



## Strandline Resources Ltd (STA.ASX)

NAIF'ed it

### Event:

- **NAIF approval for Coburn; Price target upgrade.**

### Investment Highlights:

- **NAIF to provide \$150M debt.** Strandline Resources Ltd (STA) announced the Northern Australia Infrastructure Fund (NAIF) has made an investment decision to provide a \$150M two-tranche facility for development of the Coburn project. Term of the facility is 15.5 years, more than amply backed by the project's long life supported by JORC Reserves.
- **\$130M first tranche for project construction.** \$130M of the first tranche will be allocated to the \$260M project capex, with the second tranche of \$20M for a potential future road linking Coburn more directly to Denham in Shark Bay, which can provide Coburn with convenient access to the town's local workforce.
- **Commercial debt now the next major milestone.** We believe STA is currently negotiating with banks, specialist funds, and other debt instrument providers as it seeks to wrap up the complete debt funding solution for Coburn. This would then pave the way to determine its equity requirement for project development. STA expects the NIAF facility to stand alongside any commercial debt. Conditions precedent include Federal Minister and State approvals and closing of outstanding funding for Coburn.
- **We assume a balance of \$180M in funding to be secured.** With the \$130M from NAIF secured for project capex, we assume a further \$70M in debt plus \$110M in equity to be secured by STA to fully undertake Coburn construction. This would bring total funding to \$310M (\$200M debt + \$110M equity), which would cover the \$260M Coburn capex plus corporate costs, working capital, and general buffer.
- **Tracking for FID in October 2020.** We believe STA is still on track for Coburn FID by October, by which time it should have closed its debt financing and its equity requirements.

### Earnings and Valuation:

- **Valuation increases to \$0.39 from \$0.36.** Given the recent rally in the STA share price following the Revised DFS and the NAIF debt announcements, we have assumed a less dilutive equity raising, which has increased our valuation and EPS forecasts.

### Recommendation:

- **We maintain our Buy and increase 12-month PT to \$0.39 from \$0.36, in-line with our risked NPV<sub>10</sub>.**
- **Catalysts for the share price include:** 1) Remaining Coburn offtake agreements; 2) Commercial debt financing for Coburn; 3) Coburn FID; 4) Commencement of Coburn construction; 5) Start of production; and 6) Progress on Fungoni.

### Disclosures

The analyst owns 156,000 STA shares.  
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 978,944 STA shares.  
Cranport Pty Ltd owns 7,973,013 STA shares.  
Refer details end of report.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.39			
Previous	\$0.36			
Share price (A\$)	\$ 0.245			
ASX code	STA			
52 week low-high	\$0.067-\$0.26			
Valuation (A\$/share)	\$ 0.39			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	427			
Market cap (A\$M)	105			
Net cash (debt) (A\$M)	7			
Performance rights (M)	19			
Options (M)	11			
Diluted EV (A\$M)	105			
Ave daily volume ('000)	285			
Earnings Y/e Jun A\$M				
	FY19a	FY20e	FY21e	FY22e
Sales	0	0	0	10
EBITDA adj	-8	-8	-9	-20
NPAT reported	-7	-7	-8	-34
NPAT adj	-8	-7	-8	-34
EPS adj. \$*	-0.03	-0.02	-0.01	-0.03
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm

\* Adj =underlying

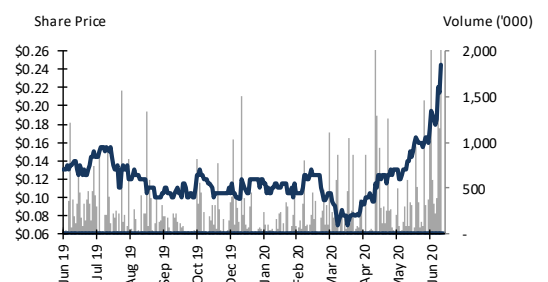
### Substantial shareholders

Ndovu Capital VII BV & Tembo Capital Mining Fund IILP	37%
C&H International Investment Ltd	8%

### Board

Didier Murcia	Non-Executive Chairman
Luke Graham	CEO and Managing Director
Peter Watson	Executive Director
John Hodder	Non-Executive Director
Tom Eadie	Non-Executive Director

### Share price graph



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## Strandline Resources (STA)

Full Year Ended 30 June

Profit and Loss A\$M	2019a	2020e	2021e	2022e
Revenue	0	0	0	10
Operating Costs adj.	8	8	9	29
<b>EBITDA adj.</b>	<b>-8</b>	<b>-8</b>	<b>-9</b>	<b>-20</b>
D&A	0	0	0	3
<b>EBIT adj.</b>	<b>-8</b>	<b>-8</b>	<b>-9</b>	<b>-23</b>
Net Interest exp / (income)	0	0	0	11
<b>PBT adj.</b>	<b>-8</b>	<b>-7</b>	<b>-8</b>	<b>-34</b>
Tax exp / (benefit) adj.	0	0	0	0
<b>NPAT adj.</b>	<b>-8</b>	<b>-7</b>	<b>-8</b>	<b>-34</b>
Non-recurring items	1	0	0	0
<b>NPAT reported</b>	<b>-7</b>	<b>-7</b>	<b>-8</b>	<b>-34</b>

<b>EPS diluted (\$)</b> adj.	<b>-0.03</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.03</b>
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Cashflow A\$M	2019a	2020e	2021e	2022e
EBITDA adj.	-8	-8	-9	-20
Change in WC	0	0	0	1
Tax paid	0	0	0	0
Other	1	1	1	1
Net interest	0	0	0	-11
Share based payments	1	1	1	1
<b>Operating Cashflow</b>	<b>-7</b>	<b>-6</b>	<b>-7</b>	<b>-29</b>

