morgans

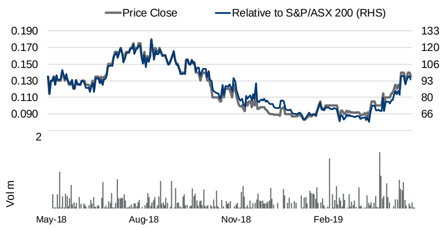
Emerging Company

Strandline Resources

2019 – a year of news and development

SPECULATIVE BUY

Current price:	A$0.14
Target price:	A$0.38
Previous target:	A$
Up/downside:	184.1%
Reuters:	STA.AX
Bloomberg:	STA AU
Market cap:	US$30.03m
	A$43.29m
Average daily turnover:	US$0.01m
	A$0.02m
Current shares o/s	289.3m
Free float:	40.4%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	35	39.2	0
Relative (%)	35.2	36.2	-1.7

Chris BROWN
T (61) 7 3334 4885
E chris.brown@morgans.com.au

Analyst(s) own shares in the following stock(s) mentioned in this report:

– N/A

- We initiate formal coverage of Strandline Resources (STA) with a Speculative Buy rating and a target price of A$0.38ps. Our rating is based on SOTP valuation methodology. Key risks are securing full project finance, development cost and overruns and commodity price risk.
- Activity has lifted across STA's mineral sands portfolio with fully approved developments in Tanzania and Australia. We visited Tanzania to review the local asset base and evaluate country issues. We came away with the view that the Tanzanian government has resolved the fiscal and regulatory status.
- Fungoni, 25km south of Dar es Salaam, is a fully permitted, small-scale but high-grade zircon-rich project ready for development. The Tajiri project in the north is developing into a significant resource. Rio Tinto has farmed into STA's tenements in the south of Tanzania.
- The release of the West Australian Coburn mineral sands project Definitive Feasibility Study (DFS) in April 2019 confirmed that it should generate strong financial returns over 22 years, with financing the next step for this world-class 1.6 billion tonne resource.

Fungoni – a low-risk start-up project

Fungoni is located 25km south of Dar es Salaam, the capital and major port of Tanzania. The Measured and Indicated mineral resource (to JORC Code 2012 standards) is 21.7 mt @ 2.8% total heavy mineral (THM) using a cut-off grade of 1.0% THM, with 22% slimes and 7% oversize. A US$26m credit facility with Nedbank is pending final credit approval for the zircon-rich US$32m project, with a mine life of +6 years.

Tajiri – a significant step-up in production

The Tajiri project, south of the Kenyan border, has a reported resource of 147Mt at 3.1% THM with a titanium mineral dominated suite of minerals in 6 deposits. The largest, Tajiri North, holds 61Mt at 2.8% THM, and the Tajiri deposit holds 36Mt at 3.7% THM. An additional exploration target of 73-133Mt at 2.8-4.4% THM was announced. This expanded resource would rank with Base Resources' (ASX:BSE) Kwale project, to the north in Kenya, with a reported resource in 2015 of 146Mt at 4.89% THM. Successful development of Fungoni would de-risk the Tajiri development.

Coburn – potentially a world-class project

Coburn is construction ready, with all approvals for development received. The DFS, delivered April 2019, evaluated two options: (1) an A$207m project producing a high value Heavy Mineral Concentrate and (2) an additional A$50m to construct a Mineral Separation Plant producing separate product streams. Both projects are financially robust, with a mine life of +22.5 years from the reserves (to JORC Code 2012 standards) of 523Mt. Finalisation of project financing remains the key to development.

Share price key and key risks – finance and development

The immediate key and key risk to realising value for shareholders is funding Fungoni, with the debt component now in place. With two fully approved development projects we expect potential off-takers and industry players could participate in de-risking STA's funding requirements. Project delivery on time and budget, ramp-up and production carry some risk, but the technology is in common use at this scale. Longer term commodity prices – higher or lower – provide risk, as do the geographies of the projects.

Financial Summary	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (A$m)	-	-	-	-	-
Operating EBITDA (A$m)	(5.05)	(4.32)	(3.00)	(3.00)	2.92
Net Profit (A$m)	(4.96)	(4.71)	(3.00)	(3.00)	0.26
Normalised EPS (A$)	(0.001)	(0.002)	(0.009)	(0.009)	0.001
Normalised EPS Growth		75%	322%	2%	
FD Normalised P/E (x)	NA	NA	NA	NA	175.0
DPS (A$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	26.59
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(25%)	(30%)	137%	513%	647%
P/BV (x)	52.78	4.35	5.74	9.32	8.84
ROE	(93.1%)	(43.9%)	(32.2%)	(47.5%)	5.2%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)			1.01	3.12	0.27

