

SPEC BUY

Current Price 0.6¢
Target Price 2.2¢

Ticker:	STA
Sector:	Materials
Shares on Issue (m):	3,239.1
Market Cap (\$m):	17.8
Net Cash (\$m):	3.0
Enterprise Value (\$m):	14.8

52 wk High/Low:	\$0.011	\$0.004
12m Av Daily Vol (m):	4.15	

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

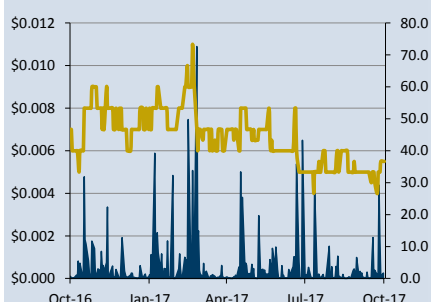
Project	Mt	% THM	% VHM in THM
Fungoni	22.0	2.8%	65%
Tanga	59.0	3.7%	87%
Coburn	979.0	1.3%	83%

Reserves	Mt	% THM	% VHM in THM
Fungoni	12.3	3.9%	68%
Coburn	308.0	1.2%	83%

Directors	Role
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	Percentage
Tembo Capital	32.0%
Gasmere Pty Ltd	8.8%

Share Price Graph and Ave Trading Vol (m shares)



Tuesday, 10 October 2017

Strandline Resources

Positive DFS, forging ahead

Analysts | Matthew Keane | James Wilson

Quick Read

Strandline Resources (STA) released a DFS on its Fungoni mineral sands project in Tanzania. Fungoni is a high-grade start-up project which offers near term development potential. Pre-production capex is low at US\$30m and the high grade mineral assemblage will generate strong margins (Argonaut est. ~US\$280/t). Argonaut estimates a post-tax NPV₁₂ of \$36m incorporating the newly imposed 16% Government free-carry interest. STA is continuing to develop its strategic portfolio of mineral sand assets despite recent changes to Tanzania's mining law, which has the potential to increase the total cost of mining in the country. The impact of these changes is expected to be lower for mineral sands operations as they are classified as an industrial commodity (non-metalliferous).

Event & Impact | Positive

Positive DFS: The Fungoni DFS outlined a 2Mtpa operation producing an average 49kt of mineral sands products over a 6.2 year mine life. Development capex is estimated at US\$30m with all-in sustaining costs of US\$236/t. Argonaut models an average basket price of ~US\$515/t, generating margins a US\$280/t and a 29% IRR. Fungoni benefits from a high grade mineral assemblage, including 23% zircon + rutile and close proximity to the port of Dar es Salaam.

Exploration success continues: STA recently announced a new mineral sands discovery at it Bagamoyo project, 40km north of Dar es Salaam. Mineralisation was detected over an area 11km long and up to 1km wide with total heavy mineral (THM) grades up to 14.2% averaging 75% valuable minerals within the THM. Exploration is also continuing at the Tanga project in northern Tanzania where recent drilling at the T1-T4 targets within the Tajiri deposit highlighted extensions to known mineralisation with +3% THM. We believe the updated Resource for Tanga (expected late-2017) will surpass 100Mt @ >3.5% THM.

Mining Licence will determine the impact of Mining Law changes: The Mining Licence Application for Fungoni has been submitted and is expected to take ~8 weeks under the new Tanzanian approval process. STA expects that many of the newly implemented burdens of the Mining Law, including increased royalties and Government warehousing of production, will not apply to mineral sands as they are industrial minerals. This should be clarified through the licencing process.

Recommendation

SPEC BUY recommendation maintained. Revised target price of 2.2¢ (previously 3.0¢) incorporating Mining Law impacts, DFS metrics and equity raising dilution.