Purchase of PP&E	0	0	0	0
Acquisitions	0	0	0	0
Capitalised expenses	0	0	-171	-89
Investments	0	0	0	0
<b>Investing Cashflow</b>	<b>0</b>	<b>0</b>	<b>-171</b>	<b>-89</b>

Equity issue	9	7	109	0
Debt proceeds	0	0	202	0
Debt repayments	0	0	0	0
Other	0	0	0	0
<b>Financing Cashflow</b>	<b>8</b>	<b>7</b>	<b>310</b>	<b>0</b>

<b>Net Cashflow</b>	<b>2</b>	<b>1</b>	<b>132</b>	<b>-118</b>
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Balance Sheet A\$M	2019a	2020e	2021e	2022e
Cash	6	7	139	21
Receivables	0	0	0	1
PPE	0	0	0	257
Capitalised exploration	7	7	178	7
Intangibles	0	0	0	0
Other	0	0	0	0
<b>Total Assets</b>	<b>14</b>	<b>14</b>	<b>318</b>	<b>287</b>

Accounts payable	1	1	1	2
Provisions	0	1	1	2
Debt	0	0	202	202
Other	0	1	2	2
<b>Total Liabilities</b>	<b>1</b>	<b>2</b>	<b>205</b>	<b>208</b>

Reserves and capital	79	85	194	194
Retained earnings	-65	-73	-81	-115
<b>Total Equity</b>	<b>13</b>	<b>12</b>	<b>112</b>	<b>78</b>

Capital structure	M
Ordinary shares	426.8
Performance rights	18.9
Options	10.5
<b>Fully diluted</b>	<b>456.2</b>

Financial Metrics	2019a	2020e	2021e	2022e
Sales growth %	nm	nm	nm	nm
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	nm	-205%
EBIT margin	nm	nm	nm	-235%
Gearing (ND/ND+E)	nm	nm	36%	70%
Interest Cover (EBIT/net int)	nm	nm	nm	-2x
Average ROE %	nm	nm	nm	nm
Average ROA %	nm	nm	nm	-7%
Wtd ave shares (M)	297	387	1140	1140
Wtd ave share diluted (M)	297	417	1170	1170

Valuation multiples	2019a	2020e	2021e	2022e
P/E x	nm	nm	nm	-8.4
EV/EBITDA x	nm	nm	nm	-5.5

### Company Valuation

DCF, WACC 10% nominal

Segment	Unrisked		Risked	
	A\$M	A\$/sh	A\$M	A\$/sh
Coburn	423	\$0.35	293	\$0.30
Fungoni	39	\$0.03	29	\$0.03
Corporate	-57	-\$0.05	-40	-\$0.04
Tanzania exploration	12	\$0.01	12	\$0.01
Net cash (debt)	7	\$0.01	7	\$0.01
Cash from in money options	2	\$0.00	2	\$0.00
Cash from future equity	109	\$0.09	76	\$0.08
<b>Total</b>	<b>535</b>	<b>\$0.44</b>	<b>379</b>	<b>\$0.39</b>
Shares now M	427		427	
Performance rights M	19		13	
Options-in-money at valuation M	11		7	
Shares future issue M	753		526	
<b>Full diluted shares M</b>	<b>1,210</b>		<b>973</b>	

### Commodity Assumptions

Prices (US\$/t)	2019a	2020e	2021e	2022e
Zircon	-	1,495	1,474	1,462
Rutile	-	1,165	1,165	1,165
Ilmenite - chloride grade	-	238	242	242
Rutile/HiTi	-	1,114	1,149	1,014
Monazite	-	1,430	1,427	1,456
A\$/U\$	0.73	0.69	0.70	0.72

### Shipments (kt)

Zircon	0	0	0	0
Zircon concentrate	0	0	0	0
HiTi90	0	0	0	0
Ilmenite	0	0	0	0
HMC	0	0	0	14
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14</b>

<b>Revenue to cost ratio</b>	0	-	-	0.5
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### Segment Contribution

	2019a	2020e	2021e	2022e
Coburn	-	-	-	10
Fungoni	-	-	-	0
<b>Sales</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10</b>
Coburn	-	-	-	-13
Fungoni	-	-	-	0
Corporate	-8	-8	-9	-10
<b>Group EBIT</b>	<b>-8</b>	<b>-8</b>	<b>-9</b>	<b>-23</b>

Source: Company; Foster Stockbroking estimates

## FOSTER STOCKBROKING DISCLOSURES

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**Specific disclosure:** The analyst owns 156,000 STA shares at the time of this report. Diligent care has been taken care by the analyst to maintain honesty and fairness in writing the report and making the recommendation.

**Specific disclosure:** Foster Stockbroking personnel, including the analyst, attended an STA site visit in November 2019 for which STA paid for their flights, accommodation, and meals.

**Specific disclosures:** As of close of business 22 June 2020, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 978,944 STA shares and Cranport Pty Ltd owns 7,973,013 STA shares. The position may change at any time and without notice, including on the day that this report has been released. Foster Stockbroking and its employees may from time to time own shares in STA, and trade them in ways different from those discussed in research. Foster Stockbroking may also make a market in securities of STA, including buying and selling securities on behalf of clients.

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**Disclosure review.** All the disclosures in the report have been reviewed and checked by Rob Telford, Corporate.

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