

# Strandline Resources

## Strandline joins the developers club

**ADD** (no change)

Current price:	A\$0.20
Target price:	A\$0.52 ▲
Previous target:	A\$0.47
Up/downside:	160.0%
Reuters:	STA.AX
Bloomberg:	STA AU
Market cap:	US\$172.7m
	A\$223.2m
Average daily turnover:	US\$0.40m
	A\$0.52m
Current shares o/s	1,116m
Free float:	60.0%

- STA now fully funded for Coburn project development, following successful bond issue (US\$60m) and capital raising (A\$122m).
- Equity raising at 20.5cps was below estimates, but dilution offset by increasing commodity price forecasts.
- Construction activities are forecast to ramp up during current quarter with the board approving a final investment decision today.
- Maintain an ADD rating at a revised price target of 52cps, after refreshing model for impact of equity raising and revised commodity forecasts (see page 4).

### Fully funded developer at Coburn

STA has now completed its US\$60m bond issue as well as its fully underwritten A\$122m equity raising. The equity raising was completed at 20.5cps, below our initial assumption of 25cps. The STA board has now also made a final investment decision to proceed with full development at Coburn, with construction activities expected to ramp up considerably during this quarter. First production remains targeted at Coburn in the second half of CY22, in line with our estimate although we have reduced early volumes slightly.

### Commodity prices refreshed

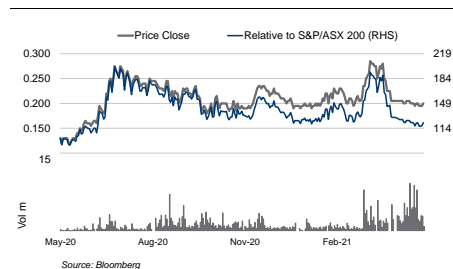
The price deck for STA's production basket has been refreshed using the latest 5-year forecasts available in the market. Pricing has increased circa 10% across the board for STA's production as the global economy recovers (with much of STA's product destined for pigment and ceramic markets tied to global GDP growth and construction activity). The increased price forecasts have offset the additional dilution related to STA's equity raise.

### Strong project development pedigree

STA's management team has strong credentials in project development. CEO and MD Luke Graham, in particular, comes from a 20+ year career in the resource sector including over 11 years in engineering and construction company Sedgman. STA has also secured the services of mineral sands experts for the design and construction of the Coburn mining and processing equipment. Industry leaders Mineral Technologies are heavily involved in the equipment selection and supply for the process plant while WA mineral sand mining specialists Piacentini and Son have designed the dozer traps for the mining operation.

### Our view

With STA successfully raising the required equity, Coburn's development is now significantly de-risked. The use of industry specialist contractors in the design phase, and integrated with the construction team, gives comfort that the mine and separation plants should perform to design when the project is ready to commission in late 2022. Coburn remains a world class, long life mineral sands asset providing STA with clear valuation upside today, and its Tanzanian assets provide a growth path in future although little value is assigned to them in our current modelling. We retain an ADD rating for STA, at a revised target price of 52cps.



Price performance	1M	3M	12M
Absolute (%)	-2.4	-11.1	60
Relative (%)	-5.3	-14.1	26

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Financial Summary	Jun-21F	Jun-22F	Jun-23F	Jun-24F	Jun-25F
Revenue (A\$m)	0.0	0.0	63.5	189.6	214.9
Operating EBITDA (A\$m)	(8.2)	(4.0)	14.5	92.5	116.5
Net Profit (A\$m)	-8.25	-4.00	-2.87	57.21	64.58
Normalised EPS (A\$)	(0.007)	(0.004)	(0.003)	0.051	0.058
Normalised EPS Growth	(62.1%)	(51.5%)	(28.1%)	12.9%	
FD Normalised P/E (x)	NA	NA	NA	3.92	3.47
DPS (A\$)	-	-	0.003	0.050	0.055
Dividend Yield	0.0%	0.0%	1.6%	24.9%	27.6%
EV/EBITDA (x)	NA	NA	13.48	1.99	1.48
P/FCFE (x)	NA	NA	NA	4.30	3.86
Net Gearing	(95.1%)	(24.3%)	(21.1%)	(29.5%)	(37.3%)
P/BV (x)	1.55	1.60	1.67	1.66	1.63
ROE	(10.5%)	(2.8%)	(2.1%)	42.5%	47.3%
% Change In Normalised EPS Estimates	44%	9%	(152%)	(26%)	(17%)
Normalised EPS/consensus EPS (x)	0.39	3.57	-0.13	0.93	