SOURCE: MORGANS RESEARCH, COMPANY

Figure 1: Financial summary

Strandline Resources — Year end June

Income statement (A$m)	**2017A**	**2018A**	**2019F**	**2020F**	**2021F**
Divisional sales	0.0	0.0	0.0	0.0	0.0
Total revenue	**0.7**	**0.4**	**0.0**	**0.0**	**14.5**
EBITDA	**(5.1)**	**(4.3)**	**(3.0)**	**(3.0)**	**2.9**
Associate income	0.0	0.0	0.0	0.0	0.0
Depreciation	(0.0)	(0.0)	0.0	0.0	(2.7)
EBITA	(5.1)	(4.3)	(3.0)	(3.0)	0.3
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0
EBIT	(5.1)	(4.3)	(3.0)	(3.0)	0.3
EBIT(incl associate profit)	(5.1)	(4.3)	(3.0)	(3.0)	0.3
Net interest expense	0.1	0.1	0.0	0.0	0.0
Pre-tax profit	(5.0)	(4.7)	(3.0)	(3.0)	0.3
Income tax expense	0.0	0.0	0.0	0.0	0.0
After-tax profit	(5.0)	(4.7)	(3.0)	(3.0)	0.3
Minority interests	0.0	0.0	0.0	0.0	0.0
NPAT (normalised)	**(5.0)**	**(4.7)**	**(3.0)**	**(3.0)**	**0.3**
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	**(5.0)**	**(4.7)**	**(3.0)**	**(3.0)**	**0.3**

Cash flow (A$m)	**2017A**	**2018A**	**2019F**	**2020F**	**2021F**
EBITDA	(5.1)	(4.3)	(3.0)	(3.0)	2.9
Change in working capital	1.0	(0.8)	0.1	0.0	0.0
Net interest (pd)/rec	0.0	0.0	0.0	0.0	0.0
Taxes paid	0.0	0.0	0.0	0.0	0.0
Other oper cash items	0.0	0.0	0.0	0.0	0.0
Cash flow from ops (1)	(4.1)	(5.1)	(2.9)	(3.0)	2.9
Capex (2)	(9.7)	(11.0)	(11.0)	(11.0)	(11.0)
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from invest (3)	(9.7)	(9.1)	(11.0)	(11.0)	(11.0)
Incr/(decr) in equity	7.8	4.0	0.0	0.0	0.0
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	(0.6)	(0.0)	0.0	0.0	0.0
Cash flow from fin (5)	7.3	4.0	0.0	0.0	0.0
Forex and disc ops (6)	(1.5)	0.2	0.0	0.0	0.0
Inc/(decr) cash (1+3+5+6)	(8.0)	(10.1)	(13.9)	(14.0)	(8.1)
Equity FCF (1+2+4)	(13.8)	(16.2)	(13.9)	(14.0)	(8.1)

Balance sheet (A$m)	**2017A**	**2018A**	**2019F**	**2020F**	**2021F**
Cash & deposits	3.3	4.3	15.3	16.3	8.2
Trade debtors	0.0	0.0	0.2	0.2	0.2
Inventory	0.0	0.0	0.0	0.0	0.0
Investments	7.1	7.3	7.3	7.3	7.3
Goodwill	0.0	0.0	0.0	0.0	0.0
Other intangible assets	0.0	0.0	0.0	0.0	0.0
Fixed assets	0.0	0.0	11.1	22.1	30.5
Other assets	1.0	0.4	0.0	0.0	0.0
Total assets	11.3	12.0	33.9	45.9	46.1
Short-term borrowings	0.6	1.0	1.0	1.0	1.0
Trade payables	0.0	0.0	0.0	0.0	0.0
Long-term borrowings	0.0	0.0	25.0	40.0	40.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.1	0.1	0.0	0.0	0.0
Total liabilities	0.7	1.1	26.0	41.0	41.0
Preference shares	0.0	0.0	0.0	0.0	0.0
Hybrid equity	0.0	0.0	0.0	0.0	0.0
Share capital	62.4	66.4	66.4	66.4	66.4
Other reserves	2.0	2.8	2.8	2.8	2.8
FCTR	0.0	0.0	0.0	0.0	0.0
Unrealised gains/losses	0.0	0.0	0.0	0.0	0.0
Retained earnings	(53.7)	(58.4)	(61.4)	(64.4)	(64.2)
Other equity	0.0	0.0	0.0	0.0	0.0
Total equity	10.7	10.8	7.8	4.8	5.1
Minority interest	0.0	0.0	0.0	0.0	0.0
Total shareholders' equity	10.7	10.8	7.8	4.8	5.1
Total liabilities & SE	11.3	12.0	33.9	45.9	46.1

Closing price (A$)	**0.14**		**Target price (A$)**	**0.38**
Valuation metrics				
Preferred methodology	SOTP		Valuation	0.38

Multiples	**2018A**	**2019F**	**2020F**	**2021F**
Enterprise value (A$m)	42	42	56	70
EV/Sales (x)				
EV/EBITDA (x)	(9.8)	(13.9)	(18.5)	23.8
EV/EBIT (x)	(9.7)	(13.9)	(18.5)	271.2
PE (normalised) (x)	(64.6)	(15.3)	(15.0)	175.0
PEG (normalised) (x)	(0.9)	(0.0)	(6.1)	(1.6)
Price/Book (x)	4.35	5.74	9.32	8.84

