

SPEC BUY

Current Price 0.7¢
Target Price 3.0¢

Ticker:	STA
Sector:	Materials
Shares on Issue (m):	2,571.4
Market Cap (\$m):	23.1
Net Cash (\$m):	2.0
Enterprise Value (\$m):	21.1

52 wk High/Low:	\$0.011	\$0.004
12m Av Daily Vol (m):	3.77	

Projects

Name	Commodity	Location
Fungoni	Mineral Sands	Tanzania
Tanga	Mineral Sands	Tanzania
Coburn	Mineral Sands	Western Australia

Resources

Project	Mt	% THM	% VHM in THM
Fungoni	16.0	3.1%	67%
Tanga	59.0	3.7%	87%
Coburn	979.0	1.3%	83%

Reserves

Coburn	308.0	1.2%	83%
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Directors

Didier Murcia	Non-Executive Chairman
Luke Graham	CEO and MD
Richard Hill	Executive Director
Tom Eadie	Non-Executive Director
Asimwe Kabunga	Non-Executive Director
John Hodder	Non-Executive Director

Substantial Shareholders

Tembo Capital	32.0%
Gasmere Pty Ltd	8.8%

Share Price Graph and Ave Trading Vol (m shares)



Wednesday, 26 April 2017

Strandline Resources

RIO JV validates strategic landholding

Analysts | Matthew Keane | James Wilson

Quick Read

The quality and strategic nature of Strandline Resources' (STA) landholding in Tanzania has been validated by a US\$10.75m (A\$14.5m) earn-in by Rio Tinto (Rio). RIO has entered into a staged earn-in agreement for up to a 75% stake in STA's southern tenements, prospective for mineral sands deposits. Importantly, this agreement excludes the Company's northern tenements which host the Fungoni and Tanga projects and the Mafia and Bagamoya prospects. In effect, STA has monetised early stage prospects for an amount equivalent to its enterprise value (~\$14.7m on the last close), whilst maintaining a 100% interest in core assets. STA will continue to generate strong newsflow through 2017 with a Definitive Feasibility Study (DFS) on the Fungoni Project due Q2/Q3 CY17, ongoing exploration results and anticipated resource expansion from the Tanga Hub. We believe the Company is well positioned to benefit from a recovering mineral sands sector, which has seen both TiO₂ and zircon prices rise ~US\$50/t year to date. Argonaut maintains a SPEC BUY recommendation with an increased 3.0¢ target price (from 2.8¢).

Event & Impact | Positive

RIO earn-in Joint Venture (JV): Rio Mining and Exploration, a member of the Rio Tinto group has entered into a two-staged earn-in into STA's southern Tanzanian tenement portfolio. RIO has an option to spend US\$5m within 3.5 years to earn a 51% interest, followed by an option to spend US\$4m over an additional two years to earn up to 75%. The agreement also incorporates cash payments up to US\$1.75m (A\$2.5m) staged over the life of the earn-in. STA will receive an initial US\$500k 30 days after the JV takes effect.

Significant see through benefits: Argonaut sees numerous benefits from this agreement including; 1) validation by an industry major of the tenements' prospectively, 2) retention of the Fungoni project with near-term development potential, 3) corporate appeal is maintained from the northern tenements including the Tanga South Project with an exploration target of 100-270Mt @ 3-5% total heavy minerals (THM), and 4) an implied belief by RIO that the recent concentrate export ban imposed by the Tanzanian Government will not apply to industrial minerals such as mineral sands.

Strong newsflow through 2017: We expect STA to continue strong newsflow through CY17 with drilling at Tanga South to commence imminently, incorporating infill drilling of new high grade zones discovered at Tajiri, the Fungoni DFS mid-year followed by a final investment decision (FID), and reconnaissance exploration on the RIO JV tenements. Pending drilling success, we believe STA may also deliver a Scoping Study on Tanga South in Q3.

Recommendation

Argonaut maintains a SPEC BUY recommendation with a 3.0¢ target price (previously 2.8¢). The RIO agreement validates Argonaut's view of the highly strategic nature of STA's Tanzanian landholding (see [Initiation Report](#)).

