

FINANCIAL REVIEW

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HD **Glencore runs ruler over Syrah**

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Swiss commodities giant Glencore is understood to have made an informal approach to Syrah Resources that could value the graphite and vanadium junior at as much as \$2 **billion**.

Melbourne-based Syrah's prized asset is the mammoth Balama graphite and vanadium deposit in northern Mozambique. After AFR.com revealed Glencore's interest on Thursday, the **company's** shares surged as much as 25 per cent before being placed in a trading halt.

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When shares stopped trading, Syrah's shares were up 19 per cent at \$5.09. The shares have more than doubled in value since touching a 52-week low of \$2 on July 10 last year.

Syrah responded promptly to the The Australian Financial Review's report and a share price query from the ASX on Thursday afternoon, saying: "From time to time Syrah receives informal, confidential and non-binding inquiries from various parties regarding Syrah's interest in entering takeover discussions.

"None of these inquiries have progressed to formal discussions or resulted in any indicative offers being received by Syrah."

Sources said Ivan Glasenberg's Glencore, one of the largest producers of primary vanadium in the world, is keen to exert control over the wider vanadium market. Pouncing on Syrah and securing its Balama project would be an early strategic play to shut out fresh competition.

The level of interest from Glencore and others is such that Syrah has also received multiple approaches from investment banks keen to **lead** a possible takeover defence strategy for the ASX group, which has seen its shares leap 29-fold in three years.

Vanadium plays a critical role in rapidly growing battery markets, and is also an important ingredient in the new world of **energy** storage.

The Financial Review understands Glencore approached Syrah to informally convey it would be willing to pay between \$1 **billion** and \$2 **billion** for the **company**. But the three men behind the **company** – chairman Tom Eadie, managing director Paul Kehoe and Tolga Kumova, an executive director – clearly think it could ultimately be worth a lot more than that.

The end game for the directors is the potential of vanadium to make renewable **energy** economical.

The trio has about 22 per cent of the Syrah register between them, but Mr Kehoe, with 12 per cent, and Mr Kumova, with 9 per cent, are the **company's** key shareholders. Meteoric share price rise Mr Kehoe's **stake** is worth \$86.4 **million**; Mr Kumova, a member of BRW's Young Rich list, has a **stake** worth \$62.3 **million**. Shares in Syrah have enjoyed a meteoric rise to \$4.30 from about 15¢ in late 2011, with its market capitalisation rising to \$730 **million** from \$15 **million** in that time.

Credit Suisse analyst Michael Slifirski says the board of Syrah is "commercially minded but they probably also have an idea as to where they want to take this **company** and what it could be worth". A

play by Glencore made sense, given the Balama project would be "extremely disruptive" to the graphite and vanadium projects if it came online, he says.

"Syrah could do a lot of damage to other existing market participants and there is no doubt it (a takeover) makes a lot of strategic sense as an option for those in the market that want to maintain their positions of control. Whether or not there is a deal to be done, there will be a lot of companies trying to have talks with Syrah to understand what the strategy is for the owner of the world's largest graphite and vanadium deposit." Credit Suisse has a \$5.60 valuation on the stock, based on a very conservative take on the graphite price, of \$US800 (\$850) a tonne. Syrah says Balama has an inferred vanadium resource of 1.15 billion tonnes, at a high concentrate level. It is about four times larger than Glencore's Rhovan deposit in South Africa.

Part of Balama's vanadium resource has been upgraded to make it suitable for steel hardening, while test work is under way to upgrade part of it to a grade suitable for redox flow batteries. Syrah's offtake partner Chalieco, a subsidiary of Chinalco, has run a scoping study on the financial viability of the vanadium resources and Syrah is reviewing the results. Some sources have suggested Glencore is also angling for an offtake deal for Syrah's vanadium. Graphite is also key to Syrah's appeal. Syrah says Balama contains 117 million tonnes of graphite, larger than the rest of the world's reserves combined. It is tipped to be the lowest-cost graphite producer in the world, with its asset set to come online in 2016 if all goes to plan.

High-quality graphite is also a crucial raw material for the production of lithium-ion batteries for smartphones, tablets and laptops, and a fundamental component in the development of storage batteries able to power electric cars.

Graphite is an opaque market and dominated by Chinese suppliers; prices are usually set based on deals between companies and purity levels. Also in its favour is Syrah's small capital bill for its Balama project, with the spend on the mine and infrastructure earmarked to be about \$US92 million (\$98 million). Later this year, Syrah expects to have permits and environment approvals.

CO rshrhl : Syrah Resources Limited | march : Glencore PLC

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