At target price	**2018A**	**2019F**	**2020F**	**2021F**
EV/EBITDA (x)	(24.9)	(40.5)	(45.2)	49.2
PE (normalised) (x)	(177.1)	(42.0)	(41.0)	479.3

Per share data	**2018A**	**2019F**	**2020F**	**2021F**
No. shares	336	321	321	321
EPS (normalised) (cps)	(0)	(1)	(1)	0
EPS (dil. normalised) (cps)	(0)	(1)	(1)	0
Dividend per share (cps)				
Franking (%)	n.a.	n.a.	n.a.	n.a.
Dividend payout ratio (%)				
Dividend yield (%)				

Growth ratios	**2018A**	**2019F**	**2020F**	**2021F**
Sales growth	-	-	-	-
Operating cost growth	-16.7%	-36.8%	0.0%	286.5%
EBITDA growth	-14.5%	-30.6%	0.0%	-197.4%
EBITA growth	-14.7%	-30.8%	0.0%	-108.6%
EBIT growth	-14.7%	-30.8%	0.0%	-108.6%
Reported NPAT growth	-5.0%	-36.4%	0.0%	-108.6%
Normalised NPAT growth	-5.0%	-36.4%	0.0%	-108.6%
Reported EPS growth	75.3%	321.6%	2.4%	-108.6%
Normalised EPS growth	75.3%	321.6%	2.4%	-108.6%

Operating performance	**2018A**	**2019F**	**2020F**	**2021F**
Asset turnover	0.0%	0.0%	0.0%	0.0%
EBITDA margin				
EBIT margin				
Net profit margin				
Return on net assets	-40.1%	-38.4%	-62.2%	5.1%
Net debt (A$m)	-3.3	10.7	24.7	32.9
Net debt/equity	-30.1%	136.6%	513.2%	647.3%
Net interest/EBIT cover (x)	67.0			
ROIC	-484.2%	-1043.3%	-26.7%	1.2%

Internal liquidity	**2018A**	**2019F**	**2020F**	**2021F**
Current ratio (x)	3.9	15.0	15.9	8.0
Receivables turnover (x)		0.0	0.0	0.0
Payables turnover (x)				

