

Strandline Resources

Quiet progress toward key agreements

ADD (no change)

Current price:	A\$0.20
Target price:	A\$0.39 ▲
Previous target:	A\$0.38
Up/downside:	95.0%
Reuters:	STA.AX
Bloomberg:	STA AU
Market cap:	US\$81.32m
	A\$104.6m
Average daily turnover:	US\$0.13m
	A\$0.18m
Current shares o/s	426.8m
Free float:	60.0%

- We refresh on STA and include value for Tajiri for the first time.
- Other key changes to valuation are reduced dividend forecasts (to retain cash for Tanzanian projects) and near term FX rates.
- STA is yet to announce a commercial debt agreement to go with the committed A\$150m from NAIF, but we understand several proposals are being progressed.
- Our forecast EBITDA for STA of A\$100m pa is essentially equal to market cap.
- We retain our ADD rating on STA, with a target price of A\$0.39/share.

Coburn: Progressing towards development

During the December quarter STA announced a number of key contracts for Coburn including power, port access and an EPC package for construction. These agreements are generally key to the finalising of debt financing and we see this progress as promising, though STA did not meet its self-imposed deadline of Christmas to announce a full debt facility. While disappointing, we understand the company is driving hard on terms. We also note facilities of this type are often slow to finalise where two parties are involved, though simpler to administer in the longer term.

Quality partners at Coburn

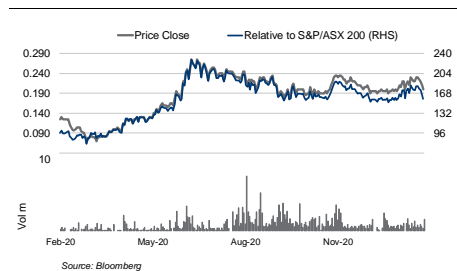
STA has secured take or pay offtake for the bulk of its early production (circa 72% of forecast revenue over the first five years). Offtakes cover 100% of ilmenite (low grade titanium) and zircon concentrates and the bulk of the premium zircon. They are spread across high quality counterparties in Europe, USA and China. Holding back offtake for part of the premium zircon and all of the rutile (high grade titanium) appears strategic, giving STA a carrot to dangle for development funding support. Primero Group, in partnership with Mineral Technologies (MT), has been appointed as the preferred contractor for project construction. The inclusion of MT is key to our comfort given they manufacture much of the equipment used in the processing and have deep experience in mineral sands processing.

Tanzanian projects

While limited value is being assigned to these projects in the market, Fungoni is a small scale starter project with high margins and a low capex estimated. Tajiri had a scoping study released in the December quarter, showing pretax NPV(10%) of US\$205m and a 23 year mine life. While we allocate nominal value to these projects, Tajiri in particular has the potential to be the next growth centre for STA post Coburn development.

Our view and valuation

A quiet quarter for STA which seems to have resulted in some loss of momentum in the share price, though progress at Coburn is clear to us. We are waiting for a final investment decision (FID) by the board, which is dependent upon conclusion of the debt negotiations. We would anticipate those negotiations are well advanced. Conclusion of debt and a final FID for Coburn would be key to begin unwinding our P/NAV discount on Coburn, currently at 0.6x. We retain our ADD recommendation and a price target of 39cps.



Price performance	1M	3M	12M
Absolute (%)	2.6	-4.8	66.7
Relative (%)	0.3	-12	70.4

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Financial Summary	Jun-21F	Jun-22F	Jun-23F	Jun-24F	Jun-25F
Revenue (A\$m)	0.0	27.1	159.7	200.3	197.9
Operating EBITDA (A\$m)	(4.0)	0.9	64.0	102.6	100.4
Net Profit (A\$m)	(4.00)	(7.41)	31.11	65.27	53.08
Normalised EPS (A\$)	(0.004)	(0.008)	0.034	0.070	0.057
Normalised EPS Growth	(78%)	85%	110%	(19%)	
FD Normalised P/E (x)	NA	NA	5.96	2.84	3.49
DPS (A\$)	-	-	0.015	0.042	0.036
Dividend Yield	0.0%	0.0%	7.7%	21.2%	18.2%
EV/EBITDA (x)	NA	211.4	2.6	1.5	1.5
P/FCFE (x)	NA	NA	8.07	5.18	5.17
Net Gearing	(1.1%)	(0.4%)	(18.7%)	(20.0%)	(23.2%)
P/BV (x)	1.71	1.83	1.57	1.29	1.13
ROE	(6.6%)	(7.1%)	28.4%	49.8%	34.5%
% Change In Normalised EPS Estimates	0.0%	(16.0%)	(10.5%)	(0.2%)	(1.9%)
Normalised EPS/consensus EPS (x)	0.27	1.14	0.84		

SOURCE: MORGANS, COMPANY REPORTS

Strandline Resources

as at February 16, 2021

Market cap (A\$m):	104.6	Rating:	ADD
Shares outstanding (m):	426.8	Price (A\$):	0.20
Free float (%):	60.0	Target price (A\$):	0.39
Website:	www.strandline.com.au	Upside/downside to target price (%):	95.0