Positive DFS for Fungoni

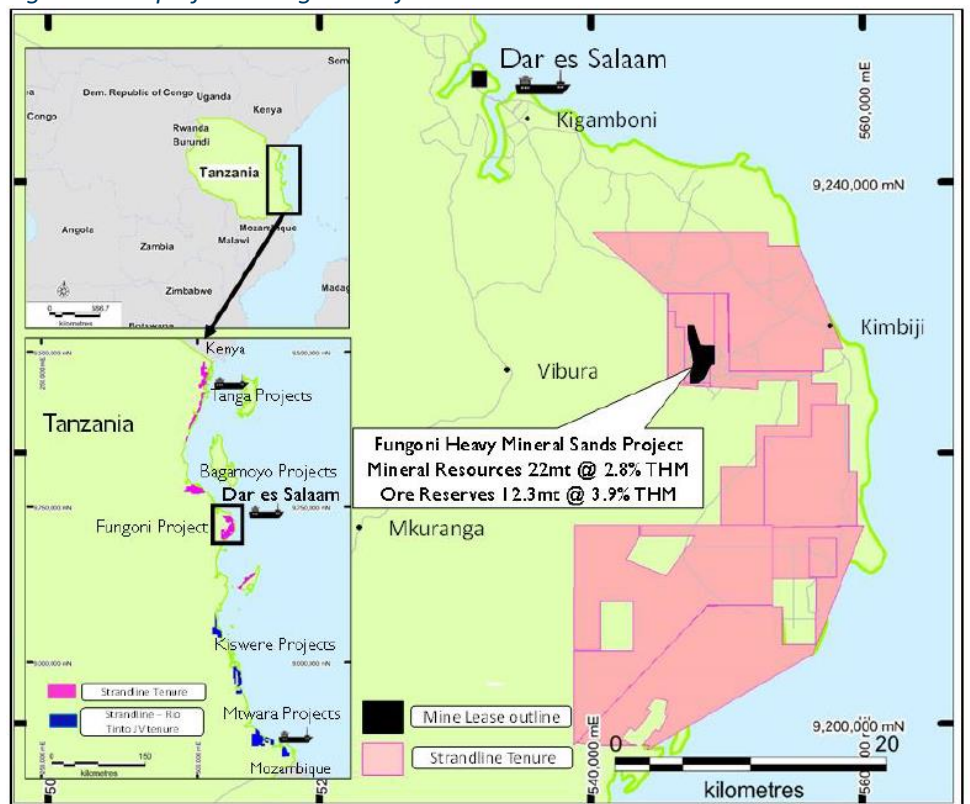
The initial mine life for Fungoni will be 6.2 years...

The Fungoni DFS outlined a 2Mtpa operation producing an average 49kt of mineral sands products over a 6.2 year mine life. Development capex is estimated at US\$30m with an all-in sustaining cost of US\$236/t. Argonaut models an average basket price of ~US\$515/t, generating margins of US\$280/t and a 39% IRR. Fungoni is ~25km from the Dar es Salaam which provides port and road infrastructure along with important service industries.

...with low development capex...

Figure 1. Map of the Fungoni Project

...and high margins of ~US\$280/t



Mining and processing will use conventional techniques common to the mineral sands industry

Ore will be extracted via conventional dry mining (free digging) with three stage beneficiation, incorporating a mobile field unit (MFU), wet concentration plant (WCP) and a mineral separation plant (MSP). The project will produce three saleable products including a zircon and monazite concentrate, a +95% TiO₂ rutile product and a +58% TiO₂ ilmenite product.

The maiden Ore Reserve for Fungoni totalled 12.3 Mt @ 3.9% THM with 18.2% zircon, 4.4% rutile, 1.2% leucoxene 42.3% Ilmenite and 1.5% monazite.

**The Maiden Reserve for Fungoni is
12.3Mt @ 3.9% THM**

Table 1. Fungoni Maiden Ore Reserve

ORE RESERVES SUMMARY FOR FUNGONI PROJECT						
Deposit	Reserve Category	Ore	Slimes		Heavy Mineral	
		(Mt)	(Mt)	(%)	(kt)	(%)
FUNGONI	Proved	6.9	1.2	18	341	4.9
FUNGONI	Probable	5.4	1.0	19	138	2.6
	Total*	12.3	2.3	19	480	3.9

Source: STA

**STA has lodged a Mining Lease
Application for Fungoni...**

Mining Licence lodged

STA lodged the Mining Licence (ML) Application for the Fungoni Project in late-September 2017. Following recent changes to the Mining Law, a Government appointed Mining Commission has been installed to assess new Mining Claims. As the process has changed the expected timeline is unknown, however STA estimates it will take ~8 weeks to assess the application.

**...which will be critical to unveil the
impact of the changes to
Tanzanian mining law**

ML should outline the impact of Mining Law changes

The ML should unveil the impact of the Mining Law changes on mineral sands operations. The key changes, passed in July 2017, enable the Government to take a 16% free-carry interest, increases some royalties from 4-6%, potentially ban the export of raw materials and concentrates and an impose an additional 1% clearing fee on all mineral exports. Minerals may also be held for a period in government minerals warehouses prior to export. The increased royalty is not expected to impact industrial minerals such as mineral sands, therefore Fungoni's royalty rate should remain at 3%. This is still low compared to Australia and international standards. As the project will beneficiate products to a high level of purity, any export ban on raw material or mineral concentrates is unlikely to apply. The biggest impact will be the 16% fee-carry interest. With the announcement of a newly appoint Minister of Minerals over the weekend and other key ministry appointments, we believe moves are being made to restore stability in the Tanzanian mining sector.