SOURCE: MORGANS RESEARCH, COMPANY

morgans

Tanzania

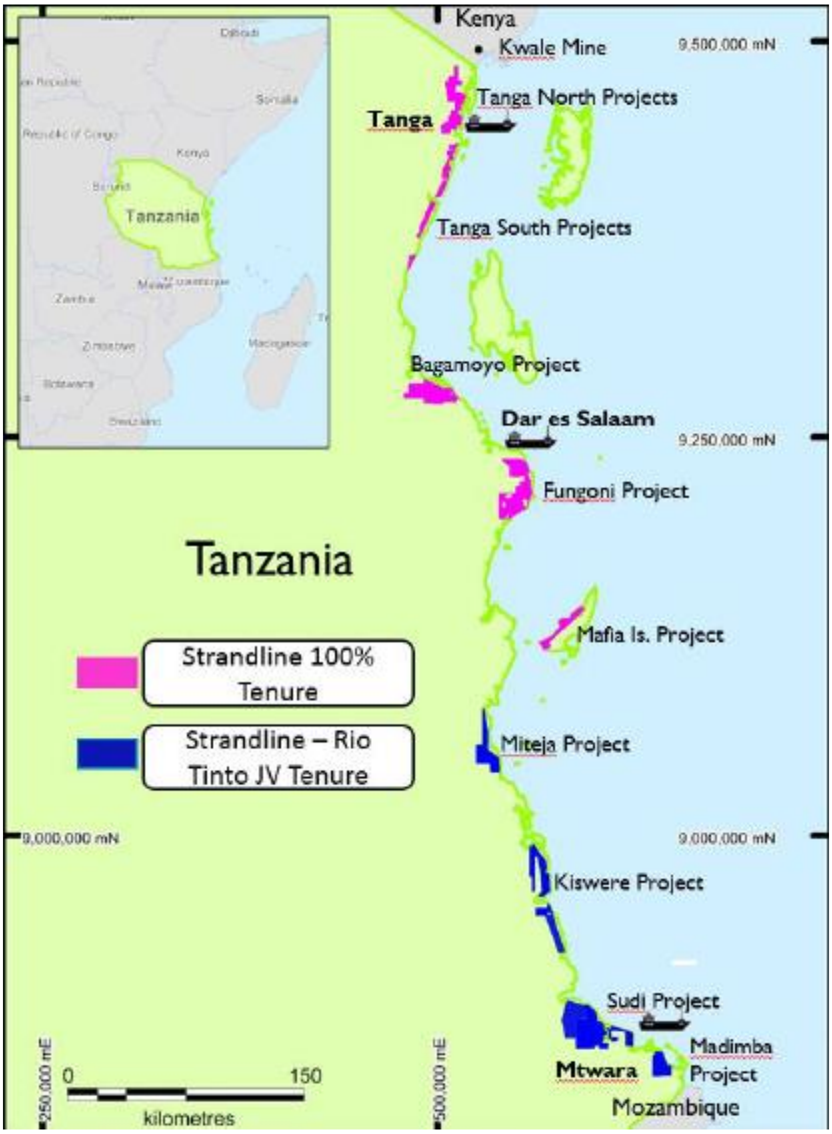
Background and fiscal regime

STA has been exploring for mineral sands in Tanzania since 2014, with deposits extending from Kenya (Kwale) down through Mozambique. STA was the early mover. Strong local relationships enabled acquisition of an extensive tenement package. Uncertainty over the fiscal and regulatory regime surfaced in 2016, limiting the appetite for exploration, but these issues are now resolved.

Income tax is 30%. VAT is imposed at 18% on imported goods and locally supplied services. Under changes announced in 2017, the royalty on mineral sands was adjusted to 3%. Tanzania also introduced regulations such that the government receives 16% of dividends paid from an operating company or operation paid up to its parent or holding company.

Dividends paid to non-controlling non-resident shareholders are subject to a 10% withholding tax. Tanzania ranked 79 out of 91 jurisdictions in the Fraser Institute survey for 2017. We believe the drop in ranking (from 64 in 2016) was in large part due to the concern over the dispute with Acacia Mining. Australia doesn't have a Tax Treaty with Tanzania.

Figure 2: Tanzania - proposed development, evaluation and Rio Tinto JV



SOURCE: Strandline Resources – 2018 Annual Report, September 2018

Evaluation and exploration and the Rio JV in Tanzania

STA's most advanced project is Fungoni, 25km south of Dar es Salaam, where a DFS was completed which confirmed a robust project. It offers a low-risk option to production and the ability to develop an experienced operational team ahead of the larger-scale Tajiri development.

The Tajiri project has a reported resource of 147Mt at 3.1% THM with an ilmenite-dominated suite of minerals. An additional exploration target of 73-133Mt at 2.8-4.4% THM was announced. Exploration air core and auger drilling at Bagamayo, 40km north of Dar es Salaam, has shown the presence of a high unit value mineral sands assemblage, with an exploration target in the range of 78-156Mt at 3.0-4.5% THM reported by Strandline.

In June 2017 STA finalised an exploration JV with Rio Tinto for heavy minerals on STA's southern Tanzanian tenements, with a two-stage earn-in plus cash payments, totalling up to US$10.75m with Rio Tinto moving to a 51% interest. STA announced discovery of significant mineral sands intersections in May 2018 at Sudi, near the port of Mtwara, on the JV area. Laboratory results are pending from a second round of air core drilling.

Fungoni – fully permitted and waiting on funding

The metrics from the Fungoni DFS are shown in Figure 3 below. The Fungoni HMS deposits, with a high zircon content, are located 25km south of Dar es Salaam in central eastern Tanzania. The Measured and Indicated mineral resource (to JORC Code 2012 standards) is 21.7 mt @ 2.8% THM using a cut-off grade of 1.0% THM, with 22% slimes and 7% oversize. The reserves, defined in five pits, are flat dipping, with an average depth of 12m. STA has executed a mandate for a US$26m facility with Nedbank for the development of the US$32.1m project.

It is proposed that the five Fungoni pits will be mined sequentially by excavator and truck fleet over approximately six years, with in-pit wet plant tailings deposition to minimise the project footprint. Initial production is from higher grade zircon areas. Testwork shows that gravity separation in a wet concentrator plant (WCP) should produce a high grade heavy mineral concentrate (HMC) containing >95% of the zircon and >90% of the titanium minerals.