SOURCE: MORGANS, COMPANY REPORTS

## Strandline Resources

as at May 4, 2021

Market cap (A\$m):	223.2	Rating:	ADD
Shares outstanding (m):	1,116	Price (A\$):	0.20
Free float (%):	60.0	Target price (A\$):	0.52
Website:	www.strandline.com.au	Upside/downside to target price (%):	160.0

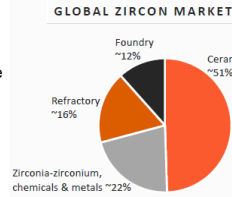
### Company description

Strandline Resources Limited (STA) is a heavy mineral sands (HMS) explorer and developer, with projects in Australia and Tanzania. Its flagship asset is the Coburn Project (100%) located 250km north of the regional centre of Geraldton, Western Australia. The core asset of the Coburn Project is the Amy Zone deposit, with the Amy South Ore Reserve to JORC Code (2012) standard of 523Mt at 1.1% Heavy Mineral (HM). The HM comprises a high value assemblage of 23% zircon, 48% chloride ilmenite, 7% rutile, and 5% leucoxene.

#### Strandline Products and Markets

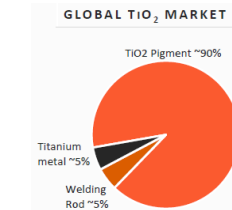
##### Zircon:

- STA to produce a premium and mixed zircon concentrate
- Water, chemical, heat and abrasion resistant
- 1mtpa global zircon market
- Ceramics market represents 51% of the zircon market
- China dominates zircon consumption (47%)
- Iluka the most influential in establishing benchmark price



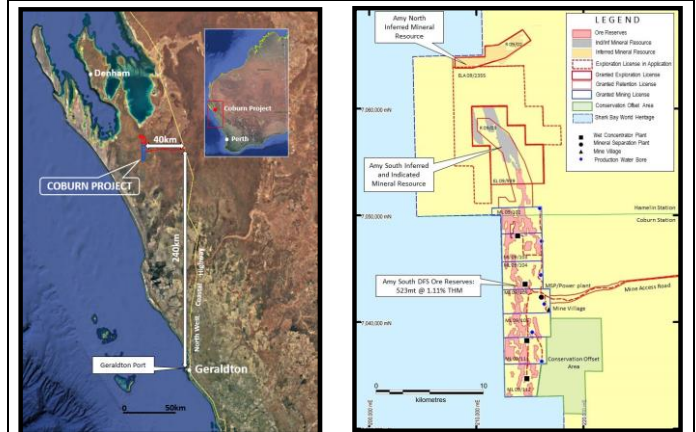
##### Titanium (Ti / TiO2):

- STA to produce a high Ti rutile & chloride grade ilmenite
- TiO2 a white/opaque pigment, is UV resistant & inert
- 7mtpa global TiO2 market
- Chloride pigment demand/consumption increasing
- Chinese chloride pigment demand driven by increasing environmental standards



