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

Key Financials	2022F	2023F	2023F
Revenue (A\$m)	369	397	366
EBITDA (A\$m)	85	95	65
NPAT (A\$m)	76	92	55
Cashflow (A\$m)	64	104	69
CFPS (Ac)	15	24	11

Performance



Source: Euroz Hartleys

Figure 1: Model Summary

MARKET STATISTICS				
Share Price	\$	0.240	A\$/sh	Greg Martin NE Chair
Issued Capital		424.2	m	Theuns de Bruyn MD
Options		0.0	m	Martin Alciaturi ED
Fully diluted		424.2	m	Graham Davidson NE
Fully diluted & financed		824.2	m	Joanne Palmer NE
Shareholders				
Mkt Capita'n (dil.)		101.8	\$m	Perpetual 14.4%
Enterprise Value		44.0	\$m	Tribeca 7.5%
Debt		0.0	\$m	
Cash		57.8	\$m	
EV post capex		249.2	\$m	
Valuation				
			\$m	/shr
Area 1 (NPV12)		287		0.35
Sembehun (NPV12)		162		0.20
Other Assets/Exploration		80		0.10
Forwards		0		0.00
Corporate Overheads		-203		-0.25
Net Cash (Debt)		58		0.07
Tax (NPV future liability)		-23		-0.03
Options & Other Equity		0		0.00
Total		362		0.44
Spot fx 0.67, S. llm. cfr \$440/t, Zr. \$1705/t, Rut. \$1450/t.		379		1.31

Area 1 Production Summary				
		Dec 22a	Dec 23e	Dec 24e
Mining Inventory	Mt	60.0	48.0	36.0
Grade	%	2.7%	2.7%	2.7%
Mill Throughput	Mt	10.3	12.0	12.0
HM grade	%	2.9%	2.7%	2.7%
Zr Con production	kt	28	36	36
Rutile production	kt	136	143	143
Ilmenite production	kt	59	55	55
Revenue US\$m	US\$m	249	272	264
Cost US\$m	US\$m	-171	-193	-202
- US\$/t z&r (net ilmenite credits)	US\$/t	-939	-1003	-1050
EBITDA US\$m	US\$m	78	79	61
Ilmenite	% rev.	6.7%	4.8%	5.5%
Zircon	% rev.	21.1%	22.3%	21.6%
Rutile	% rev.	85.6%	72.8%	72.9%

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

Price Assumptions (at Port)				
		Dec 22a	Dec 23e	Dec 24e
AUDUSD	USD/AUD	0.69	0.69	0.72
Ilmenite	US\$/t	259	255	245
Zircon	US\$/t	1874	1665	1565
Rutile	US\$/t	1524	1353	1315

P&L				
	Unit	Dec 22a	Dec 23e	Dec 24e
Net Revenue	A\$m	368.8	397.0	366.2
Total Costs	A\$m	-283.8	-301.6	-301.5
EBITDA	A\$m	85.0	95.4	64.7
- margin		23%	24%	18%
Depreciation/Amort	A\$m	-3.6	-3.0	-8.4
EBIT	A\$m	81.4	92.4	56.3
Net Interest	A\$m	-2.6	0.0	-1.5
Pre-Tax Profit	A\$m	77.5	92.4	54.8
Tax Expense	A\$m	-1.9	0.0	0.0
Normalised NPAT	A\$m	75.6	92.4	54.8
Abnormal Items	A\$m	0.0	0.0	0.0
Reported Profit	A\$m	109.5	92.4	54.8
Minority	A\$m	0.0	0.0	0.0
Profit Attrib	A\$m	109.5	92.4	54.8

Balance Sheet				
	Unit	Dec 22a	Dec 23e	Dec 24e
Cash	A\$m	55.5	104.2	274.8
Other Current Assets	A\$m	134.5	128.9	123.4
Total Current Assets	A\$m	190.0	233.0	398.2
Property, Plant & Equip.	A\$m	36.6	84.5	223.4
Exploration	A\$m	43.3	47.1	47.9
Investments/other	A\$m	59.1	59.1	59.1
Tot Non-Curr. Assets	A\$m	138.9	190.7	330.4
Total Assets	A\$m	328.9	423.7	728.5
Short Term Borrowings	A\$m	0.3	0.3	0.3
Other	A\$m	51.6	54.0	54.0
Total Curr. Liabilities	A\$m	51.8	54.3	54.3
Long Term Borrowings	A\$m	-	-	150.0
Other	A\$m	78.2	78.2	78.2
Total Non-Curr. Liabil.	A\$m	78.2	78.2	228.2
Total Liabilities	A\$m	130.0	132.5	282.5
Net Assets	A\$m	198.8	291.2	446.0
Net Debt	A\$m	-55.2	-103.9	-124.5