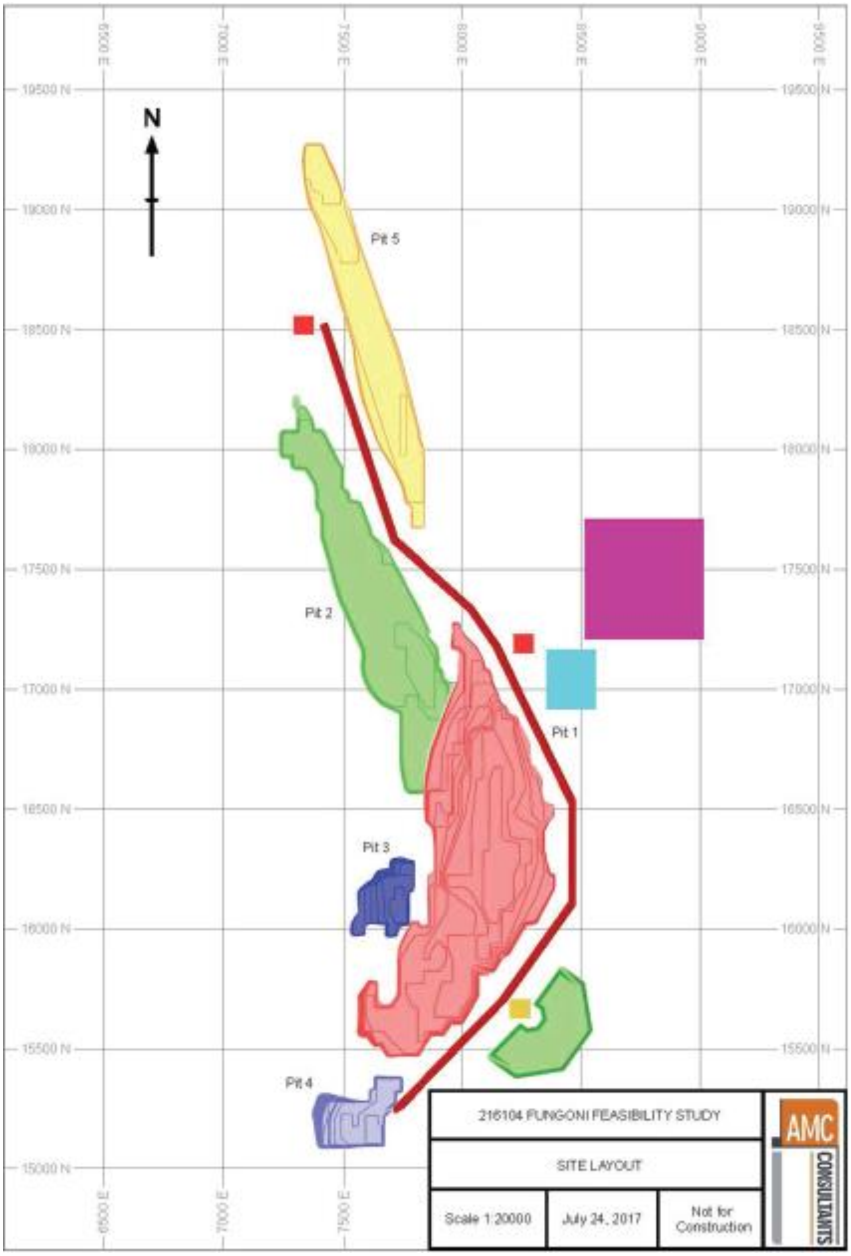
Figure 3: Fungoni DFS Metrics – news flow from development

Description	Updated DFS Result (Oct-18)	Comment
NPV (10% WACC, Real, Pre Tax, no debt)	US$48.7m	Up US$5.8m or 14%
IRR	61.1%	Up 4,900bps
NPV (10% WACC, Real, Post Tax, no debt)	US$30.8m	See commentary regarding taxes below
IRR	42.1%	Original DFS IRR was pre-tax
NPV (8% WACC, Real, Post Tax, no debt)	US$34.8m	See commentary regarding taxes below
Operational Cashflow Payback Period of Initial Capital	2.67 years	From commencement of project execution
LOM Revenue	US$184.2m	Up US$16.1m or 10%
LOM EBITDA	US$114.8m	Up US$17.0m or 17%
LOM OPEX C1 Costs inc transport	US$66.1m	Up US$3.0m or 5%
LOM All-in Sustaining Costs (AISC)	US$74.9m	Up US$3.7m or 5%
Revenue to C1 Cost Ratio	2.8	First quartile RC ratio
Annual Average Operating Margin	US$391/t	Up US$43/t or 12%
LOM Project Cash Flow	US$81.7m	Up $10.2m or 14%
Description	**Updated DFS Result (Oct-18)**	**Comment**
Annual Production Rate (Steady State)	2.0Mt	No change
LOM Production	12.3Mt	Re-optimisation based on increased commodity prices may increase reserves and mine life
Mine Life (Initial)	6.2 Years	
Exchange Rate (A$/US$)	0.75	No change
Capital Expenditure (Pre-production)	US$32.1m	Pre-production Capex excluding tax & levies
Product Price Zircon (FOB) Avg. LOM	US$1,229/t	Premium grade zircon in concentrate form
Product Price Rutile (FOB) Avg. LOM	US$1,129/t	Final product welding rod grade
Product Price Ilmenite (FOB) Avg. LOM	US$266/t	Chloride grade ilmenite
Product Price Monazite (FOB) Avg. LOM	US$1,804/t	In concentrate form

SOURCE: Strandline Resources – ASX Announcement, November 2018

Initial evaluation of the mineral separation plant (MSP) options considered producing an ilmenite product and a rutile+zircon product. Subsequent work evaluated four separate product streams – ilmenite, rutile, zircon and monazite. There is strong demand from some Chinese offtakers for a high-grade zircon+monazite product (with the associated rare earths). Such a product would simplify the operation of the MSP, which would retain the flexibility to meet the demands of offtakers. Binding offtake agreements have been secured for 100% of product from the Fungoni project for the life of the mine.