Source: Strandline

#### Map of STA Coburn Project



Source: Strandline

#### Revenue to Cost Ratio

##### Mineral sands are notoriously difficult to compare

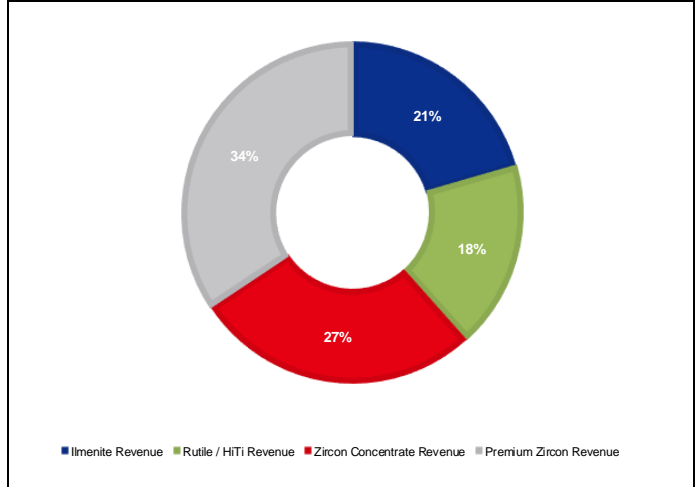
- Head grade and commodity make up of each project vary significantly
- Final product also varies (mixed concentrate, partial segregation or final products)
- Market cap or EV to grade ratios difficult to compare between projects as a result

##### Mineral sands producers use Revenue:Cost ratio

- Revenue:Cost ratio (R:C) provides insight into project strength through market cycles
- Market is routinely surveyed and analysed by specialist industry consultants
- Estimated producer average R:C is 1.8x (range 1-3x)
- Strandline ratio is 2.3x (on Morgans assumptions)
- Coburn is a first quartile project able to ride pricing cycles ahead of its peers

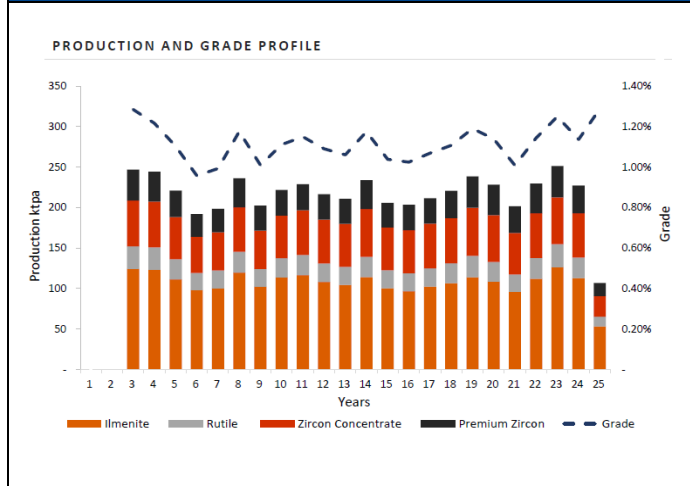
Source: Morgans

#### Coburn Life of Mine Revenue Breakdown



Source: Morgans

#### STA future production



Source: Strandline

#### Key risks & drivers

##### Key Risks

- Commodity prices - as a large proportion of costs are relatively fixed
- Project Development and ramp up

##### Upcoming Catalysts

- Project construction
- First sales

##### Industry Divers

- AUD:USD Exchange Rate
- Product demand is largely consumer/construction driven (pigments and ceramics) linked to global economic growth