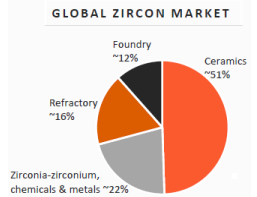
Company description

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

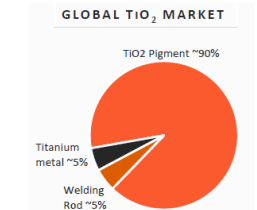
Zircon:

- 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



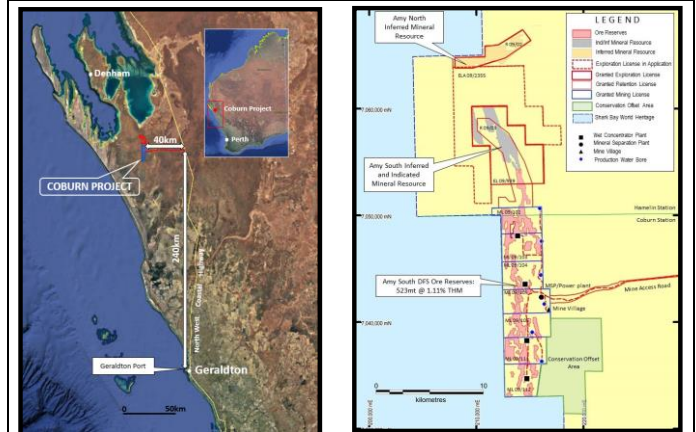
Titanium (Ti / TiO2):

- 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

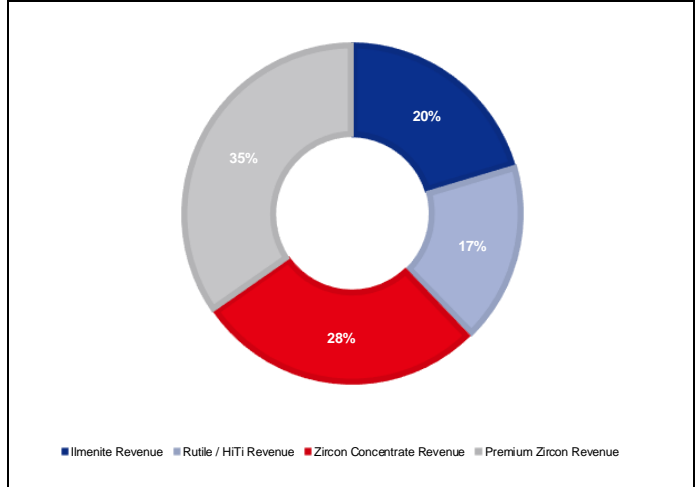
- Head grade and commodity make up of each project vary significantly
- Final product also varies (mixed concentrate, partial segregation or final products)
- Market cap or EV to grade ratios difficult to compare between projects as a result

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 2.4x (on Morgans assumptions)
- Coburn is a first quartile project able to ride pricing cycles ahead of its peers

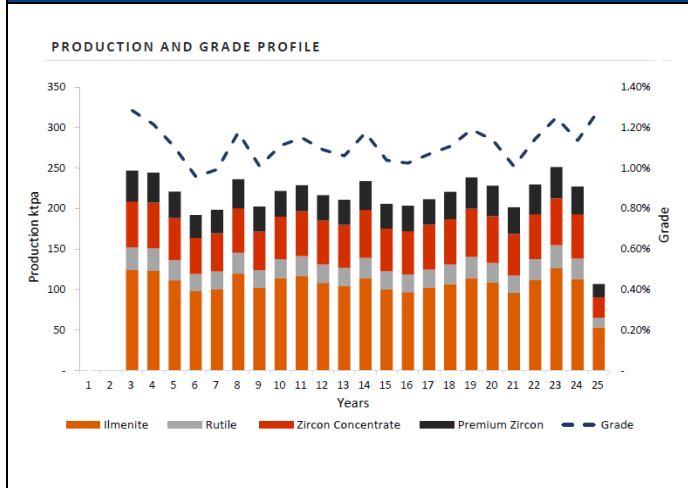
Source: Morgans

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
- Securing Project funding
- Project Development and ramp up

Upcoming Catalysts

- Finalising debt funding package
- Further offtake announcements
- Final investment decision on Coburn Development

Industry Divers

- AUD:USD Exchange Rate
- Product demand is largely consumer/construction driven (pigments and ceramics)