Figure 4: Fungoni Mine Site layout – Pit 1 is higher grade Zr



SOURCE: Strandline Minerals – ASX release October 2017

Tajiri - a Kwale-sized project

The Tajiri project – shown on Figure 2 as Tanga South - has a reported resource of 147Mt at 3.1% THM with an ilmenite-dominated suite of minerals in six deposits. The largest, Tajiri North, holds 61Mt at 2.8% THM, with the Tajiri deposit 36Mt at 3.7% THM.

The current Mineral Resource defined at Tajiri is a rutile enriched, ilmenite dominant mineral assemblage with zones of elevated zircon and garnet mineralisation within some of the mineralogical domains. The mineralisation also shows strong geological and grade continuity along and across strike. Titanium-rich mineral assemblages with elevated zircon grades are generally observed in the upper part of the drill holes, gradually diluted by garnet at depth. The titanium-rich domain extends to a depth of 30m from surface.

An additional exploration target of 73-133Mt at 2.8-4.4% THM was announced. This expanded resource would rank with Base Resources' (ASX:BSE) Kwale project, to the north in Kenya, with a reported resource in 2015 of 146Mt at 4.89% THM.

Western Australia

Australian corporate income tax is currently charged at 30.0%, with a 1.5% levy to be paid above that. A Goods and Services Tax (GST) is imposed at 10% on goods and locally supplied services. An *ad valorem* royalty of 7.5% applies to bulk material, with 5.0% applied to concentrate. In the Fraser Institute survey for 2017, WA ranked 5 out of 91 jurisdictions, and has been in the top 5 for the past 5 years. Australia ranks 13, with a score of 79 on the Transparency International rankings for 2016, with the score having fallen from 85 in 2012.

STA released an updated mineral resource (to JORC Code 2012 standards) for the Coburn, WA, mineral sands project of 1.6 billion tonnes at 1.2% THM, with 45% (726Mt) in the Measured or Indicated categories. The resource estimate was completed for the DFS which was released in April 2019. The valuable heavy mineral assemblage is 22% zircon (4.3Mt contained), 7% rutile (1.4Mt contained) and 5% leucoxene (1.0Mt contained), with ilmenite (9.4Mt contained) forming 48% of the VHM.

STA released the results of a definitive feasibility study into development of Coburn in April 2019, as noted above. Given the scale of the project, this involved an evaluation of the market, as well as the project. Market research indicated interest in the separate mineral product streams (titled *Final Products Case*) – particularly given the high grade of the ilmenite, above 60% TiO_2 – there was also interest in a valuable heavy mineral concentrate (titled *HMC Case*). Production of an HMC would obviate the requirement for the MSP, with an additional cost of A$50m, above the A$207m for the mine development and the wet concentrator to produce HMC. Both cases are shown below.

