

August 24, 2023

ADD (no change)

Stock code:	SRX AU
Price:	A\$0.20
12-month target price:	A\$0.51
Previous target price:	A\$0.51
Up/downside to target price:	155.0%
Dividend yield:	0.0%
12-month TSR*:	155.0%
Market cap:	A\$84.85m
Average daily turnover:	A\$0.20m
Index inclusion:	N/A

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-16.7	2.6	-38.5	
Rel ASX/S&P200	-15.0	3.0	-41.1	



Source: IRESS

Financial summary

	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (US\$m)	254.5	235.0	236.9	259.4
EBITDA Norm (US\$m)	77.50	27.08	28.76	61.85
Net Profit (US\$m)	73.77	13.34	4.97	34.48
EPS Norm (US\$)	0.17	0.03	0.01	0.08
EPS Growth Norm (%)		-82%	-63%	593%
P/E Norm (x)	0.74	4.12	11.04	1.59
DPS (US\$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
Franking	NA	NA	NA	NA
EV/EBITDA (x)	0.22	-0.35	6.74	4.60
Gearing (Net Debt/EBITDA)	-0.49	-2.38	4.84	3.71

Source: Company data, Morgans estimates

Related research
[SRX \(ADD - TP A\\$0.51\) - 28 Jul 2023](#)
[SRX \(ADD - TP A\\$0.55\) - 28 Apr 2023](#)
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Analyst(s) own shares in the following stocks mentioned in this report:

– Sierra Rutile Holdings

Sierra Rutile Holdings

1H'CY23 Result: Opportunity calling!

- SRX's 1H CY23 results came above our expectations. Gross profit of \$30.5m (-8.1% pcp) vs. 22.2m MorgE, and underlying NPAT of \$28.2m (-6% pcp) vs. 9.2m MorgE.
- SRX sits on healthy inventories of Ore and HMC stockpiles (\$20m), which is set to unwind as rutile demand normalises further lowering net unit cost of production.
- We continue to view SRX as an undervalued opportunity with cash component representing ~56% of the current market cap. We retain our \$0.51 target price and maintain our Add rating.

1HCY23 Result

- SRX posted 1H revenue of \$108.3m (-11% on pcp) vs. \$117.5m MorgE, gross profit of \$30.5m (-8.1% pcp) vs \$22.2m MorgE, underlying NPAT of \$28.2 (-6% pcp) vs. 9.2m MorgE, statutory net loss of -\$0.6m, and a net cash position of \$32.7m
- Impairment charge of \$28.8m against Area 1 PP&E led to statutory net loss of \$0.6m.
- The company delivered 1H rutile sales of 58kt (-14.7% pcp), rutile production of 57kt (-19.7% pcp) at net cost of \$1,111 (+42.2% pcp) vs. \$989 MorgE (pre-reported).
- Volumes of rutile produced and sold fell by 20% and 15% respectively while the average rutile price remained stable at \$1,461.
- Lower sales and production volumes resulted from power supply disruption, with operations commenced to full capacity in Aug 23.
- SRX continues to engage and co-ordinate with the Government of Sierra Leone (GoSL) to renegotiate its fiscal scheme for Area 1.
- The company has commenced an internal FS study on Mogbwemo Tailings Project to reduce operating costs and further prolong Area 1 operation. This is contingent on a satisfactory resolution of the Area 1 fiscal scheme with (GoSL).
- Reiterated CY23 guidance rutile production of 124kt-126kt at net unit cost of \$990 – 1,055/t.
- Sembahun DFS is on track for the end of CY23, with FID targeted for Q1CY24.

Analysis

- SRX continued to build HMC stockpiles due to power issues experienced at MSP, along with building ore stockpiles ahead of the wet season. The company sits on healthy ore stockpiles (~\$10m) and HMC stockpiles (~\$10m). We anticipate inventory to unwind in subsequent quarters as demand normalises, further lowering net unit cost.

