



## Strandline Resources Ltd (STA.ASX)

### Positive revisions to DFS

#### Event:

- Updated DFS for Coburn.

#### Investment Highlights:

- Updated Coburn DFS enhances metrics.** Strandline Resources Ltd (STA) last week released its updated DFS which resulted in uplifts to the prior April 2019 DFS metrics: Pre-tax NPV<sub>8</sub> increased 28% to \$705M from \$551M; pre-tax IRR rose to 37% from 32%; Revenue to C1 cost ratio lifted to 2.4x from 2.2x; and average annual EBITDA increased 21% to \$104M from \$86M.
- Positive revision of prices, mineral recoveries, and currency lift financials.** Optics from STA's recent binding offtake agreements, as well as the latest TZMI price forecasts, together resulted in higher price assumptions for zircon, rutile, and ilmenite, with increases of 4%, 2%, and 5% respectively for 2024 real prices to US\$1,529/t, US\$1,139/t, and US\$283/t. A lower A\$=US\$0.70 was assumed vs US\$0.72 previously, to be more aligned with the movement in consensus.
- Higher yields boost zircon and rutile production.** Confirmatory bulk met tests undertaken post the April 2019 DFS resulted in a higher yields of premium zircon - with expected average annual production rising from 32ktpa to 34ktpa - as well as for rutile with forecast production increasing 20ktpa to 24ktpa.
- Inclusion of HMC sales.** The updated DFS also included sales of HMC prior to first production from the MSP. This followed from the company's binding offtake with Sanxiang and Nanjing in April this year, who will purchase the HMC prior to commissioning and during ramp up of the MSP.
- FID expected October 2020.** We expect STA to finalise debt financing for Coburn by mid-CY20 and arrange equity funding soon after. The company expects FID for the project in October 2020. Assuming 18-month construction time to first HMC feed, we now forecast first HMC production March 2022.

#### Earnings and Valuation:

- STA valuation increases to \$0.36/share from \$0.33/share.** Our valuation has increased due to updating our model for: 1) Higher production rates for premium zircon and ilmenite; 2) HMC sales prior to MSP commissioning, and 3) Less dilutive equity funding due to higher share price. We have retained our prior mineral sand price and A\$ forecasts.
- Long-term earnings increased.** We now forecast first MSP production at beginning 4QFY22 (previously beginning 3QFY22), resulting in downgrade to FY22e earnings. However our long-term (steady-state) earnings have increased on higher zircon and ilmenite production.

#### Recommendation:

- We maintain our Buy and increase 12-month PT to \$0.36 from \$0.33, based on 0.9x NPV<sub>10</sub>.** Catalysts for the share price include: 1) Remaining Coburn offtake agreements; 2) Finalising financing for Coburn; 3) Coburn FID; 4) Commencement of Coburn construction; 5) Start of production; and 6) Progress on Fungoni.

#### Disclosures

The analyst does not own STA securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 922,944 STA shares. Cranport Pty Ltd owns 7,973,013 STA shares. Refer details end of report.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.36			
Previous	\$0.33			
Share price (A\$)	\$ 0.165			
ASX code	STA			
52 week low-high	\$0.067-\$0.18			
Valuation (A\$/share)	\$ 0.36			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	427			
Market cap (A\$M)	70			
Net cash (debt) (A\$M)	7			
Performance rights (M)	19			
Options (M)	11			
Diluted EV (A\$M)	68			
Ave daily volume ('000)	248			
Earnings Y/e Jun A\$M	FY19a	FY20e	FY21e	FY22e
Sales	0	0	0	10
EBITDA adj	-8	-8	-9	-20
NPAT reported	-7	-7	-8	-34
NPAT adj	-8	-7	-8	-34
EPS adj. \$*	-0.03	-0.02	-0.01	-0.03
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm

\* Adj =underlying

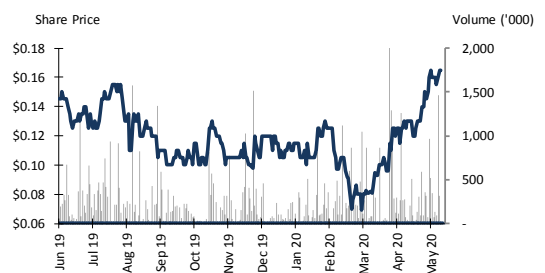
#### Substantial shareholders

Ndovu Capital VII BV & Tembo Capital Mining Fund II LP	37%
C&H International Investment Ltd	8%