Cashflow				
	Unit	Dec 22a	Dec 23e	Dec 24e
Operating Cashflow	A\$m	65.1	103.5	70.2
Income Tax Paid	A\$m	-2.3	0.0	0.0
Interest & Other	A\$m	1.0	0.0	-1.5
Operating Activities	A\$m	63.7	103.5	68.7
Property, Plant & Equip.	A\$m	-25.5	-51.0	-147.3
Exploration and Devel.	A\$m	-3.7	-3.8	-0.8
Other	A\$m	0.0	0.0	0.0
Investment Activities	A\$m	-29.2	-54.8	-148.1
Borrowings	A\$m	-17.1	0.0	150.0
Equity or "tbc capital"	A\$m	0.0	0.0	100.0
Dividends Paid	A\$m	0.0	0.0	0.0
Financing Activities	A\$m	-17.1	0.0	250.0
Net Cashflow	A\$m	17.5	48.7	170.6

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

Resource & Reserves				
	Mt	% Rutile	% Ilm	% Zr
Resources	752	1.1%	0.6%	0.1%
- Area 1	205	1.0%	0.5%	0.1%
- Sembehun	508	1.1%	0.7%	0.1%
- Other	39	1.2%	0.0%	0.0%
Reserves	212	1.5%	0.8%	0.1%
- Area 1	38	1.4%	0.6%	0.1%
- Sembehun	174	1.5%	0.9%	0.1%

Source: Euroz Hartleys

Figure 2: Earnings Changes

A\$	CY22			CY23			CY24			CY25		
	F'cast	Actual	% change	Old	New	% change	Old	New	% change	Old	New	% change
Rutile Price (US\$)	1502	1502	0%	1353	1353	0%	1315	1315	0%	1290	1290	0%
Rutile Prod kt	136.4	136.4	0%	142.6	142.6	0%	142.6	142.6	0%	142.6	142.6	0%
- guidance				140 -144	140 -144							
Cash Costs US\$	-939	-939	0%	-1096	-1003	-8%	-1146	-1050	-8%	-1178	-1080	-8%
- guidance				-950-1025	-950-1025							
Below is in A\$m												
Revenue	360.8	368.8	2%	396.9	397.0	0%	366.2	366.2	0%	346.0	346.0	0%
Total Costs	-259.4	-283.8	9%	-316.6	-301.6	-5%	-316.5	-301.5	-5%	-316.4	-301.4	-5%
EBITDA	101.4	85.0	-16%	80.3	95.4	19%	49.7	64.7	30%	29.6	44.6	51%
- margin	28%	23%	-18%	20%	24%	19%	14%	18%	30%	9%	13%	51%
Depreciation/Amort	-2.0	-3.6	78%	-4.7	-3.0	-35%	-10.9	-8.4	-23%	-21.7	-18.3	-16%
EBIT	99.3	81.4	-18%	75.6	92.4	22%	38.8	56.3	45%	7.9	26.3	234%
Net Interest	0.0	-2.6	37465%	0.0	0.0	-100%	-9.0	-1.5	-83%	-18.0	-3.0	-83%
Pre-Tax Profit	99.3	77.5	-22%	75.6	92.4	22%	29.8	54.8	84%	-10.1	23.3	-330%
Tax Expense	-0.5	-1.9	279%	-0.4	0.0	-100%	-0.1	0.0	-100%	0.0	0.0	
Normalised NPAT	98.8	75.6	-23%	75.2	92.4	23%	29.6	54.8	85%	-10.1	23.3	-330%
Reported Profit	98.8	109.5	11%	75.2	92.4	23%	29.6	54.8	85%	-10.1	23.3	-330%
Profit Attrib	98.8	109.5	11%	75.2	92.4	23%	29.6	54.8	85%	-10.1	23.3	-330%
Capex	-48.4	-29.2	-40%	-54.8	-54.8	0%	-148.1	-148.1	0%	-194.0	-194.0	0%
- guidance				US\$32-36m	US\$32-36m							
Net Debt (Cash)	-58.0	-55.2	-5%	-70.6	-103.9	47%	-68.6	-124.5	82%	110.3	24.3	-78%

Source: Euroz Hartleys

Figure 3: Half Year Accounts

P&L	Jun 21a	Dec 21a	Jun 22a	Dec 22a
Net Revenue	88.3	167.5	175.5	193.3
Total Costs	-92.8	-134.6	-121.9	-161.9
EBITDA	-4.5	33.0	53.6	31.4
- margin	-5%	20%	31%	16%

Source: SRX, Euroz Hartleys

The company had already released cashflow via the quarterly (which disappointed);

New news though is the balance sheet, which looks strong and perhaps explains the weak cashflow (ie excess working capital at December). There is ~46cps of NTA, of which almost half (~21cps) is cash (13cps) and net receivables (~8cps).