Forecast and valuation update

- Unchanged forecast. We have incorporated FY23 financials in our model based on today's results.
- We view this robust cash-generative business trading at a steep discount, so retain our Add rating.

Investment view

- SRX is well positioned to generate attractive returns for relatively low development risk. This undervalued business commands a sizable share of the global natural rutile market. In addition, SRX has a sound balance sheet with cash (US\$32.7m/A\$48m) representing ~56% of its market cap.
- Trading at a discount to our \$0.51ps valuation-based target price, we maintain our Add rating on this undervalued micro-cap opportunity.

Price catalysts

- Resolution and agreement on Area 1 Fiscal scheme with GoSL.
- Sembahun DFS and financing outcomes (late CY23).

Risks

- Sovereign and political risk.
- Economic downturn (recessionary fears) affecting rutile/pigment prices.
- Funding risk (securing capital) to develop Sembahun project.

Sierra Rutile Holdings

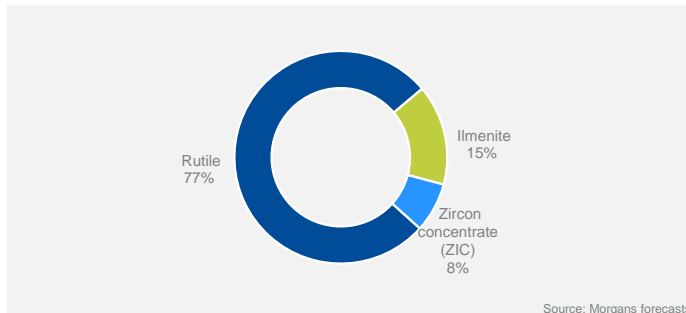
ADD

as at August 24, 2023

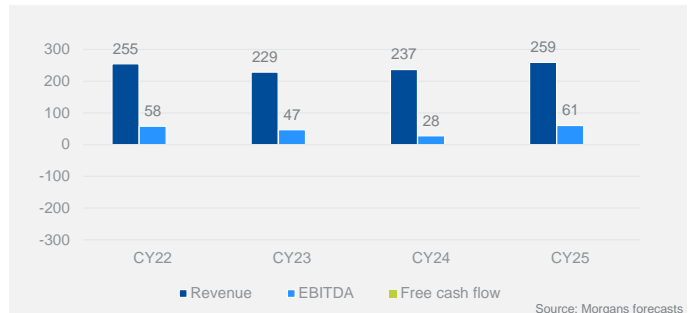
Price (A\$):	0.20	12-month target price (A\$):	0.51
Market cap (A\$m):	84.85	Up/downside to target price (%):	155.0
Free float (%):	100.0	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	155.0

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

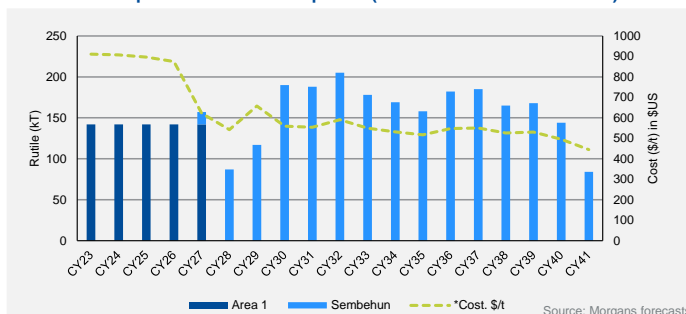
Forecast revenue by commodity - CY23



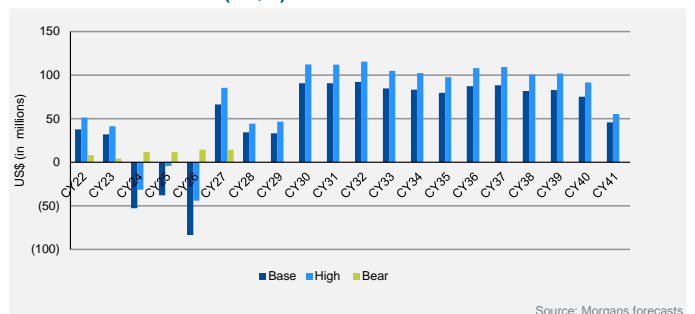
Forecast Revenue, EBITDA, FCF (US\$m)