Rio earn-in

RIO has entered into a JV agreement to earn up to 75% of STA's southern tenements...

...for up to US\$10.75m, incorporating US\$1.75m cash

STA's tenements span the coast of Tanzania...

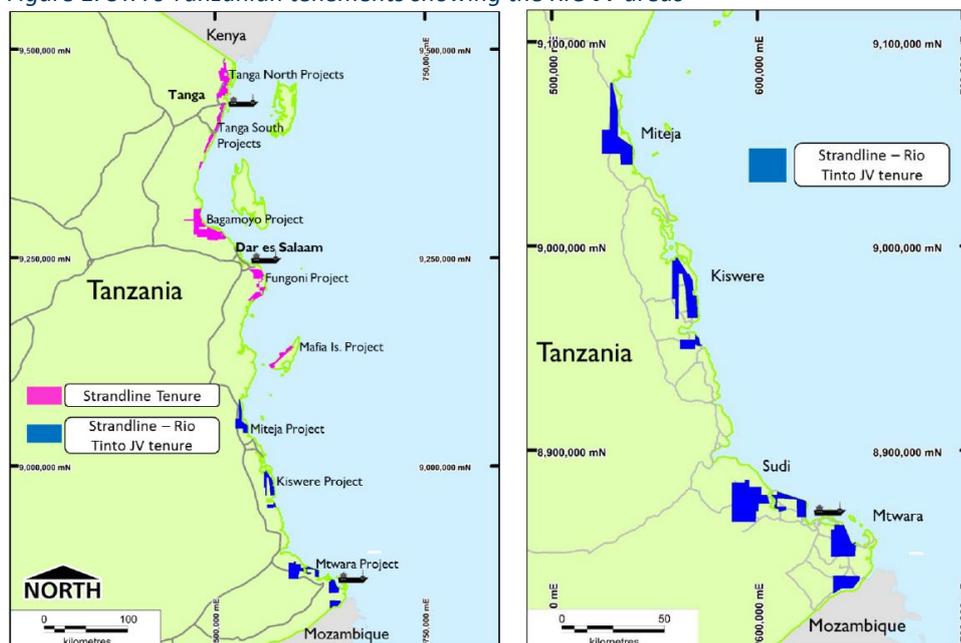
...encompassing key areas prospective for strandline style mineralisation...

...in close proximity to key infrastructure

Rio has entered into a two-stage earn-in with STA on the Company's early stage southern tenements. Key terms of the agreement include:

- An initial option to earn 51% by spending US\$5m within 3.5 years
- A further option to earn up to a 75% interest by spending an additional US\$4.0m over two years
- Cash payments to STA totalling US\$1.75m, including
 - US\$500k payable 30 days of the JV Effective Date;
 - US\$250k payable 30 days after the JV minimum commitment is expended
 - US\$700k payable 30 days after Rio gives notice to proceed with Stage 2; and
 - US\$300k, payable 30 days after Rio Tinto has earned its 75% interest
- The agreement is conditional upon due diligence to be completed with two month
- RIO will advance STA US\$340k ahead of due diligence to commence soil sampling
- STA will be manager until RIO earns its 51% interest (upon agreement)
- STA will contribute its pro-rata share of exploration and development upon completion of the earn-in
- If either party falls below a 10% interest, it can convert that interest to a 2% NSR royalty capped at US\$25m

Figure 1. STA's Tanzanian tenements showing the RIO JV areas



Source: STA

See through benefits of the JV

Argonaut sees numerous benefits from this agreement (summarised below).

Big Partner validated prospectively

RIO is the largest mineral sands miner globally, generating most of its TiO₂ products from Richards Bay in South Africa and Madagascar. RIO's interest in STA's early stage southern Tanzania tenements highlights the prospectively and potential for large scale deposits.

STA will retain 100% of the key Fungoni and Tanga projects...

...and maintain corporate appeal from the northern tenements

Argonaut sees synergies between BSE's Kwale project and the Tanga Hub...