Figure 5: Coburn DFS metrics – fully permitted, awaiting finance

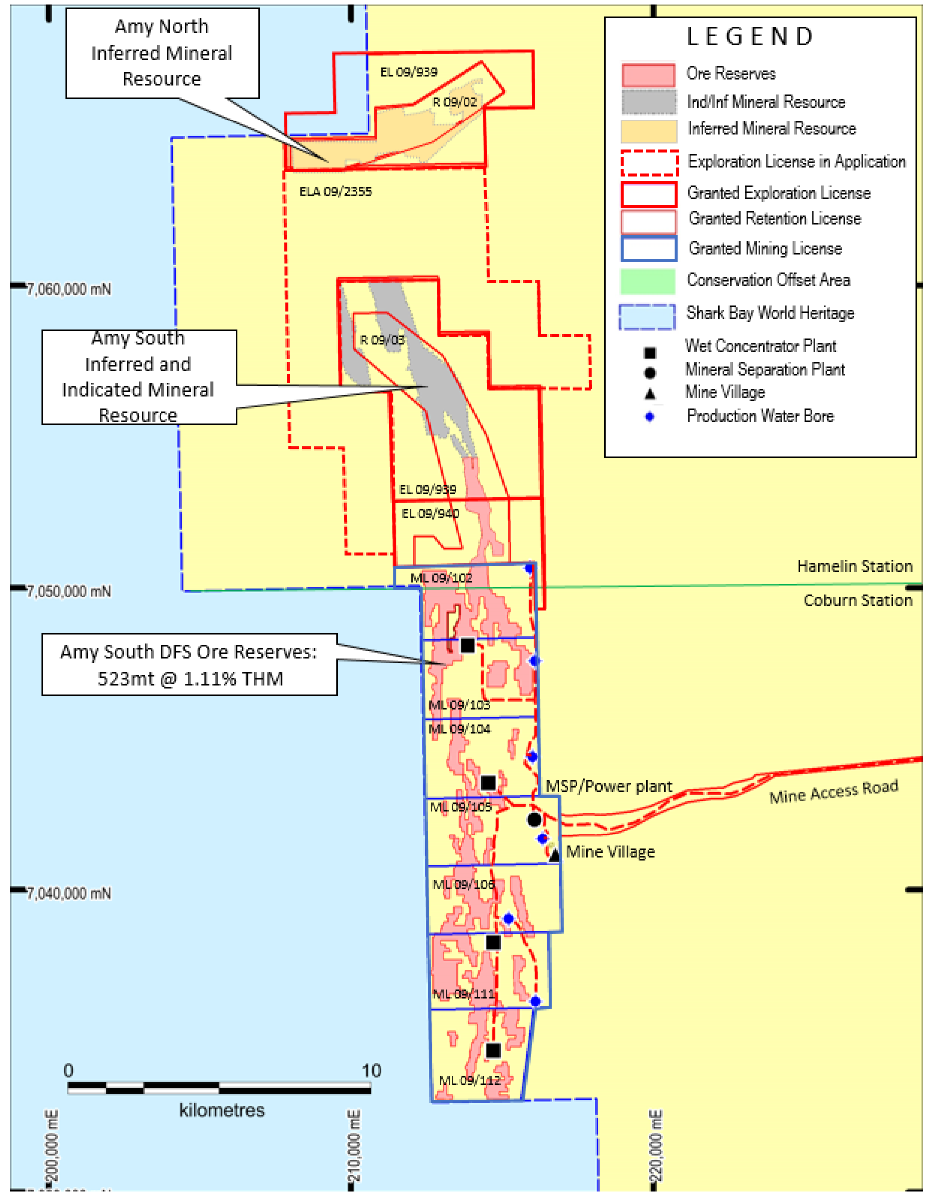
Description	DFS Final Product Case[3]	DFS HMC Case[3]
NPV (8% WACC, Real, Pre Tax, no debt) [1]	$551M	$481M
IRR	32.3%	36.4%
Capital Expenditure (Pre-production)	A$257M	A$207M
Payback Period of Initial Capital from start of production[4]	2.3 years	2.2 years
LOM Revenue	A$3,906M	A3,417M
LOM OPEX C1 Costs inc transport	A$1,778M	A$1,622M
LOM All-in Sustaining Costs (AISC)	A$1,973M	A$1,793M
Revenue to C1 Cost Ratio	2.2	2.1
Annual Average Operating Margin	A$364/t	A$305/t
LOM Free Cash Flow (FCF) pre-tax	A$1,610M	A$1,357M
Key Assumptions		
Annual Production Rate (Steady State)	23.4Mt	23.4Mt
LOM Production (Ore Mined)	523.4Mt	523.4Mt
Mine Life	22.5 Years	22.5 Years
Annual Avg HMC Produced (from WCP)	229 kt/year	229 kt/year
Annual Avg Premium Zircon Production	32 kt/year	-
Annual Avg Zircon Concentrate Production	58 kt/year	-
Annual Avg HiTi90 Production	20 kt/year	-
Annual Avg Ilmenite Production	110 kt/year	-
Exchange Rate (A$/US$)	0.72	0.72
Product Price[2]		
LOM Avg HMC Price (FOB)	-	US$479/t
LOM Avg Premium Zircon (FOB)	US$1,480/t	-
LOM Avg Zircon Concentrate (FOB)	US$871/t	-
LOM Avg HiTi90 (FOB)	US$1,014/t	-
LOM Avg Ilmenite (FOB)	US$267/t	-

Notes:
1 The NPV has been calculated using project related costs only and does not consider Strandline's corporate costs. DFS capital and operating costs have been developed in accordance with a ±10% accuracy
2 Pricing assumptions for ilmenite, rutile and zircon were obtained from TZ Mineral International Pty Ltd's (TZMI) mineral sands marketing report, titled *Titanium Feedstock Price Forecast February 2019*. TZMI pricing was then adjusted where appropriate to account for quality characteristics of the Coburn product. In the case of concentrate product (zircon concentrate), pricing was adjusted further to consider downstream handling costs
3 DFS contemplates two viable development options: (1) HMC Case producing a high-grade +95% heavy mineral concentrate (HMC) product (which can be sold to the downstream global processing market); (2) Final Products Case building an additional mineral separation plant to separate the valuable zircon and titanium minerals into final product form.

SOURCE: Strandline Resources – ASX Announcement, April 2019

Key project approvals are in place including mining and environmental approvals, and native title and heritage agreements. The construction licence to "take water" from Department of Water and Environmental Regulation (DWER) has been received, and STA is actively monitoring flora, fauna and water under the approvals from the Environmental Protection Authority.

Figure 6: Coburn Mineral Sands project, WA



SOURCE: Strandline Resources– ASX Release April 2019

As part of the current DFS process, STA completed further metallurgical testwork on bulk samples to confirm the zircon rich tenor of the deposit, the optimum process design, and the high quality of the product characteristics, with the ilmenite +60% TiO_2 and suitable for Chloride route processing. Coburn has a low strip ratio, and a very low level of slimes and oversize material. Dry mining is expected to use the *dozer trap* technique, with co-disposal of tailings and slimes, pumped back into the void. The WCP and the MSP will use conventional technologies.