There is 12cps of inventory. (stockpiles + consumables);

The company notes that "receivables were somewhat elevated following record shipments in December", suggesting normalised cash backing is higher;

Figure 4: Balance Sheet



Robust Balance Sheet

Increasing strength to support funding of Sembehun

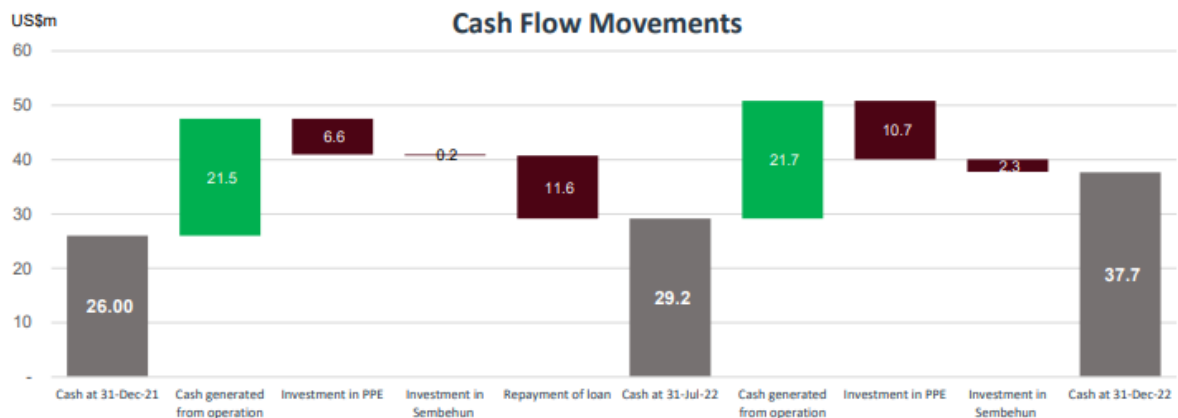
(US\$ millions)	CY FY22	CY FY21
Cash	37.7	26.0
Trade and other receivables (incl. VAT)	53.9	43.4
Inventory (stockpiles and consumables)	35.0	40.5
Property, plant and equipment	24.0	3.5
Capitalised exploration and evaluation	29.4	-
Rehabilitation Trust funds	42.5	-
Other	0.9	0.1
Total Assets	223.4	113.5
Trade and other payables	29.0	26.0
Borrowings	-	16.0
Rehabilitation provisions	48.1	47.4
Other	11.3	19.3
Total Liabilities	88.4	108.7
Net Assets	135.0	4.8
NTA/Share	A\$0.466	nmf

- ▲ Substantial cash (no debt) and working capital provides significant liquidity buffer. These items alone represent A\$0.27/share.
- ▲ Receivables somewhat elevated following record shipments in December.
- ▲ Strong established customers with no receivables outside of normal trading terms; audited financial statements provide for zero expected credit losses.
- ▲ Average trading terms expected to reduce during 2023.
- ▲ Significant capital program now well advanced to maximise efficient recovery of remaining Area 1 reserves.
- ▲ Area 1 rehabilitation obligations substantially funded by Trust funds.

Source: SRX

Figure 5: Cash Flow

Enabling repayment of loans, capital investment and strengthening of balance sheet



- ▲ Strong cash generation throughout year (pre and post demerger). High December sales converting to cash in Q1 2023.
- ▲ Analysis excludes receipt and subsequent investment of \$45m establishing the Sierra Rutile Rehabilitation Trust at demerger.

Source: SRX

Figure 6: 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 7: 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 48cps;

Figure 8: Price Target

Price Target Methodology	Weighting	Spot	12 mth out
NPV ₁₂ consensus prices	47%	\$0.44	\$0.50
NPV ₁₂ at spot commodity and fx prices	5%	\$1.31	\$1.45
NPV ₈ consensus prices	15%	\$0.56	\$0.60
NPV ₈ at spot commodity and fx prices	3%	\$1.03	\$1.11
Net cash backing	30%	\$0.14	\$0.14
Risk weighted composite		\$0.43	
12 Months Price Target		\$0.48	
Shareprice - Last		\$0.240	
12 mth total return		99%	

Source: Euroz Hartleys

Company disclosures

The companies and securities mentioned in this report, include:

Sierra Rutile Holdings Limited (SRX.ASX) | Price A\$0.24 | Target price A\$0.48 | Recommendation Speculative Buy;

Price, target price and rating as at 28 February 2023 (not covered)*

Other disclosures, disclaimers and certificates

Copyright & Distribution

The material contained in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Hartleys Limited (ACN 104 195 057) only.

Euroz Hartleys Limited is the holder of an Australian Financial Services Licence (AFSL 230052) and is a participant of the Australian Securities Exchange Group.

The information contained herein is confidential. If you are not the intended recipient no confidentiality is lost by your receipt of it. Please delete and destroy all copies, and contact Euroz Hartleys Limited on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the express written authority of Euroz Hartleys Limited.

Disclaimer & Disclosure

Euroz Hartleys Limited, and their associates declare that they deal in securities as part of their securities business and consequently may have an interest in the securities recommended herein (if any). This may include providing equity capital market services to the issuing company, hold a position in the securities, trading as principal or agent and as such may effect transactions not consistent with the recommendation (if any) in this report.

You should not act on any recommendation issued by Euroz Hartleys Limited without first consulting your investment adviser in order to ascertain whether the recommendation (if any) is appropriate, having regard to your objectives, financial situation and needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz Hartleys Limited believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz Hartleys Limited accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material.

We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference. The author of this publication, Euroz Hartleys Limited, its directors and their associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Euroz Hartleys Limited, and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of transactions arising from any advice mentioned in publications to clients.