Source: Morgans

Figure 1: Financial summary

STA						Mining and Metals					
Income statement (A\$M)						Revenue by Product (A\$M)					
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Sales Revenue	-	27.1	159.7	200.3	197.9	Premium Zircon	-	9.4	55.6	70.5	69.5
Operating Costs	-	(22.3)	(91.6)	(93.6)	(93.5)	Zircon Concentrate	-	7.4	44.2	56.0	55.2
Other Income/Costs	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	Rutile / HiTi	-	5.1	28.8	34.9	34.3
EBITDA	(4.0)	0.9	64.0	102.6	100.4	Ilmenite	-	5.3	30.9	38.6	38.6
Depreciation & Amortisation	-	(5.0)	(20.0)	(20.0)	(20.0)	Sales Revenue	-	27.1	159.6	200.1	197.6
EBIT	(4.0)	(4.1)	44.0	82.6	80.3	Annual Production (kt)					
Other Income & Expenses	-	(3.3)	(12.9)	(10.1)	(6.7)		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Profit before Income Tax	(4.0)	(7.4)	31.1	72.5	73.6	Premium Zircon	-	4.7	27.2	34.0	34.0
Income Tax Expense	-	-	-	(7.2)	(20.5)	Zircon Concentrate	-	7.4	43.2	54.0	54.0
NPAT - Reported	(4.0)	(7.4)	31.1	65.3	53.1	Rutile / HiTi	-	3.3	19.2	24.0	24.0
Cashflow Statement (A\$M)						Ilmenite	-	15.1	88.0	110.0	110.0
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E	Total Production	-	30.5	177.6	222.0	222.0
Operating EBITDA	(4.0)	0.9	64.0	102.6	100.4	Key Metrics					
Net Finance Income	-	(3.3)	(12.9)	(10.1)	(6.7)		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Income Tax Paid	-	-	-	(7.2)	(20.5)	AUD:US	0.75	0.74	0.74	0.74	0.74
Other	-	1.5	1.6	(0.0)	0.0	EPS	0.00	-0.01	0.03	0.07	0.06
Net operating Cashflow	(4.0)	(0.9)	52.8	85.3	73.1	DPS	0.00	0.00	0.02	0.04	0.04
Capex (Development, PP&E, other)	(114.9)	(194.4)	-	-	-	Yield	0.0%	0.0%	7.5%	20.7%	17.7%
Net Proceeds from Sales/Acquisitions	-	-	-	-	-	EBITDA Margin	0%	3%	40%	51%	51%
Payment for Exploration / Tenements	-	-	-	-	-	P/E	-46.34	-25.02	5.96	2.84	3.49
Other Investing Cashflows	-	-	-	-	-	EV/EBITDA	-46.03	211.39	2.55	1.53	1.47
Net Cash from Investing Activities	(114.9)	(194.4)	-	-	-	Free Cashflow Yield	-1.9%	-10.5%	27.2%	43.9%	37.6%
Net Proceeds from Debt	14.9	194.4	(16.8)	(39.2)	(30.3)	Valuation					
Dividends Paid	-	-	(14.3)	(39.3)	(33.7)		A\$M	A\$/sh			
Proceeds from Issues of Shares	100.0	-	-	-	-	Discount Rate (%)		8.0%			
Other Financing Cashflows	-	-	-	-	-	Coburn Equity NPV (risked 0.6x)	\$278	\$0.29			
Net Cash from Financing Activities	114.9	194.4	(31.1)	(78.6)	(64.0)	Fungoni Project NPV (risked 0.4x)	\$16	\$0.02			
Net Inc/Dec in Cash and Cash Equivalents	(4.0)	(0.9)	21.7	6.7	9.1	Tajiri Project NPV (Risked 0.4x)	\$77	\$0.08			
Balance Sheet (A\$M)						Corporate Overhead NPV LOM	-\$44	-\$0.05			
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E	Total Current NPV (A\$M)	\$326	\$0.34			
Cash & Cash Equivalents	1.2	0.4	22.0	28.7	37.9	Exploration Upside (A\$M)	\$27	\$0.03			
Other Current Assets	0.2	0.2	0.8	0.9	0.9	Cash & Cash Equivalents (A\$M)	\$17	\$0.02			
Total Current Assets	1.5	0.6	22.8	29.6	38.7	Listed Investments	\$1	\$0.00			
Development Assets	103.4	273.7	254.6	235.6	216.5	Total Valuation (A\$M)	\$46	\$0.05			
Property, Plant & Equipment	11.5	30.7	29.7	28.7	27.7	Fully Diluted Shares On Issue (million)		948			
Exploration and Evaluation Expenditure	7.6	7.6	7.6	7.6	7.6	Target Price (A\$/Share)		\$0.39			
Other Non-Current Assets	0.2	0.2	0.2	0.2	0.2	Coburn Project Annual Production (kt)					
Total Non-Current Assets	122.7	312.1	292.1	272.0	252.0		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Total Assets	124.2	312.8	314.9	301.7	290.7						
Trade & Other Payables	0.5	2.0	4.2	4.2	4.2						
Provisions & Other Current Liabilities	0.1	0.1	0.1	0.1	0.1						
Total Current Liabilities	0.6	2.1	4.3	4.3	4.3						
Senior Debt	14.9	209.4	192.5	153.3	123.0						
Provisions & Other Non-Current Liabilities	-	-	-	-	-						
Total Non-Current Liabilities	14.9	209.4	192.5	153.3	123.0						
Total Liabilities	15.6	211.5	196.8	157.6	127.3						
Total Equity	108.7	101.3	118.1	144.0	163.4						
Annual Revenue (A\$M)											
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E						

SOURCE: MORGANS RESEARCH, COMPANY

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