



FYI Resources Ltd (FYI.ASX)

Alcoa Effectively Provides Full Finance

Event:

- HPA Refining Project binding term sheet with Alcoa.

Investment Highlights:

- Binding term sheet signed with Alcoa:** FYI recently announced its eagerly anticipated term sheet with Alcoa for its HPA Refining Project. FYI will retain a 35% interest, with Alcoa to cover the overwhelming majority of the proposed capital expenditure to acquire its 65% interest.
- Project now contemplates phased developments:** although presented sequentially, management noted concurrent development of phases 2 and 3. Phase 1 is design of 1,000tpa demonstration facility, phase 2 is construction of the 1,000tpa demonstration facility and design of 8,000tpa full scale plant, and phase 3 is construction of the 8,000tpa full scale plant.
- HPA Project is effectively fully funded,** and the financing conversation settled. Alcoa will effectively pay almost all (93%) of the US\$257M capex, even though the message was not well articulated in the 1 October announcement.
- FYI will earn ~\$70M EBIT for 25 years for less than \$25M.** Assumes US\$6,400/t cash cost, and we note metrics remain very attractive. Once again, we think this important message was lost in FYI's most recent announcement.
- Alcoa will contribute US\$238M of the first US\$250M capex; FYI is only up for US\$18.5M for its 35% interest in the HPA project.**
- Significant Project De-risking:** FYI has mapped a funding path for the HPA Project, and subject to phase FIDs, Alcoa will effectively cover almost all of the contemplated capex, absent cost escalation. Alcoa both as JV partner and with carriage of product marketing significantly removes any counterparty risk for potential offtakers associated with FYI. The company currently has **cash of \$9M (FSBe) and no debt.**

Earnings and Valuation:

- We have a decreased risked valuation of \$1.19/share (prior \$1.52) with increased 0.73x P/NAV (prior 0.65x).** This is a consequence of reverting Kwinana production output to 8ktpa 4N HPA (prior 10ktpa, 85% 4N HPA), with first production from the full scale plant pushed to FY25e (prior FY24e), offset by lower risk factor and financing certainty. We retain unchanged commodity and currency assumptions.
- We continue to see **upside potential** from both 5N HPA option and Cadoux extension, both of which remain in our risked valuation (0.6x and 0.4x)

Recommendation:

- We continue to recommend FYI as a **Buy with a decreased PT of \$1.19/share** (prior \$1.52), due to lower production and minor delay, offset by funding certainty and risk unwind. Cadoux-Kwinana is a long life, high grade kaolin asset and low-cost refinery aiming to become a single source HPA producer from a tier 1 jurisdiction, now with Alcoa's validation and balance sheet.
- Catalysts for the stock** include: 1) FEED and FID decisions and commencement of the HPA project; 2) customer offtake MOUs and marketing relationships; 3) updates on financing arrangements; 4) further updates on the Alcoa JV; and 5) updates on LOM extension, capacity upgrade, 5N option, and/or by-products.

Disclosure

The analyst does not own FYI securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,060,758 FYI shares and 1,000,000 FYI options with \$0.30 exercise price and December 2022 expiry. Cranport Pty Ltd does not own FYI securities. **Foster Stockbroking acted as Sole Lead Manager to the \$6M placement of 30M FYI shares at \$0.20 in December 2020 and received fees for this service.**

Refer to end of report for details.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target (A\$/share, risked)	\$1.19			
Previous	\$1.52			
Share Price (A\$)	\$0.41			
ASX Code	FYI			
52 week low - high (A\$)	0.14-0.87			
Capital structure				
Shares on Issue (M)	349.2			
Market Cap, undil. (A\$M)	143			
Net Cash/(Debt) (A\$M)	9			
EV (A\$M)	134			
12mth Av Daily Volume ('000)	2,465			
Y/e Jun A\$	FY21a	FY22e	FY23e	FY24e
Sales, \$M	0.0	0.0	0.5	11.2
EBITDA adj. \$M	-3.8	-5.1	-4.5	6.0
NPAT adj. \$M	-3.4	-5.9	-5.4	-14.6
EPS adj c	-1.2	-1.1	-0.8	-2.0
PER (x)	nm	nm	nm	nm
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			
Sandy Chong	Non-Executive Director			
Roland Hill	Managing Director			
Major Shareholders				
A Spinks	7.6%			
Perennial Value	5.0%			
Regal Funds	4.4%			

Share Price Graph



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**KEY TAKEAWAYS FROM ALCOA DEAL**

- **Binding term sheet with Alcoa:** FYI announced its eagerly anticipated deal and term sheet with Alcoa on 1 October. FYI will retain 35% interest in the HPA project, with Alcoa to cover the overwhelming majority of the proposed capital expenditure to acquire a 65% interest.
- **Project now contemplates phased developments:** although presented sequentially in the announcement, management noted phases 2 and 3 will be developed concurrently. Phase 1 is design of 1,000tpa demonstration facility; phase 2 is construction of the 1,000tpa demonstration facility and design of 8,000tpa full scale plant; phase 3 is construction of the 8,000tpa full scale plant.