...which are located just 90km apart

Argonaut believes the recent metallic concentrate ban in Tanzania will not apply to mineral sands

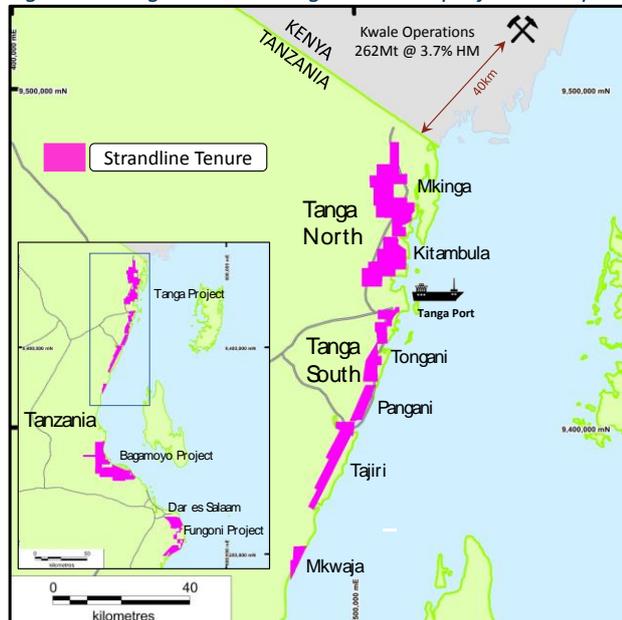
Fungoni and Tanga retained at 100%

STA will retain 100% of the Fungoni and Tanga projects (detailed below). These deposits contain high-grade mineral assemblages in close proximity to key infrastructure. Argonaut values the Fungoni project at \$42m. A DFS for this project is due Q2/Q3 CY17.

Northern Tenements maintain corporate appeal

By retaining 100% of the its northern tenements, STA has maintained investment appeal at both a project and Top-Co level. The Tanga Hub is located in the far north of Tanzania, just ~90km south of Base Resources (BSE:ASX) Kwale Project. We see numerous synergies between these two deposits, including similar mineral assemblages.

Figure 2. Tanga Hub showing contained projects and proximity to the Kwale project



Source: STA

Mineral concentrate ban unlikely to apply to mineral sands

In March 2017, the Tanzanian President made statements regarding a ban on metallic mineral concentrate exports. This ban is not expected to apply to mineral sands exports which are understood to be classified as industrial minerals. RIO conducted a level of due diligence prior to the JV agreement and would be aware of the Presidents statements. Argonaut therefore concludes that RIO has taken a view that the ban will not apply to STA's operations.

Company overview

STA's core projects span 350km of the Tanzanian coast covering >2,500km² and held at 100% (pre-earn-in). The Company has targeted regions with strandline style deposits carrying high value mineral assemblage (>20% rutile/zircon/leucoxene) in close proximity to key infrastructure. STA also owns 100% of the fully permitted Coburn project in Western Australia with a Resource of 979 @ 1.3% THM and a Reserve of 308Mt @ 1.2% THM.

Fungoni is a near term development project with a high-grade zircon assemblage

Fungoni Project

The Fungoni Project is located centrally along the Tanzanian coast just 25km from the port of Dar es Salaam, an established industrial city and the former capital. It is the most advanced project in Tanzania with a high-grade mineral assemblage of 16Mt @ 3.1% THM containing 22% zircon. A positive Scoping Study was completed on the project in February 2016 outlining production of 44kt mineral sands concentrate for US\$12.3m capex with a ~47% EBITDA margin.

Tanga has an exploration target of 100-270Mt @ 3-5% THM

Tanga Hub

The Tanga Hub in northern Tanzania is centred around the Tanga Port and stretches ~100km of coastline. The Hub incorporates at least five individual projects and the Company has highlighted an exploration target of 100-270Mt @ 3-5% THM with >20% rutile/zircon/leucoxene for the Tanga South area. Mineralisation is TiO₂ dominated. To date, resources have only been defined at the Tajiri deposit with 59Mt @ 3.7% THM with 19% zircon + rutile + leucoxene and 68% Ilmenite (mix of sulphate and chloride grade ilmenite). The region also has potential for large scale dunal mineralisation, similar to BSE's Kwale deposit. Argonaut believes this may become STA's core major project as resources increase within the hub.

