



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

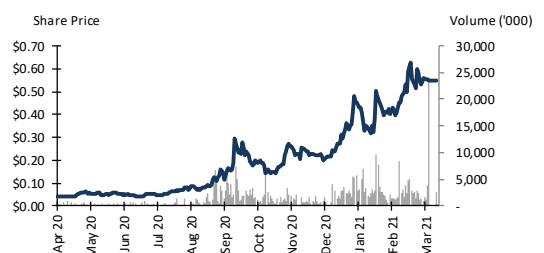
Board

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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FYI Resources Ltd (FYI)

Full Year Ended 30 June

Profit and Loss A\$M	2020a	2021e	2022e	2023e	2024e
Revenue	0	0	0	84	352
Other income	0	0	0	0	0
Operating Costs	3	3	5	25	95
EBITDA	-3	-3	-5	60	257
D&A	0	0	0	5	45
EBIT	-3	-3	-5	55	212
Net Interest exp / (income)	0	0	0	8	7
PBT	-3	-3	-5	47	205
Tax exp / (benefit) adj.	-1	0	0	14	61
NPAT underlying	-2	-3	-5	33	143
Non-recurring items	0	0	0	0	0
NPAT reported	-2	-3	-5	33	143
EPS diluted, adj. cps	-1.0	-0.9	-1.0	4.5	19.8

Cashflow A\$M	2020a	2021e	2022e	2023e	2024e
EBITDA	-3	-3	-5	60	257
Change in WC	1	4	4	-11	-10
Tax paid	1	0	0	-14	-61
Other	0	0	25	0	0
Net interest	0	0	0	-8	-7
Share based payments	0	0	0	0	0
Operating Cashflow	-1	2	25	26	178
Purchase of PP&E	0	0	-258	-5	-5
Acquisitions	0	0	0	0	0
Capitalised expenses	0	-5	-1	1	0
Investments	0	0	0	0	0
Investing Cashflow	0	-5	-259	-4	-5
Equity issue	0	12	171	0	0
Debt proceeds	1	0	107	0	0
Debt repayments	-1	-1	-1	-1	-1
Other	0	0	0	0	0
Financing Cashflow	0	11	277	-1	-1
Net Cashflow	-1	8	43	21	172

Balance Sheet A\$M	2020a	2021e	2022e	2023e	2024e
Cash	0	8	50	71	243
Receivables	1	0	0	7	29
PPE	0	0	258	258	218
Capitalised exploration	0	5	6	5	5
Intangibles	0	0	0	0	0
Other	6	6	6	10	0
Total Assets	7	18	320	352	496
Accounts payable	1	4	9	4	16
Provisions	0	0	0	2	7
Debt	1	1	108	108	108
Other	2	1	25	26	10
Total Liabilities	4	6	142	140	141
Reserves and capital	41	52	223	223	223
Retained earnings	-37	-40	-45	-12	131
NCI	0	0	0	0	0
Total Equity	3	12	178	211	354

Source: Company; Foster Stockbroking estimates

Financial Metrics	2020a	2021e	2022e	2023e	2024e
Sales growth, %	nm	nm	nm	nm	319%
EPS growth, %	nm	2%	nm	nm	334%
EBITDA margin, %	nm	nm	nm	71%	73%
EBIT margin, %	nm	nm	nm	65%	60%
PE ratio	nm	nm	nm	11.4x	0.0x
Gearing (ND/ND+E)	17%	-122%	25%	15%	-62%
Interest Cover (EBIT/net int)	29.0x	43.5x	-61.0x	-7.2x	-29.4x
Average ROE %	-56%	-36%	-5%	17%	51%
Average ROA %	-46%	-22%	-3%	16%	50%
Wtd ave shares (M)	213	283	507	697	697
Wtd ave share diluted (M)	213	312	536	726	726