#### Board

Didier Murcia	Non-Executive Chairman
Luke Graham	CEO and Managing Director
Peter Watson	Executive Director
John Hodder	Non-Executive Director
Tom Eadie	Non-Executive Director

#### Share price graph



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## Strandline Resources (STA)

Full Year Ended 30 June

Profit and Loss A\$M	2019a	2020e	2021e	2022e
Revenue	0	0	0	10
Operating Costs adj.	8	8	9	29
<b>EBITDA adj.</b>	<b>-8</b>	<b>-8</b>	<b>-9</b>	<b>-20</b>
D&A	0	0	0	3
<b>EBIT adj.</b>	<b>-8</b>	<b>-8</b>	<b>-9</b>	<b>-23</b>
Net Interest exp / (income)	0	0	0	11
<b>PBT adj.</b>	<b>-8</b>	<b>-7</b>	<b>-8</b>	<b>-34</b>
Tax exp / (benefit) adj.	0	0	0	0
<b>NPAT adj.</b>	<b>-8</b>	<b>-7</b>	<b>-8</b>	<b>-34</b>
Non-recurring items	1	0	0	0
<b>NPAT reported</b>	<b>-7</b>	<b>-7</b>	<b>-8</b>	<b>-34</b>

**EPS diluted (\$)** adj. -0.03 -0.02 -0.01 -0.03

Cashflow A\$M	2019a	2020e	2021e	2022e
EBITDA adj.	-8	-8	-9	-20
Change in WC	0	0	0	1
Tax paid	0	0	0	0
Other	1	1	1	1
Net interest	0	0	0	-11
Share based payments	1	1	1	1
<b>Operating Cashflow</b>	<b>-7</b>	<b>-6</b>	<b>-7</b>	<b>-29</b>

Purchase of PP&E	0	0	0	0
Acquisitions	0	0	0	0
Capitalised expenses	0	0	-171	-89
Investments	0	0	0	0
<b>Investing Cashflow</b>	<b>0</b>	<b>0</b>	<b>-171</b>	<b>-89</b>

Equity issue	9	7	109	0
Debt proceeds	0	0	202	0
Debt repayments	0	0	0	0
Other	0	0	0	0
<b>Financing Cashflow</b>	<b>8</b>	<b>7</b>	<b>310</b>	<b>0</b>

**Net Cashflow** 2 1 132 -118

Balance Sheet A\$M	2019a	2020e	2021e	2022e
Cash	6	7	139	21
Receivables	0	0	0	1
PPE	0	0	0	257
Capitalised exploration	7	7	178	7
Intangibles	0	0	0	0
Other	0	0	0	0
<b>Total Assets</b>	<b>14</b>	<b>14</b>	<b>318</b>	<b>287</b>

Accounts payable	1	1	1	2
Provisions	0	1	1	2
Debt	0	0	202	202
Other	0	1	2	2
<b>Total Liabilities</b>	<b>1</b>	<b>2</b>	<b>205</b>	<b>208</b>

Reserves and capital	79	85	194	194
Retained earnings	-65	-73	-81	-115
<b>Total Equity</b>	<b>13</b>	<b>12</b>	<b>112</b>	<b>78</b>

### Capital structure M

Ordinary shares	426.8
Performance rights	18.9
Options	10.5
<b>Fully diluted</b>	<b>456.2</b>

Financial Metrics	2019a	2020e	2021e	2022e
Sales growth %	nm	nm	nm	nm
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	nm	-205%
EBIT margin	nm	nm	nm	-235%
Gearing (ND/ND+E)	nm	nm	36%	70%
Interest Cover (EBIT/net int)	nm	nm	nm	-2x
Average ROE %	nm	nm	nm	nm
Average ROA %	nm	nm	nm	-7%
Wtd ave shares (M)	297	387	1218	1218
Wtd ave share diluted (M)	297	417	1248	1248

Valuation multiples	2019a	2020e	2021e	2022e
P/E x	nm	nm	nm	-6.1
EV/EBITDA x	nm	nm	nm	-3.7

### Company Valuation

DCF, WACC 10% nominal

Segment	Unrisked	Unrisked	Risked	Risked
	A\$M	A\$/sh	A\$M	A\$/sh
Coburn	423	\$0.32	293	\$0.28
Fungoni	39	\$0.03	29	\$0.03
Corporate	-57	-\$0.04	-40	-\$0.04
Tanzania exploration	12	\$0.01	12	\$0.01
Net cash (debt)	7	\$0.01	7	\$0.01
Cash from in money options	2	\$0.00	2	\$0.00
Cash from future equity	109	\$0.08	76	\$0.07
<b>Total</b>	<b>535</b>	<b>\$0.41</b>	<b>379</b>	<b>\$0.36</b>