Forecast rutile production and cost profile (based on ILU Sembhun PFS)



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	254	235	237	259
Other Income	2	0	-	-	-
Total Operating Costs	-166	-189	-208	-208	-198
Other Costs	0	-8			
EBITDA	21	77	27	29	62
D&A	-32	-3	-9	-23	-13
Net interest	-1	0	0	0	-13
Impairment reversal	0	23	0	0	0
Financing	0	-2	0	0	0
Tax expense	-3	-1	-1	-1	-1
Underlying NPAT	6	76	13	5	34
Abnormals - post-tax	0	0	0	0	0
Reported NPAT	6.1	75.6	13	5	34
Cash flow statement					
	2021A	2022A	2023F	2024F	2025F
Cash receipts	21	248	234	248	263
Payments to suppliers	0	-204	-208	-183	-181
Net interest	-1	1	0	-4	-12
Income tax paid	-3	-1	1	1	1
Operating cash flow	17	43	23	37	40
Purchase of PP&E	-16	-17	-23	-109	-95
Sale of PP&E	0	0	-23	-234	-120
Other Investing Cash Flow (0	-48	3	0	0
Investing cash flow	-16	-65	-29	-239	-125
Issue of share proceeds	0	45	0	0	0
Debt raised	0	0	0	200	100
Debt paid	0	0	0	0	0
Dividend paid	0	0	0	0	0
Financing Cash flow	0	0	0	200	100
Cash at beginning		26	38	64	61
Inc/(decr) cash at end	9	38	64	61	71
Balance sheet					
	2021A	2022A	2023F	2023F	2023F
Cash & deposits	9	38	64	44	64
Receivables	43	54	124	132	140
Inventories	41	35	112	118	126
Fixed assets	27	24	0	0	0
Total Assets	166	223	300	311	336
Payables	23	29	71	29	29
Interest bearing debt	0	0	0	0	0
Total Liabilities	85	88	156	466	733
Share capital	545	135	1093	297	505
Other reserves	0	0	0	0	0
Retained earnings	0	0	64	61	71
Minority interest	22	204	0	283	266
Total Equity	81	135	133	297	505

	Unrisked	Unrisked	Risked	Risked
Valuation summary	A\$m	A\$ps	A\$m	A\$ps
Area 1	137	0.32	137	0.32
Sembehun (50% risked)	63	0.15	31	0.07
Total operations	200	0.47	169	0.40
Net Cash (/Debt)	48.09	0.11	48.09	0.11
Total valuation	248	0.60	217	0.51
WACC				14%
Price target (A\$)				0.51
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	942	988	984	970
Assumed Benchmark pricing				
	2022F	2023F	2024F	2025F
Rutile - US\$/t FOB	1511	1466	1475	1580
Ilmenite - US\$/t FOB	290	290	305	315
Zircon in concentrate (ZIC) - US\$/t I	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
DPS (cps)		0	0	0
Dividend yield (%)		0	0	0
EPS (cps)		0.03	0.01	0.08
Operating performance				
	2022A	2023F	2024F	2025F
EBITDA margin (%)		20.0%	11.6%	23.3%
EBIT margin (%)		16.2%	2.0%	18.5%
EV/ EBITDA		-0.35	6.74	4.60
Revenue to cost		1.13	1.14	1.31
Gearing (Net Debt/EBITDA)		-2.38	4.84	3.71

Source: Morgans estimates, company data

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