Assumptions	2020a	2021e	2022e	2023e	2024e
Prices					
HPA, 4N US\$/t	24,000	24,000	24,000	24,000	24,000
HPA, 5N, US\$/t	40,000	40,000	40,000	40,000	40,000
AUDUSD	0.69	0.72	0.74	0.75	0.75
Production					
HPA, kt	0.0	0.0	0.0	2.4	10.0
Costs					
C1, US\$/t	nm	nm	nm	6,306	6,680
AISC, US\$/t	nm	nm	nm	10,029	8,115

Company Valuation					
DCF, WACC 10% nominal	Unrisked		Risky		
Segment	A\$M	A\$/sh	A\$M	A\$/sh	
Cadoux Kwinana HPA, base case	1,124	\$1.62	787	\$1.13	
Cadoux, extension, total Reserve only	397	\$0.57	159	\$0.23	
Corporate	-60	-\$0.09	-42	-\$0.06	
Net cash (debt)	8	\$0.01	8	\$0.01	
Cash, equity facility	80	\$0.12	80	\$0.12	
Cash, equity raise	81	\$0.12	57	\$0.08	
Cash from in the money options	8	\$0.01	6	\$0.01	
Total	1,638	\$2.36	1,054	\$1.52	

Capital Structure	M
Ordinary shares	321
Options	48
Fully diluted	369

JORC Resources and Reserves	Ore, Mt	Al ₂ O ₃	Fe ₂ O ₃	K ₂ O	TiO ₂
Cadoux (100%)					
Reserves	3.2	24.8%	1.1%	0.5%	0.9%
Resources	11.3	22.5%	0.9%	1.0%	nd

**UPDATED DFS SHOWCASES OUTSTANDING PROJECT ECONOMICS****HPA Project NPV increases 87% to US\$1B in updated DFS**

- The company recently released an updated DFS for its Cadoux mine and Kwinana HPA refinery (“HPA Project”), with updated project economics that further improved upon the existing DFS economics, which we already considered very strong.
- The headline metric was an increased NPV for the HPA Project; the company now derives NPV₈ of US\$1.0B in its updated DFS, an increase of 87% on the NPV₁₀ of US\$543M from the prior DFS of March 2020.
- The main project parameters that were updated include average annual production of 10ktpa HPA, including 15% 5N HPA product (99.999% Al₂O₃) and the balance as 4N HPA product (99.99% Al₂O₃), with an increased HPA basket price of US\$26,400/t as a result of the inclusion of higher purity 5N HPA in the product mix, as well as a lower discount rate, which combined together more than compensated for the increased AUDUSD of 0.75, and modestly higher operating costs and capital expenditure.
- The company has also made enhancements to the project to optimise its integrated HPA strategy, including detailed flowsheet advances, process redesign, production optimisation, and extensive supporting testwork (including multiple pilot plant trials).
- Key changes in the financial parameters in the updated DFS are summarised in the figure below.

Figure 1: HPA Project Updated DFS Financial parameters

Parameter	Unit	DFS	Updated DFS
NPV post tax	US\$M	543	1,014
Discount rate	%	10%	8%
IRR	%	46%	55%
Payback period, including ramp up	yrs	3.6	3.2
AUDUSD	US\$	0.70	0.75
Annual Production, total HPA	tpa	8,000	10,000
4N HPA annual production	tpa	8,000	8,500
5N HPA annual production	tpa	0	1,500
Price assumption, 4N HPA	US\$/t	24,000	24,000
Price assumption, 5N HPA	US\$/t	n/a	40,000
Total Project Sales, initial 25 yrs, no escalation	US\$B	4.7	6.1
Total Project Operating Cash Flow	US\$B	2.4	3.3
EBITDA, annual average	US\$M	133	186
Cash flow	US\$M	88	131
Capital Expenditure, incl. 15% contingency	US\$M	189	202
Capital intensity	US\$/t	23,575	20,200
C1 Costs, FOB Kwinana, LOM	US\$/t	6,217	6,661
Sustaining Capex	US\$M	4	4
Plant Maintenance, % of capex	%	7.2%	7.2%

Source: Company.