Source: Morgans

Figure 1: Financial summary

STA						Mining and Metals					
<b>Income statement (A\$M)</b>						<b>Revenue by Product (A\$M)</b>					
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Sales Revenue	-	-	63.5	189.6	214.9	Premium Zircon	-	-	22.1	65.8	73.7
Operating Costs	-	-	(45.0)	(93.1)	(94.3)	Zircon Concentrate	-	-	17.5	52.3	58.6
Other Income/Costs	(8.2)	(4.0)	(4.0)	(4.0)	(4.0)	Rutile / HiTi	-	-	11.8	35.1	39.2
<b>EBITDA</b>	<b>(8.2)</b>	<b>(4.0)</b>	<b>14.5</b>	<b>92.5</b>	<b>116.5</b>	Ilmenite	-	-	11.8	36.0	42.7
Depreciation & Amortisation	(0.1)	-	(10.2)	(20.3)	(20.3)	<b>Sales Revenue</b>	<b>-</b>	<b>-</b>	<b>63.1</b>	<b>189.2</b>	<b>214.3</b>
<b>EBIT</b>	<b>(8.3)</b>	<b>(4.0)</b>	<b>4.4</b>	<b>72.2</b>	<b>96.2</b>	<b>Annual Production (kt)</b>					
Other Income & Expenses	-	-	(7.2)	(15.0)	(14.6)		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
<b>Profit before Income Tax</b>	<b>(8.3)</b>	<b>(4.0)</b>	<b>(2.9)</b>	<b>57.2</b>	<b>81.5</b>	Premium Zircon	-	-	10.2	30.2	34.0
Income Tax Expense	-	-	-	-	(17.0)	Zircon Concentrate	-	-	16.2	47.9	54.0
<b>NPAT - Reported</b>	<b>(8.3)</b>	<b>(4.0)</b>	<b>(2.9)</b>	<b>57.2</b>	<b>64.6</b>	Rutile / HiTi	-	-	7.2	21.3	24.0
<b>Cashflow Statement (A\$M)</b>						Ilmenite	-	-	33.0	97.6	110.0
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E	<b>Total Production</b>	<b>-</b>	<b>-</b>	<b>66.6</b>	<b>197.0</b>	<b>222.0</b>
Operating EBITDA	(3.2)	(4.0)	14.5	92.5	116.5	<b>Key Metrics</b>					
Net Finance Income	0.0	-	(7.2)	(15.0)	(14.6)		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Income Tax Paid	-	-	-	-	(17.0)	AUD:US	0.70	0.75	0.74	0.74	0.74
Other	(5.7)	0.9	(9.6)	(9.9)	0.0	EPS	-0.01	0.00	0.00	0.05	0.06
<b>Net operating Cashflow</b>	<b>(8.9)</b>	<b>(3.1)</b>	<b>(2.3)</b>	<b>67.6</b>	<b>84.9</b>	DPS	0.00	0.00	0.00	0.05	0.06
Capex (Development, PP&E, other)	(0.0)	(230.9)	(86.2)	-	-	Yield	0.0%	0.0%	1.6%	24.9%	27.6%
Net Proceeds from Sales/Acquisitions	-	-	-	-	-	EBITDA Margin	0%	0%	23%	49%	54%
Payment for Exploration / Tenements	-	-	-	-	-	P/E	-27.19	-56.09	-78.05	3.92	3.47
Other Investing Cashflows	-	-	-	-	-	EV/EBITDA	-10.65	-47.56	13.48	1.99	1.48
<b>Net Cash from Investing Activities</b>	<b>(0.0)</b>	<b>(230.9)</b>	<b>(86.2)</b>	<b>-</b>	<b>-</b>	Free Cashflow Yield	-3.5%	-11.5%	-4.8%	29.7%	37.2%
Net Proceeds from Debt	-	130.9	86.2	-	(11.5)	<b>Valuation</b>					
Dividends Paid	-	-	(3.5)	(56.0)	(62.0)		A\$M		A\$/sh		
Proceeds from Issues of Shares	140.5	-	-	-	-	Discount Rate (%)	8.0%				
Other Financing Cashflows	(1.0)	-	-	-	-	Coburn Equity NPV (risked 0.8x)	\$497		\$0.44		
<b>Net Cash from Financing Activities</b>	<b>139.5</b>	<b>130.9</b>	<b>82.6</b>	<b>(56.0)</b>	<b>(73.5)</b>	Fungoni Project NPV (risked 0.4x)	\$16		\$0.01		
<b>Net Inc/Dec in Cash and Cash Equivalents</b>	<b>130.6</b>	<b>(103.1)</b>	<b>(5.8)</b>	<b>11.7</b>	<b>11.4</b>	Tajiri Project NPV (risked 0.4x)	\$77		\$0.07		
<b>Balance Sheet (A\$M)</b>						Corporate Overhead NPV LOM	-\$44		-\$0.04		
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E	<b>Total Current NPV (A\$M)</b>	<b>\$546</b>	<b>\$0.48</b>			
<b>Cash &amp; Cash Equivalents</b>	<b>137.3</b>	<b>34.1</b>	<b>28.3</b>	<b>39.9</b>	<b>51.4</b>	Exploration Upside (A\$M)	\$26		\$0.02		
Other Current Assets	0.4	0.4	10.0	20.0	20.0	Cash & Cash Equivalents (A\$M)*	\$17		\$0.01		
<b>Total Current Assets</b>	<b>137.7</b>	<b>34.5</b>	<b>38.3</b>	<b>59.9</b>	<b>71.4</b>	Listed Investments	\$1		\$0.00		
Development Assets	-	207.8	275.7	256.4	237.1	<b>Total Valuation (A\$M)</b>	<b>\$44</b>	<b>\$0.04</b>			
Property, Plant & Equipment	0.5	23.6	31.7	30.7	29.6	Fully Diluted Shares On Issue (million)	1,140				
Exploration and Evaluation Expenditure	7.1	7.1	7.1	7.1	7.1	<b>Target Price (A\$/Share)</b>	<b>\$0.52</b>				
Other Non-Current Assets	0.9	0.9	0.9	0.9	0.9	* excludes cash committed to project development					
<b>Total Non-Current Assets</b>	<b>8.5</b>	<b>239.4</b>	<b>315.4</b>	<b>295.1</b>	<b>274.8</b>	<b>Coburn Project Annual Production (kt)</b>					
<b>Total Assets</b>	<b>146.1</b>	<b>273.9</b>	<b>353.7</b>	<b>355.0</b>	<b>346.1</b>	<b>Annual Revenue (A\$M)</b>					
Trade & Other Payables	1.1	2.0	2.0	2.1	2.1						
Provisions & Other Current Liabilities	0.4	0.4	0.4	0.4	0.4						
<b>Total Current Liabilities</b>	<b>1.5</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<b>2.4</b>	<p>Legend: Premium Zircon (dark blue), Zircon Concentrate (light blue), Rutile / HiTi (red), Ilmenite (grey)</p>					
Senior Debt	0.3	131.2	217.4	217.4	205.9	SOURCE: MORGANS RESEARCH, COMPANY					
Provisions & Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0						
<b>Total Non-Current Liabilities</b>	<b>0.3</b>	<b>131.2</b>	<b>217.4</b>	<b>217.4</b>	<b>205.9</b>						
<b>Total Liabilities</b>	<b>1.8</b>	<b>133.6</b>	<b>219.8</b>	<b>219.8</b>	<b>208.4</b>						
<b>Total Equity</b>	<b>144.4</b>	<b>140.4</b>	<b>134.0</b>	<b>135.2</b>	<b>137.8</b>						