Exploration developing a pipeline of projects

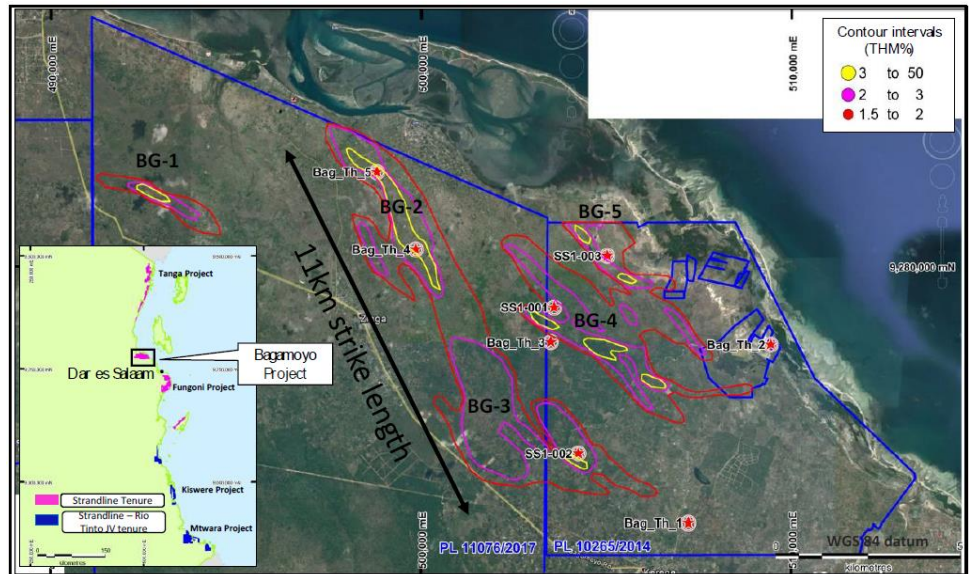
New discovery at Bagamoyo

**Exploration success continues with
a new discovery at Bagamoyo**

Argonaut believes Fungoni will be the first of several mineral sands projects on STA's strategic tenements which span the north-south coastline of Tanzania. STA recently announced a new mineral sands discovery at it Bagamoyo project, 40km north of Dar es Salaam. Mineralisation was detected over an area 11km long and up to 1km wide. Higher grade THM results within a 4km long zone with >3% THM included 14.2%, 12.5%, 12.0%, 7.1%, and 6.6% THM. Average slimes were low at <15%. Given the footprint and thickness of the mineralisation, we predict Bagamoyo's scale could be similar to Tajiri (>100Mt).

Figure 2. Bagamoyo discovery

Bagamoyo covers an 11km by 4km area with high THM grades up to 14.2%



Source: STA

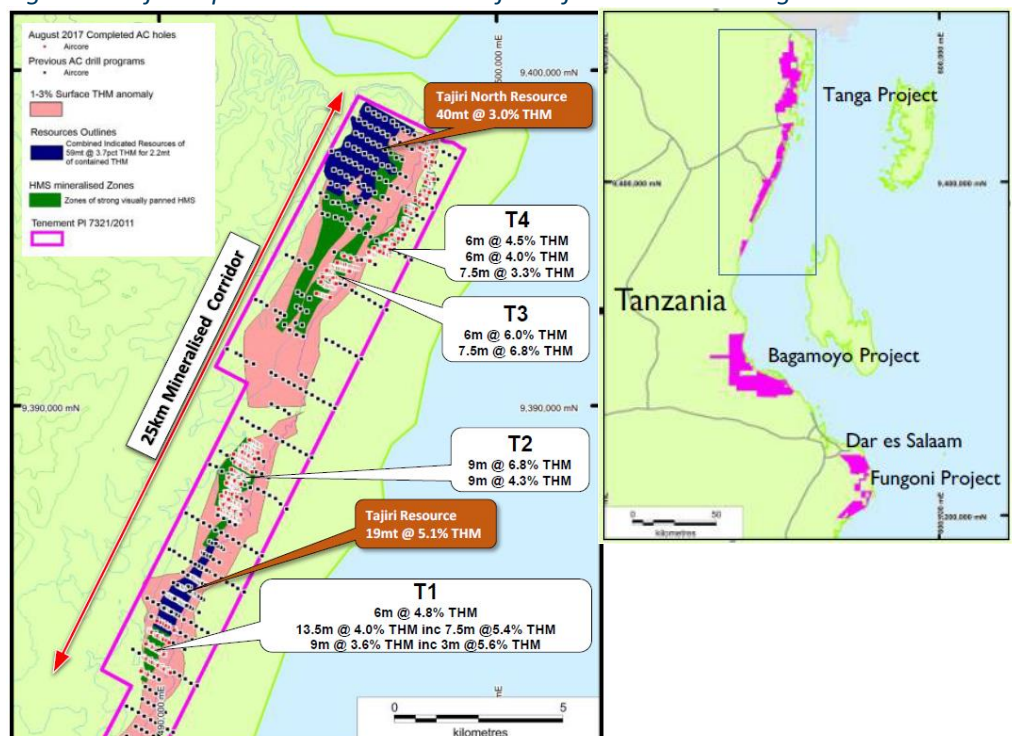
Tanga getting bigger

Argonaut expects the Tanga Resource will surpass 100Mt when updated later this year...