HPA PROJECT UPDATED DFS HIGHLIGHTS**Quicker Payback, Higher IRR on Upscaled Production**

- In its updated DFS for its HPA Project, FYI has now derived a US\$1,014M post-tax NPV₈ with 55% IRR; an improvement on the US\$543M post-tax NPV₁₀ with 46% IRR in its initial DFS. We note the company continues to assume a 25 year life which is amply supported by a 50+ year Reserve, even with increased mining and production rates.



- The updated DFS estimates quicker payback of 3.2 years (prior 3.6 years), lower capital intensity of US\$20,200/t (prior \$23,575/t), and average annual EBITDA of US\$186M (prior US\$133M p.a.).
- The major variances between the recently updated DFS from the initial DFS are discussed below.

Increased Production Profile Also Introduces Higher Purity 5N HPA Product into the Mix

- The company has increased its proposed HPA production profile to 10,000tpa from 8,000tpa, supported by both strong expected HPA market growth and tacit approval from MOU signatory Alcoa. The company expects HPA demand to grow at 19% CAGR to 2028.
- FYI has also updated its sales assumption to reflect a new product mix, with weighting towards a higher purity 5N HPA product. The company now contemplates a product mix comprising 8,500tpa of 4N HPA product and 1,500tpa 5N HPA product (prior 8,000tpa 4N HPA only). The company notes that 5N HPA production has been successfully demonstrated and is positioning for it to be a material contributor to future sales.

Pricing Assumption Benefits from 5N Product Weighting

- On HPA pricing, the project now assumes an assessed basket price for its products of US\$26,400/t HPA, by reason of a new product mix, and which equates to a weighted average of 85% product mix to 4N HPA product and 15% weight to 5N HPA product.
- The company has retained an unchanged price assumption of US\$24,000/t for 4N HPA (FOB, ex-Fremantle), and introduced a 5N HPA assumption of US\$40,000/t.
- The company has brought its currency assumption in line with our existing one, with AUDUSD updated to 0.75, from 0.70.
- A broad sample of potential customers in preliminary marketing (30 separate groups) continue to indicate a wide price range for 4N HPA, of between US\$15,000/t (China) and US\$37,000/t (South Korea). Retail spot prices for 4N range from US\$30,000/t to US\$35,000/t. FYI continues to note it has applied a conservative basket pricing of US\$26,400/t even when allowing for a number of adjustments including for spot versus contract pricing, end user versus trader markets, and different end user jurisdictions.

Project Retains Significant Margin Despite Modest Opex Increase

- The updated DFS continues to envisage a low cost operation with modestly increased C1 cost of US\$6,661/t HPA, a minor increase of 7% primarily due to the updated AUDUSD assumption and the AUD cost base for opex. We continue to estimate ~75% of the C1 cost is refinery processing, with beneficiation the next largest component of C1 cost, which we estimate at 10%. Mining cost is an almost negligible component of the cost, due to the flat and shallow geology, and free dig open pit campaign mining.

Scale Up Compensates Modest Capex Increase; Improves Already Attractive Capital Intensity