Shares now M	427	427
Performance rights M	19	13
Options-in-money at valuation M	11	7
Shares future issue M	861	601
<b>Full diluted shares M</b>	<b>1,317</b>	<b>1,048</b>

### Commodity Assumptions

Prices (US\$/t)	2019a	2020e	2021e	2022e
Zircon	-	1,495	1,474	1,462
Rutile	-	1,165	1,165	1,165
Ilmenite - chloride grade	-	238	242	242
Rutile/HiTi	-	1,114	1,149	1,014
Monazite	-	1,430	1,427	1,456
A\$/U\$	0.73	0.69	0.70	0.72

### Shipments (kt)

Zircon	0	0	0	0
Zircon concentrate	0	0	0	0
HiTi90	0	0	0	0
Ilmenite	0	0	0	0
HMC	0	0	0	14
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14</b>

**Revenue to cost ratio** 0 - - 0.5

### Segment Contribution

	2019a	2020e	2021e	2022e
Coburn	-	-	-	10
Fungoni	-	-	-	0
<b>Sales</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10</b>
Coburn	-	-	-	-13
Fungoni	-	-	-	0
Corporate	-8	-8	-9	-10
<b>Group EBIT</b>	<b>-8</b>	<b>-8</b>	<b>-9</b>	<b>-23</b>

Source: Company; Foster Stockbroking estimates

**REVISIONS BOOST DFS METRICS**

- Strandline Resources Ltd (STA) last week released the results of its updated DFS which resulted in mostly improved metrics. Pre-tax NPV<sub>8</sub> increased 28% to \$705M from the prior April 2019 DFS' \$551M, pre-tax IRR rose to 37% from 32%, Revenue to C1 cost ratio lifted to 2.4x from 2.2x, and average annual EBITDA increased 21% to \$104M from \$86M. The improved financials resulted from a combination of:
  - Higher assumed mineral sands prices;
  - Higher rutile and premium zircon production from enhanced yields;
  - Lower A\$; and
  - Inclusion of HMC sales prior to full ramp up of MSP.

**Figure 1: Main Changes in DFS Parameters**

Parameter	Unit	April 2019 DFS	June 2020 DFS	Chng
<b>Yields:</b>				
Ilmenite	%	103.9%	102.9%	-1%
Rutile (HiTi)	%	77.0%	95.2%	24%
Zircon	%	98.8%	99.8%	1%
<b>Production average:</b>				
Premium zircon	ktpa	32	34	6%
Zircon concentrate	ktpa	58	54	-7%
Ilmenite	ktpa	110	110	0%
Rutile (HiTi)	ktpa	20	24	20%
<b>Total HM</b>	<b>ktpa</b>	<b>220</b>	<b>222</b>	<b>1%</b>
Capex	\$M	257	260	1%
A\$	US\$	0.72	0.70	-3%
Realised (basket) price - average	\$/t	792	877	11%
AISC - average	\$/t	413	418	1%
Margin - average	\$/t	379	459	21%
<b>Revenue to C1 costs</b>	<b>x</b>	<b>2.2</b>	<b>2.4</b>	<b>9%</b>
<b>EBITDA - annual average</b>	<b>\$M</b>	<b>86</b>	<b>104</b>	<b>21%</b>
<b>NPV<sub>8</sub> pre-tax</b>	<b>\$M</b>	<b>551</b>	<b>705</b>	<b>28%</b>
Payback	Years	2.3	2.1	-9%
IRR pre-tax	%	32%	37%	16%

Source: Company.

**Positive revision of prices, mineral recoveries, and currency**

- Optics from STA's recent binding offtake agreements, as well as the latest TZMI price forecasts, resulted in higher price assumptions for mineral sands being used in the updated DFS. For the 2024 year, coinciding with when Coburn should be fully ramped up, zircon, rutile, and ilmenite real prices were 4%, 2%, and 5% higher than in the April 2019 DFS, now being US\$1,529/t, US\$1,139/t, and US\$283/t respectively. A lower A\$=US\$0.70 was assumed vs US\$0.72 previously, to be more aligned with the movement in consensus.

**Figure 2: Change in DFS Mineral Sand Price Assumptions (US\$/t, FOB real)**

Mineral sand	DFS date	2022	2023	2024
Zircon	Jun-20	1,480	1,540	1,529
	Apr-19	1,548	1,507	1,469
	chnge	-4%	2%	4%
Rutile	Jun-20	1,218	1,178	1,139
	Apr-19	1,150	1,120	1,118
	chnge	6%	5%	2%
Ilmenite	Jun-20	260	280	283
	Apr-19	260	259	269
	chnge	0%	8%	5%

Source: Company.