## Key changes to forecasts

We have reduced production volume assumptions slightly in FY23 reflecting the final investment decision coming in one quarter later than expected. Commodity forecasts have been updated to reflect the latest available information in the market for the coming five-year period. The only other change to our valuation has been additional dilution from the equity raising.

The impact on our forecasts is presented in the table below.

<b>Figure 2: Changes to forecasts</b>				
	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Revenue previous	0.0	0.0	97.6	190.2
Revenue revised	0.0	0.0	63.5	189.6
Change (%)		-	(34.9%)	(0.3%)
EBITDA - previous	-8.2	-4.0	26.0	93.1
EBITDA - revised	-8.2	-4.0	14.5	92.5
Change (%)		(0.6%)	(44.1%)	(0.6%)
NPAT - previous	-8.3	-4.0	-1.5	56.5
NPAT - revised	-8.3	-4.0	-2.9	57.2
Change (%)		(1.3%)	(93.1%)	1.4%
<b>Key Assumptions</b>				
AUD	0.70	0.75	0.74	0.74
Premium Ziron (tpa)	0	0	10	30
Zircon Con (tpa)	0	0	16	48
Rutile (tpa)	0	0	7	21
Ilmenite (tpa)	0	0	33	98

SOURCES: MORGANS, COMPANY REPORTS

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