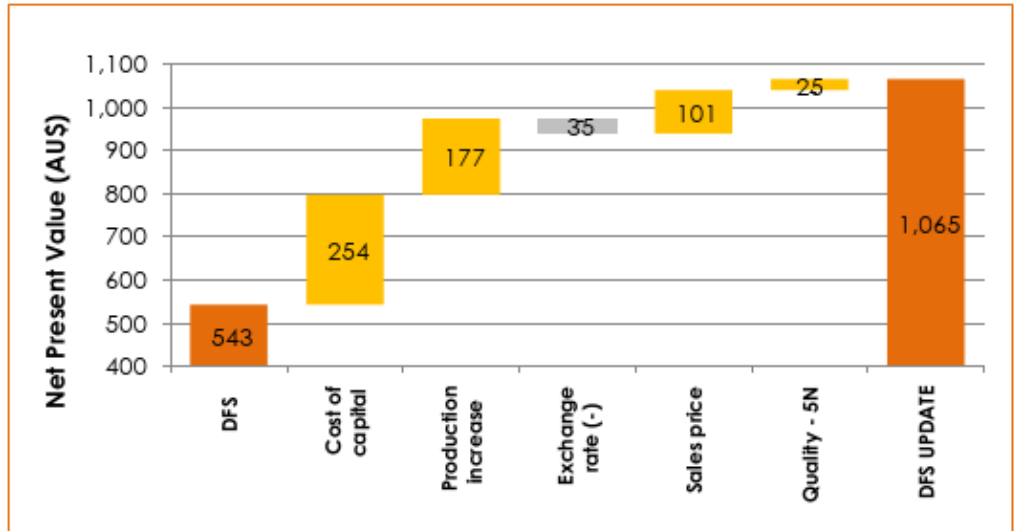
- Capital expenditure is now projected to be US\$202M, a modest increase of 7% on the DFS estimate of US\$189M, and which includes a 15% contingency. The vast majority of the capital expenditure (90%) remains for the Kwinana refinery, and the balance for the Cadoux site. Plant maintenance remains 7% of capex, or US\$14M, which will be required in the initial years of



operation; sustaining capex remains 2% of capex, or US\$4M. We note the project’s capital intensity has become even more attractive with the increased capacity, at US\$20,200/t (prior US\$23,575/t).

- Below is the company’s waterfall reconciliation of the initial DFS NPV to that in the upgraded DFS. The lower discount rate represents a majority of the increase in NPV, followed by production increase, and then basket sales price.

Figure 2: Updated DFS NPV Waterfall



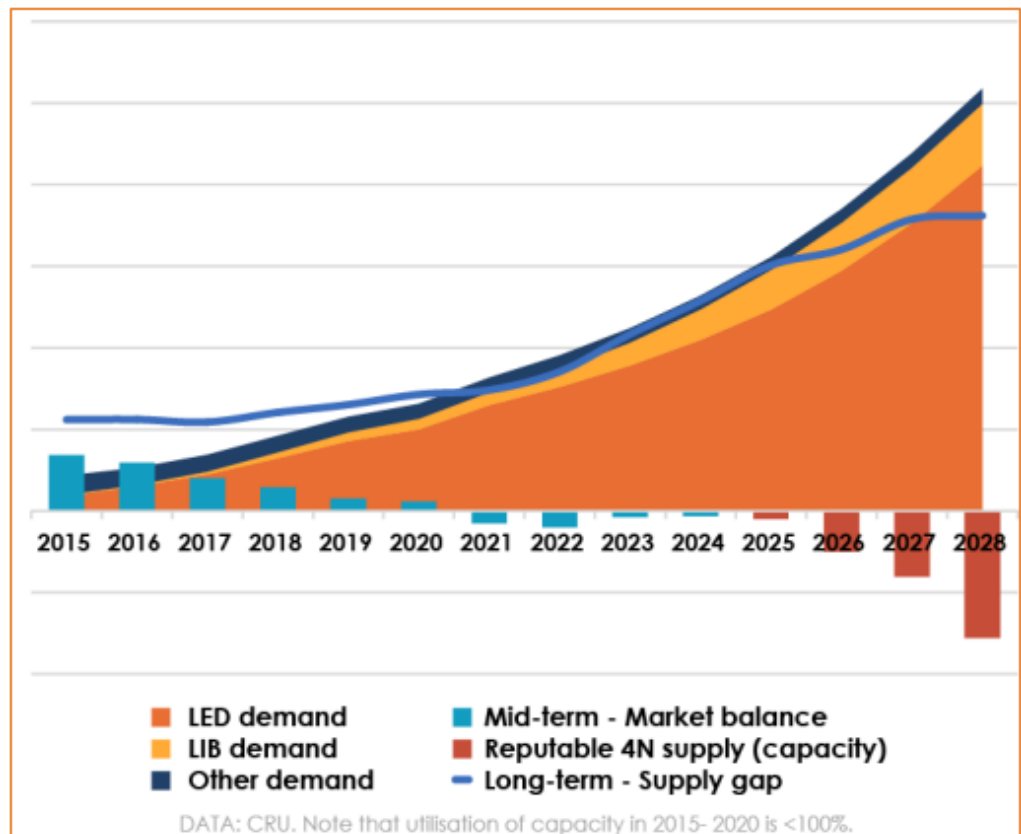
Source: Company, updated DFS 2021.