Exploration is also continuing at the Tanga project in northern Tanzania where recent drilling at the T1-T4 targets within the Tajiri deposit highlight extension to known mineralisation with +3% THM (detected from visual inspection). Final assay results are pending. We believe the updated Resource for this deposit (expected late-2017) will surpass 100Mt @ >3.5% THM (currently 59Mt at 3.7 % THM). Figure 3 below shows potential expansions to the current resource in dark green.

Figure 3. Tajiri deposit with extensions defined from recent drilling

...following visual extension noted in recent drilling



Source: STA

RIO is continuing exploration in JV projects in southern Tanzania despite Mining Law changes

Rio JV work progressing

RIO is continuing work on the its Joint Venture (JV) unperturbed by changes to the Tanzanian mining law. The JV covers projects south of Dar es Salaam where RIO is earning in up to 75% by spending up to US\$10.75m over 5.5 years. Projects such as Sudi, Kiswere and Mtwara are highly prospective, but largely unexplored. Rio's investment will accelerate exploration and potential resource definition (see Argonaut report: [RIO JV validates strategic landholding](#)).

Argonaut maintains a SPEC BUY recommendation...

Valuation

Argonaut has incorporated metrics from the DFS into our model and accounted for dilution from the July 2017 equity raising. We have also applied a 16% Government free-carry interest and a 1% export clearing to Fungoni. Consequently, our NPV₁₂ valuation for Fungoni decreases to \$35.7m from \$40.0m previously and our revised NAV for STA is 2.2¢ (previously 3.0¢).

...with a revised target price of 2.2¢/sh...

Table 2. Argonaut's Fungoni Project assumptions and forecast metrics

	Metric	2018	2019	2020	2021	2022	2023	2024	2025	Total
Assumptions										
AUD/USD	#	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	
Zircon Price	US\$/t	950	950	1150	1150	1150	1150	1150	1150	
Rutile Price	US\$/t	850	900	1000	1000	1000	1000	1000	1000	
Ilmenite Price	US\$/t	180	200	220	220	220	220	220	220	
Leucoxene	US\$/t	350	350	350	350	350	350	350	350	
Basket Price Received	A\$/t	0	594	683	683	683	683	683	1380	
Production										
Ore processed	Mt	0.0	2.0	2.0	2.0	2.0	2.0	2.0	0.3	12.3
HM Grade	%	0.0%	4.1%	4.9%	4.9%	4.1%	3.2%	2.7%	2.0%	
HM Processed	kt	0.0	80.8	96.5	96.5	80.8	63.0	53.2	5.9	
Zircon in conc. Produced	kt	0.0	14.1	16.9	16.9	14.4	10.9	9.5	1.1	84
Rutile in conc. Produced	kt	0.0	2.5	3.0	3.0	2.6	2.0	1.7	0.2	15
Ilmenite Produced	kt	0.0	32.7	39.2	39.2	33.5	25.3	22.1	2.5	194
Leucoxene Produced	kt	0.0	0.7	0.8	0.8	0.7	0.5	0.5	0.1	4
Total VHM Production	kt	0.0	50.0	60.0	60.0	51.2	38.7	33.7	3.7	297
Financials										
Capex	A\$m	26.7	13.3	0.2	0.2	0.2	0.2	0.2	0.8	42
Opex (per tonne processed)	A\$/t	0.00	6.68	6.68	6.68	6.68	6.68	6.68	6.68	
Revenue	A\$m	0	30	42	42	36	27	24	3	203
EBITDA	A\$m	-2	14	25	25	19	11	8	-1	99
NPAT	A\$m	-2	16	28	28	24	19	5	-1	119
Project Free Cashflow	A\$m	-27	-0	22	22	18	12	7	-0	52
NPV ₁₂	A\$m		35.7							
Post Tax IRR	%		29%							

...incorporating a 16% Government free-carry interest and recent equity raising dilution

Table 3. Valuation summary

Asset Valuation	A\$m	A¢/sh
Fungoni Project	35.7	1.1
TZ Exploration Assets	35.0	1.1
Aust Assets	5.0	0.2
Corporate Overheads	-7.8	-0.2
Cash	3.0	0.1
Debt	0.0	0.0
Sum of Parts Valuation	71.0	2.2
Discount Rate	12%	
Shares on Issue (msh)	3,239	

Source: Argonaut

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Important Disclosure

Argonaut acted as Lead Manager to the Placement to raise up to \$6.0M in May 2017 and received fees commensurate with this service.

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