Southern Tenements

STA's southern tenements covered by the RIO JV comprise the Miteja, Kiswere, Sudi and Mtwara prospects. The latter is proximal to the Mtwara deep water port. All prospects are early stage with minimal drilling. We believe STA/RIO will look to increase the southern tenement holdings once the JV is established.

Argonaut derives a 3.0¢ valuation with a SPEC BUY recommendation

Valuation

Argonaut derives a sum of parts NAV valuation of 3.0¢/sh (previously \$2.8/sh) Our valuation increases based on a higher attributed value to the Southern tenements. We apply \$42m to the Fungoni project and a conservative \$5m to the Coburn project in Western Australia. The Company has 2.57b shares on issue.

Table 1. Argonaut Net Asset Valuation

Asset Valuation	A\$m	A¢/sh
Fungoni Project	42.0	1.6
TZ Exploration Assets	35.0	1.4
Aust Assets	5.0	0.2
Corporate Overheads	-7.5	-0.3
Cash	2.0	0.1
Debt	0.0	0.0
Sum of Parts Valuation	76.5	3.0
Discount Rate	12%	
Shares on Issue (msh)	2,571	

Source: Argonaut

RESEARCH:

Ian Christie | Director, Industrial Research
+61 8 9224 6872 icht Christie@argonaut.com

Matthew Keane | Director, Metals & Mining Research
+61 8 9224 6869 mkeane@argonaut.com

James Wilson | Analyst, Metals & Mining Research
+61 8 9224 6835 jwilson@argonaut.com

Helen Lau | Analyst, Metals & Mining Research
+852 3557 4804 hlau@argonaut.com

Daniel Williamson | Analyst, Industrial Research
+61 8 9224 6831 dwilliamson@argonaut.com

INSTITUTIONAL SALES - PERTH:

Chris Wippl | Executive Director, Head of Sales & Research
+61 8 9224 6875 cwippl@argonaut.com

Damian Rooney | Director Institutional Sales
+61 8 9224 6862 drooney@argonaut.com

John Santul | Consultant, Sales & Research
+61 8 9224 6859 jsantul@argonaut.com

Ben Willoughby | Institutional Dealer
+61 8 9224 6876 bwilloughby@argonaut.com

Phil Russo | Institutional Dealer
+61 8 9224 6813 prusso@argonaut.com

Josh Welch | Institutional Dealer
+61 8 9224 6868 jwelch@argonaut.com

George Ogilvie | Institutional Dealer
+61 8 9224 6871 gogilvie@argonaut.com

INSTITUTIONAL SALES – HONG KONG:

Travis Smithson | Managing Director - Asia
+852 9832 0852 tsmithson@argonaut.com

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Managing Director, Desk Manager
+61 8 9224 6874 gcolgan@argonaut.com

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880 kjohnson@argonaut.com

James McGlew | Executive Director, Corporate Stockbroking
+61 8 9224 6866 jmclew@argonaut.com

Ian Dorrington | Director, Corporate Stockbroking
+61 8 9224 6865 idorrington@argonaut.com

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854 bj@argonaut.com

Rob Healy | Dealer, Private Clients
+61 8 9224 6873, rhealy@argonaut.com

Tony Locantro | Dealer, Private Clients
+61 8 9224 6851, tlocantro@argonaut.com

Cameron Prunster | Dealer, Private Clients
+61 8 9224 6853 cprunster@argonaut.com

James Massey | Dealer, Private Clients
+61 8 9224 6849 jmassey@argonaut.com

Chris Hill | Dealer, Private Clients
+61 8 9224 6830, chill@argonaut.com

Important Disclosure

Argonaut acts as Financial Adviser to STA and will receive fees commensurate with these services.

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