### Higher yields boost zircon and rutile production

- Confirmatory bulk met work undertaken post the April 2019 DFS resulted in higher yields of premium zircon and rutile (Figure 3). This results in expected average zircon annual production rising 6% to 34ktpa, and forecast rutile average production increasing 20% to 24ktpa.

**Figure 3: 2020 Confirmatory Test Yields to Saleable Products vs 2019 DFS**

Product	DFS-2019	Confirmatory tests 2020
Ilmenite	103.9%*	102.9%*
Rutile (HiTi)	77.0%	95.2%
Zircon	98.8%	99.8%

Source: Company.

\*Yield >100% due to contribution from other titanium minerals.

### Inclusion of HMC sales

- The updated DFS also included sales of HMC prior to first production from the MSP. The inclusion stems from the company's binding offtake with Sanxiang and Nanjing who will purchase Coburn HMC prior to commissioning and during ramp up of the MSP. The prior April 2019 DFS had nil contribution from HMC sales during this period.

### FID expected October 2020

- The company assumes FID for Coburn in October 2020. As a precursor we expect debt financing by mid-CY20 and equity funding soon after to be finalised. Assuming an 18-month construction time to first HMC feed, we now forecast first HMC production in 3QFY22 and first MSP product in 4QFY22 (previously 2Q and 3QFY22).

### EARNINGS FORECASTS

- Our FY22e earnings have decreased as we have pushed back first HMC and first MSP production each by three months. However our long term earnings for STA have increased due to higher forecast premium zircon and ilmenite production from Coburn. Our price and currency forecasts remain unchanged.

**VALUATION****Valuation increases to \$0.36 from \$0.33**

- Our STA share valuation has increased to \$0.36 from \$0.33 mostly on 1) Revised higher production for premium zircon and ilmenite; 2) HMC sales prior to MSP commissioning, and 3) Less dilutive equity raising by assuming less shares issued but at higher price. We retain our prior mineral sand price and A\$ forecasts. These positive adjustments were slightly offset by rolling back our model three months. We now forecast first MSP production at beginning 4QFY22.

**Figure 4: STA Valuation**

Segment	Unrisked		Risked		Risk Factor
	A\$M	A\$/share	A\$M	A\$/share	
Coburn	423	\$0.32	293	\$0.28	69%
Fungoni	39	\$0.03	29	\$0.03	74%
Corporate	-57	-\$0.04	-40	-\$0.04	70%
Tanzania exploration	12	\$0.01	12	\$0.01	100%
Net cash (debt)	7	\$0.01	7	\$0.01	100%
Cash from in money options	2	\$0.00	2	\$0.00	70%
Cash from future equity	109	\$0.08	76	\$0.07	70%
<b>Total</b>	<b>535</b>	<b>\$0.41</b>	<b>379</b>	<b>\$0.36</b>	<b>89%</b>
Shares now M	427		427		100%
Performance rights M	19		13		70%
Options-in-money at val'n M	11		7		70%
Shares future issue M	861		601		70%
<b>Fully diluted shares M</b>	<b>1,317</b>		<b>1,048</b>		<b>80%</b>

Source: Foster Stockbroking estimates.

**MAINTAIN BUY, 12-MONTH PRICE TARGET NOW \$0.36 (PRIOR \$0.33)**

- We maintain our Buy recommendation and raise our 12-month price target to \$0.33, based on 0.9x NPV<sub>10</sub>. We view share price catalysts for STA include 1) Rutile and balance of premium zircon offtake; 2) FID for Coburn; 3) Commencement of Coburn construction of projects; 4) First production from Coburn; 5) Progress on Fungoni; and 6) Advancement of other Tanzanian projects.



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**Specific disclosure:** Foster Stockbroking personnel, including the analyst, attended an STA site visit in November 2019 for which STA paid for their flights, accommodation, and meals.

**Specific disclosures:** As of close of business 5 June 2020, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 922,944 STA shares and Cranport Pty Ltd owns 7,973,013 STA shares. The position may change at any time and without notice, including on the day that this report has been released. Foster Stockbroking and its employees may from time to time own shares in STA, and trade them in ways different from those discussed in research. Foster Stockbroking may also make a market in securities of STA, including buying and selling securities on behalf of clients.

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**Disclosure review.** All the disclosures in the report have been reviewed and checked by Rob Telford, Corporate.

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