Key risks

STA is an exploration, evaluation and development company with no income other than for the exploration and evaluation of the southern Tanzanian tenements in the Rio JV. STA ended the March 2019 quarter with A$2.1m in reported cash, and no debt. The management team has extensive and successful project development and construction expertise, and a committed shareholder base which speaks for approximately 40% of issued capital.

The Nedbank project finance facility should provide US$26m of the proposed US$32.1m pre-production development cost for Fungoni (which excluded taxes, levies and financing fees). STA will likely need to finance other costs, working capital and cost over-run issues, should they arise, and advancing its other projects.

We see the major risks for STA as the cost of development funding, by issuing equity, mezzanine finance, offtake agreement financing or ceding a direct equity interest in one or all of its projects, or a combination of these.

Project development is subject to the usual risks, although limited by the terms of the Engineering, Procurement and Construction (EPC) contract with the well-regarded GR Engineering (GRES), who have experience with construction and commissioning of mineral sands projects. Risk also comes with commissioning and ramp-up, and ongoing production.

The Managing Director and other members of the Board have extensive experience at senior levels with engineering firms responsible for EPC and EPCM contracts for project development, including construction, commissioning and production ramp-up. The MD was previously involved with Coburn when the engineering firm Sedgman Engineering reviewed the Coburn DFS in 2013.

As with all minerals operations, profitability is subject to the various relevant commodity price and exchange rate movements, and to changes in the fiscal regimes in Tanzania and WA.

Valuation – A$0.38ps

The level of support for the junior resources sector, and mineral sands in particular is critical for the market's perception of value and support.

We have valued STA on a sum-of-the-parts basis. STA's DFS for Fungoni reported an NPV at an 8% discount rate, and using industry-standard price forecasts from consultancy TZMI, of US$48.7m, approximately A$70m - 22 cps - at the current AUD:USD exchange rate. This project is fully permitted, but our WACC is 11.69% given the geographic risk, and the status of the development. We also use a marginally lower price deck than used by STA, and have allowed for the government taking 16% of dividends paid from the operation. Our valuation of STA's interest in Fungoni, on this conservative basis, is A$18.1m, or 6 cps. We would expect the discount rate to drop to the 8% level our valuation to lift as the project is developed. The Tajiri project resource in Tanzania is currently more than 5x the size of Fungoni, and we hold the view that further drilling may move the resource base to 10x the size. We value the Tajiri project at an arbitrary A$20m.

The recently released Coburn DFS reports an NPV of A$481m – A$1.50ps – for the Mineral Concentrate case, and A$551m – A$1.72ps – for the different product streams case. As with Fungoni, STA used the TZMI price deck and an 8% discount rate. Coburn is also fully permitted, as is Fungoni; however, the capital cost is projected at A$207m for an operation producing a heavy mineral concentrate, and A$257m in total if a mineral separation plant is rebuilt. We have modelled Coburn using the same discount rate (11.69%) and price deck as for Fungoni. With a long +22 year mine life, the higher discount rate has a significant effect on the NPV, reducing our number to A$160m – 49 cps. Given the current status of funding options, we have discounted this by 50% to generate a value of A$25 cps. With net cash (A$2.1m) and a net corporate charge of A$20m, our valuation is A$0.38ps, which is also our target price.

Queensland

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan Partners	+61 7 3152 0600
Brisbane: North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Caloundra	+61 7 5491 5422
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Holland Park	+61 7 3151 8300
Ipswich/Springfield	+61 7 3202 3995
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787

New South Wales

Sydney	+61 2 9043 7900
Stockbroking, Corporate Advice, Wealth Management	
Sydney: Grosvenor Place	+61 2 8215 5000
Sydney: Reynolds Securities	+61 2 9373 4452
Sydney: Currency House	+61 2 8216 5111
Armidale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

Victoria

Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Richmond	+61 3 9916 4000
South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Australian Capital Territory

Canberra	+61 2 6232 4999

Northern Territory

Darwin	+61 8 8981 9555

Tasmania

Hobart	+61 3 6236 9000

Western Australia

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
Perth	+61 8 6462 1999

South Australia

Adelaide	+61 8 8464 5000
Exchange Place	+61 8 7325 9200
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

Disclaimer

The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Disclosure of interest

Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

Regulatory disclosures

Analyst owns shares in the following mentioned company(ies): N/A

Morgans Corporate Limited was Lead Manager to the placement of shares for Strandline Resources Limited and received fees in this regard.

Recommendation structure

For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

Research team

For analyst qualifications and experience, refer to our website at morgans.com.au/research-and-markets/our-research-team

Research coverage policy

For an overview on the stock selection process, refer to our website at morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy

Research independence statement

morgans.com.au/Research-Independence-Statement

Stocks under coverage

For a full list of stocks under coverage, refer to our website at morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage and morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage

morgans.com.au

If you no longer wish to receive Morgans publications please contact your local Morgans branch or write to GPO Box 202 Brisbane QLD 4001 and include your account details.

13.02.19