Figure 1: Cadoux-Kwinana Project

Phase	Development	Capex, US\$M	Alcoa Share, US\$M	FYI Share, US\$M	Comment
1	Design of 1,000tpa demonstration facility.	7	7	0	Alcoa to reimburse FYI's share.
2	Construction of 1,000tpa demonstration facility and design of 8,000tpa full scale plant.	50	37.5	12.5	Concurrent with Phase 3.
3	Construction of 8,000tpa full scale plant.	200	194	6	Alcoa finances first US\$194M of Stage 3 capex.
Total		257	238.5	18.5	

Source: Company, Foster Stockbroking estimates.

- Base case production has been reset to 8,000tpa of 4N HPA at Kwinana (prior 10,000tpa, 85% 4N, balance 5N). An additional 1,000tpa 4N HPA demonstration or starter / small scale production facility will also be designed and constructed with location to be decided, but very likely in North America. We note there are now two plants contemplated, with the smaller plant to be located somewhere in North America proximate to meaningful markets.
- **Significant Project De-risking:** FYI has mapped a funding path for the HPA Project, and subject to phase FIDs, Alcoa will essentially cover all of the contemplated capex, absent cost escalation which will be pro rata along JV interests. FYI's effective share of phase 1 capex will be nil, since it will be reimbursed by Alcoa. Similarly, Alcoa will bear the cost of the first US\$194M of capex in phase 3, leaving FYI's contribution to a mere US\$6M. For phase 2, Alcoa will bear the cost of the first US\$14M of phase 2 capex, while FYI's contribution is at most US\$12.5M. Management has noted US\$50M capex for phase 2 is a significantly conservative estimate.
- FYI's HPA Project is **essentially fully funded**, and the financing conversation settled. Alcoa will effectively pay almost all (93%) of the US\$257M capex, even though this message was not well articulated in the 1 October announcement. Alcoa will contribute US\$238M of the first US\$250M capex; FYI is only up for US\$18.5M for its 35% interest in the HPA project.
- **FYI will earn ~\$70M EBIT for 25 years for a capital contribution of less than \$25M.** This assumes US\$6,400/t cash cost, and we note metrics remain very attractive. Once again, we think this important message was lost in FYI's most recent announcement.
- Alcoa, both as JV partner and with carriage of product marketing, significantly removes any counterparty risk for potential offtakers associated with FYI.
- FYI has cash of \$9M (FSBe) and no debt.

**VALUATION – \$1.19/SHARE, RISKED (PRIOR \$1.52)**

- We have a decreased risked valuation of \$1.19, (prior \$1.52). We have made a number of changes to our assumptions to reflect a raft of changes from the recently announced deal.
- We revert Kwinana to 8,000tpa 100% 4N HPA production (prior 10ktpa, 85% 4N). We include the 1,000tpa 4N HPA production.
- We have unwound our risk factor to reflect the Alcoa deal and the certainty around financing it provides, and we now use P/NAV of 0.73x, prior 0.65x, reflecting the increased 0.8x NPV (prior 0.7x) for the base case DCF of Cadoux-Kwinana. We have removed the debt finance and future equity assumptions and limit future equity to A\$30M to provide working capital, closer to production start.
- We have moved first production of the 8,000tpa plant to FY25e (prior 24e), however the newly introduced 1,000tpa plant will contribute to FY24e.
- We retain both Cadoux extension and 5N optionality, noting both of these options will continue to be explored by the JV, and note their potential to add significantly to valuation.
- We have unchanged LT price and currency assumptions of US\$24,000/t for 4N HPA, US\$40,000/t for 5N HPA, and AUDUSD 0.75.

Figure 2: FYI Valuation

Company Valuation, FYI 35% interest	Unrisked		Risked		Risk Factor
	A\$M	A\$/sh	A\$M	A\$/sh	
HPA Project, base case (FYI 35% interest)	602	\$1.32	482	\$1.06	80%
Cadoux expansion (35%)	105	\$0.23	42	\$0.09	40%
5N HPA extension (35%)	48	\$0.11	29	\$0.06	60%
Corporate	-59	-\$0.13	-47	-\$0.10	80%
Cash (debt)	9	\$0.02	9	\$0.02	100%
Cash, equity raise	30	\$0.07	24	\$0.05	80%
Options	5	\$0.01	4	\$0.01	80%
Valuation DCF, WACC 10%	740	\$1.62	542	\$1.19	73%
Ordinary shares, M	349				
Options, M	23				
Shares, future issue, M	83				
Fully diluted shares, M	456				

Source: Company, Foster Stockbroking estimates, FYI 35% project interest excluding initial capex.

MAINTAIN BUY RECOMMENDATION, PRICE TARGET \$1.19/SHARE (PRIOR \$1.52)

- We maintain our Buy recommendation for FYI with a decreased price target of \$1.19/share (prior \$1.52), in line with our risked 0.73x NPV valuation, which is due to lower production and minor delay, offset by funding certainty and risk factor unwind. Cadoux-Kwinana remains a long life, high grade kaolin asset and low-cost processing refinery aiming to become a single source HPA producer from a tier 1 jurisdiction, now with Alcoa's validation and balance sheet.
- We see a number of upcoming catalysts for FYI, including 1) FEED and FID decisions and commencement of the HPA project; 2) customer offtake MOUs and marketing relationships; 3) updates on financing arrangements; 4) further updates on the Alcoa JV; and 5) updates on LOM extension, capacity upgrade, 5N option, and/or by-products.



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Specific disclosure: Foster Stockbroking acted as Sole Lead Manager to the \$6M placement of 30M FYI shares at \$0.20 in December 2020. Foster Stockbroking received fees for this service.

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