HPA MARKET UPDATE

- The company has provided an HPA market update, following an updated HPA market survey from market intelligence and analysis firm CRU Group. CRU Group has observed tightening of the market for HPA, and supplies of reputable of 4N HPA are becoming limited.
- CRU forecasts the 4N+ HPA market demand to grow rapidly at 18.7% CAGR from 2021 to 2028 to over 104kt in 2028. It also predicts that the market for high quality and reputable 4N will move into supply deficit after 2024 as current production attempts to keep pace with forecast demand growth.
- CRU maintains the view that HPA remains the best material available for both the traditional LED use case and the burgeoning EV and battery market applications for price, durability, and efficiency.
- The 4N HPA market is forecast to grow at 18% CAGR from 2021 to 2028 from a current estimated market of 30ktpa in 2021.
- Similarly, CRU forecasts the 5N HPA market is forecast to grow at 22% CAGR from 2021 to 2028 from a current estimate market of 5ktpa in 2021.

Figure 3: HPA Market Forecast Demand to 2028



Source: CRU, company, updated DFS April 2021.

- CRU continues to note a wide range for HPA pricing, and make the following observations: a top of US\$100/kg for spot and small parcels, US\$56/kg for premium, high quality, and reliable supply and specialist applications, and US\$15/kg for misrepresented off spec product primarily in the Chinese domestic market.



- CRU also notes an increasing global trend of HPA production costs, migration of increased COGS, rising Chinese labour costs, increasing aluminium prices, and European and Japanese carbon pricing. We interpret this as an expectation of increased costs for Chinese domestic producers, making it more difficult for marginal producers to compete solely on cost.
- The company still believes it has a conservative price assumption, with an unchanged US\$24,000/t for 4N HPA and US\$40,000/t for 5N HPA (weighted basket price of US\$26,400/t HPA assuming 15% 5N HPA in the product mix).

ALCOA – CONTINUING TO WORK THROUGH CPs FOR JV ESTABLISHMENT

- The company had previously announced in September 2020 that it had signed a MOU with leading alumina producer, Alcoa of Australia Limited (Alcoa) for the potential strategic development of FYI's HPA refining technologies.
- The company continues to work through conditions precedent for the establishment of a JV, including success in further HPA pilot plant variability trials.
- We continue to note the MOU allows parties to explore technical capability and capacity in alumina production, and maintain the view Alcoa's potential advantages include operational expertise, global reach for marketing, and potential financing options for the company.

EARNINGS FORECASTS – MAIDEN EARNINGS IN FY23e

- We provide updated forecast earnings for FYI in the figure below. We expect the first full year of production in FY24e to deliver \$143M in earnings (prior \$94M), and a ramp up of production in FY23e at 30% of annual average production capacity (FYI updated DFS 70% ramp assumption).

Figure 4: FYI Earnings Forecasts, A\$M

Y/e June	2020a	2021e	2022e	2023e	1 st full yr 2024e
Revenue	0	0	0	84	352
Operating costs	3	3	5	25	95
EBITDA	-3	-3	-5	60	257
D&A	0	0	0	5	45
EBIT	-3	-3	-5	55	212
Net interest expense	0	0	0	8	7
PBT	-3	-3	-5	47	205
Tax expense	-1	0	0	14	61
NPAT underlying	-2	-3	-5	33	143

Source: Foster Stockbroking estimates.



