

FYI Resources Ltd (FYI.ASX)

Updated DFS Showcases Outstanding Project Economics

Event:

- Updated DFS.

Investment Highlights:

- Project economics further improved in updated DFS:** the company recently released an updated DFS for its HPA Project, with outstanding project economics that further improve what was already a robust case. The headline metric was the 87% increase in project NPV to US\$1.0B, from US\$543M.
- Updated project parameters enhance an already compelling project:** FYI will scale up average annual production to 10ktpa HPA, +25% on prior DFS. The company will also now produce 1,500tpa 5N HPA, while the balance of annual production remains 4N HPA. The basket price has accordingly been increased to US\$26,400/t HPA product. The company has also lowered its discount rate to 8% (prior 10%) and increased AUDUSD to 0.75 (prior 0.70).
- The Cadoux Kwinana HPA Project remains a massive, long life, high grade HPA project, now with improved project metrics:** the updated DFS highlights include NPV₈ US\$1.0B (prior US\$543M) and IRR of 55% (prior 46%). The project retains its attractive capital intensity with modest – and modestly revised – capex of US\$202M for 10ktpa of HPA product. Payback has been reduced to 3.2 years (prior 3.6 years). High margin project with low operating cost of US\$6,661/t (prior US\$6,217/t). No change to the JORC estimates of Reserve or Resource, with the Reserve comfortably supporting a 50+ year mine life.
- Cash of \$10M (FSBe) and no debt.** The company continues to advance finance arrangements, progress marketing discussions, and work with MOU signatory Alcoa to establish a JV agreement.

Earnings and Valuation:

- We continue to forecast commissioning and ramp in FY23e with **first full year of production in FY24e to deliver earnings of \$143M** (prior \$94M).
- We have an increased risked valuation of \$1.52/share (prior \$0.68; 0.65x NPV unchanged).** Our valuation is underpinned by an unrisks NPV₁₀ of A\$1,124 (prior \$770M) for the HPA Project in the base, assuming first production in FY23e, twelve-month ramp, and HPA price of US\$26,400/t (prior US\$24,000/t).
- Considerable valuation upside potential:** we note further drivers of value in the HPA project include life extension, potential production capacity upgrade, and/or inclusion of by-product revenue.

Recommendation:

- We continue to recommend FYI as a **Buy with an increased price target of \$1.52/share** (prior \$0.68), due to its long life, high grade kaolin asset, and low-cost processing HPA refinery project. FYI aims to be a single source integrated producer of high quality HPA with supply provenance wholly from a tier 1 mining jurisdiction.
- Catalysts for the stock** include: 1) FEED and FID decisions and commencement of the Cadoux HPA project; 2) customer offtake MOUs and marketing relationships; 3) updates on financing arrangements; 4) updates on the Alcoa JV; and 5) updates on LOM extension, capacity upgrade, and/or by-products.

Disclosure

The analyst does not own FYI securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,572,314 FYI shares and 4,000,000 FYI options with \$0.30 exercise price and December 2022 expiry. Cranport Pty Ltd owns 759,630 FYI shares and 750,000 FYI options with \$0.10 exercise price and July 2021 expiry. **Foster Stockbroking acted as Sole Lead Manager to the \$6M placement of 30M FYI shares at \$0.20 in December 2020 and to the \$2.7M placement of 45M FYI shares at \$0.06 in August 2020. Foster Stockbroking received fees for these services.**

Refer to end of report for details.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target (A\$/share, risked)	\$1.52			
Previous	\$0.68			
Share Price (A\$)	\$0.52			
ASX Code	FYI			
52 week low - high (A\$)	0.04-0.625			
Capital structure				
Shares on Issue (M)	321.1			
Market Cap, undil. (A\$M)	167			
Net Cash/(Debt) (A\$M)	10			
EV (A\$M)	157			
12mth Av Daily Volume ('000)	1,535			
Y/e Jun A\$	FY20a	FY21e	FY22e	FY23e
Sales, \$M	0.0	0.0	0.0	84.1
EBITDA adj. \$M	-2.6	-2.5	-4.9	59.5
NPAT adj. \$M	-2.1	-2.8	-5.2	33.0
EPS adj c	-1.0	-0.9	-1.0	4.5
PER (x)	nm	nm	nm	11.4
Dividend c	0.0	0.0	0.0	0.0

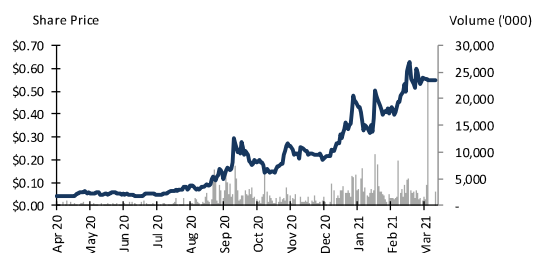
Board

Edmund Babington	Non-Executive Chairman
David Sergeant	Non-Executive Director
Adrian Jessup	Non-Executive Director
Roland Hill	Managing Director

Major Shareholders

A Spinks	8.3%
Regal Funds	4.8%

Share Price Graph



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