VALUATION – \$1.52/SHARE, RISKED (PRIOR \$0.68)

- We derive an unrisksed valuation of \$1,638M or \$2.36/share for FYI (prior \$1,153M and \$1.05/share). Our valuation is based on an unrisksed NPV₁₀ DCF of \$1,124M (prior \$770M) for the Cadoux Kwinana HPA project. We estimate a 50% (prior 40%) post-tax IRR for the project. Our assumptions are broadly in line with the company’s DFS, with key departures arising from differences in mine life and financing assumptions.
- We continue to assume long term AUDUSD of 0.75 (FYI DFS 0.75) and now adopt a long term basket HPA price of US\$26,400/t, comprising US\$24,000/t for 4N HPA and US\$40,000/t for 5N HPA with 15% of 5N HPA in the product mix; the basket price is in line with the company’s updated DFS price assumption.
- We consider a 25-year project life in the base case. We also ascribe value for the potential extension of the project to a 40-year project, and which would utilise the whole Reserve at Cadoux (FYI updated DFS’ 25-year life only). We further note the massive Resource supports a much longer project life than considered by the DFS but the company has not considered or ascribed any value to this further extension. We continue to apply a 70% risk factor to the base case and an unchanged 40% risk factor for the life extension in the risksed valuation case. We model a twelve-month ramp, producing 30% LOM annual output in FY23e (FYI 70% assumption in initial project year). We assume first full year of production in FY24e.
- We continue to assume the existing A\$80M equity facility is fully drawn, at 10% discount to the current share price. Secondly, we assume that 40% of the US\$202M capex, or A\$107M, is in the form of debt financing at similar terms assumed in the DFS. We assume a further equity capital requirement of A\$81M for the remainder of the capex, also raised at a 10% discount to the current share price, similar to equity commitment terms. We now assume a fully diluted share number of 694M (prior 1,100M) for our valuation, as a result of lower potential dilutive impact from unpaid capital.
- We have increased our capex and opex estimates in line with the increase in the updated DFS.
- We note the company’s updated DFS presented a post-tax NPV₈ of US\$1,014M, assuming long term US\$26,400/t basket HPA price and 0.75 AUDUSD for a 25 year mine life only.

Figure 5: FYI Valuation

Company Valuation	Unrisksed		Risksed		Risk Factor
	A\$M	A\$/sh	A\$M	A\$/sh	
HPA Project	1,124	1.62	787	1.13	70%
Cadoux expansion	397	0.57	159	0.23	40%
Corporate	-60	-0.09	-42	-0.06	70%
Cash (debt)	8	0.01	8	0.01	100%
Cash, equity facility (GEM)	80	0.12	80	0.12	100%
Cash, equity raise	81	0.12	57	0.08	70%
Options	8	0.01	6	0.01	70%
Valuation DCF, WACC 10%	1,638	\$2.36	\$1,054	\$1.52	64%
Ordinary shares, M	321				
Options, M	48				
Shares, future issue, M	325				
Fully diluted shares, M	694				

Source: Company, Foster Stockbroking estimates.

**MAINTAIN BUY RECOMMENDATION, PRICE TARGET \$1.52/SHARE (PRIOR \$0.68)**

- We maintain our Buy recommendation for FYI with an increased price target of \$1.52/share (prior \$0.68), in line with our risked 0.65x NPV valuation. We consider FYI's HPA Project an integrated, high-margin project supported by a very long life asset with compelling economics, offering supply provenance wholly from a tier one jurisdiction, leveraged to exciting demand growth for its principal product as a result of the re-emerging EV market.
- We see a number of upcoming catalysts for FYI, including 1) FEED and FID decisions and commencement of the Cadoux Kwinana 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.



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