



Strandline Resources Ltd (STA.ASX)

Construction progresses as commission date reaffirmed

Event:

- June 2021 quarterly.

Investment Highlights:

- Coburn construction ramps up.** Following the \$338M equity and debt funding secured in March and April and FID, the June quarter was the first in which STA began construction in earnest on Coburn. Activities in the period included installation of camp, main access road build, bulk earthworks clearing, and water bores commissioning. Major contracts have been secured (including mining, earthworks, power), and order and manufacturing of key equipment (processing and mining) progressed.
- 4QCY22 target for production reiterated.** STA reiterated its December CY22 quarter target for first HMC production, signaling that the early days so far on construction, orders, and contracting are progressing to budget.
- Tanzanian commentary and environment more positive.** We noted STA commented on progress of its Framework Agreement with the Tanzania Government, occurring against a backdrop of Special Mining Licenses (SMLs) being recently awarded to other parties. This bodes well both for finalising Fungoni agreement and securing a SML for Tajiri.
- Regulatory ticks prelude to commercialisation and strategic partnering.** STA noted it has been in discussions with strategic partners concerning project equity interest, offtake, and/or funding for its Tanzania assets. We believe these can accelerate to a successful conclusions once the Framework Agreement is finalised.
- Strong mineral sands environment providing tailwind for commissioning.** Iluka Resources (ILU) quarterly noted zircon price increase of US\$125/t (ca. +10%) in July, while China tile manufacturing had returned to pre-pandemic levels. Meanwhile, uncertainty over Sierra Rutile production, Richards Bay force majeure, and delay in Toliara FID has squeezed current and future supply. STA stands to benefit from commissioning Coburn in positive market environment, while potentially facilitating realising value for Tanzania.
- 100% of offtake secured.** Following the agreement with Mario Pilato BLAT, STA has now secured diverse binding offtakes for 100% of its Coburn products across Europe, USA, and China.
- Cash of \$116M end quarter and fully funded to production.** STA ended the quarter with \$116M (including \$6M escrowed). Undrawn debt comprised \$150M NAIF and \$77M bond. Capex spend on Coburn was \$11M, with balance of ca. \$250M well covered by cash and debt facilities.

Earnings and Valuation:

- No changes to our forecast earnings or valuation of \$0.52/share (0.8 x NPV₁₀).

Recommendation:

- We maintain our Buy and 12-month PT of \$0.52, in-line with our risked share valuation.
- Catalysts for the share price include: 1) Rising mineral sand prices; 2) Coburn construction progress; 3) First HMC production; 4) Progress on Tanzanian assets; and 5) Coburn extension PFS.

Disclosures

The analyst owns 265,500 STA shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 1,765,500 STA shares.
Cranport Pty Ltd owns 6,933,617 STA shares.
Refer details end of report.

Foster Stockbroking acted as Co-Manager and Sub-Underwriter to the \$122M placement and entitlement offer of 593M STA shares at \$0.205 in March 2021, for which it received fees.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.52			
Previous	\$0.52			
Share price (A\$)	\$ 0.205			
ASX code	STA			
52 week low-high	\$0.168-\$0.298			
Valuation - risked (A\$/share)	\$ 0.52			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	1,116			
Market cap (A\$M)	229			
Net cash (debt) (A\$M)	114			
Performance rights (M)	14			
Options (M)	11			
Diluted EV (A\$M)	120			
Ave daily volume ('000)	2,135			
Earnings Y/e Jun A\$M	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	45
EBITDA adj	-8	-13	-14	7
NPAT reported	-8	-13	-12	-10
NPAT adj	-8	-13	-12	-10
EPS adj. \$*	-0.02	-0.02	-0.01	-0.01
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm

* Adj =underlying

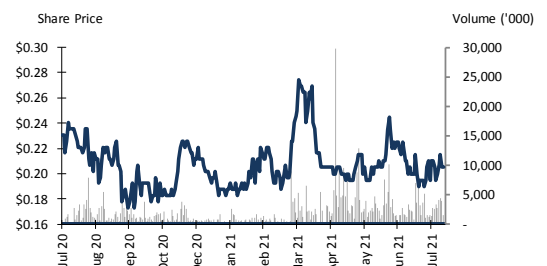
Substantial shareholders

Ndovu Capital VII BV (Tembo)	21%
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Board

Didier Murcia	Non-Executive Chairman
Luke Graham	CEO and Managing Director
Peter Watson	Executive Director
John Hodder	Non-Executive Director
Mark Hancock	Non-Executive Director
Alexandra Atkins	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	2020a	2021e	2022e	2023e
Revenue	0	0	0	45
Operating Costs adj.	8	13	14	37
EBITDA adj.	-8	-13	-14	7
D&A	0	0	0	3
EBIT adj.	-8	-13	-14	5
Net Interest exp / (income)	0	0	-2	14
PBT adj.	-8	-13	-12	-9
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	-8	-13	-12	-9
Non-recurring items	0	0	0	0
NPAT reported	-8	-13	-12	-9

EPS diluted (\$) adj.	-0.02	-0.02	-0.01	-0.01
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Cashflow A\$M	2020a	2021e	2022e	2023e
EBITDA adj.	-8	-13	-14	7
Change in WC	0	1	0	-2
Tax paid	0	0	0	0
Other	0	1	1	1
Net interest	0	0	2	-14
Share based payments	1	1	1	1
Operating Cashflow	-7	-10	-10	-6

Purchase of PP&E	0	-2	-2	0
Acquisitions	0	0	0	0
Capitalised expenses	0	-11	-160	-89
Investments	0	0	0	0
Investing Cashflow	0	-12	-162	-89

Equity issue	6	140	0	0
Debt proceeds	0	3	210	0
Debt repayments	0	0	0	0
Other	0	-15	6	0
Financing Cashflow	6	127	216	0

Net Cashflow	-1	105	44	-95
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Balance Sheet A\$M	2020a	2021e	2022e	2023e
Cash	5	111	155	60
Receivables	0	0	0	4
PPE	0	2	0	260
Capitalised exploration	8	18	179	0
Intangibles	0	0	0	0
Other	0	14	9	13
Total Assets	13	144	342	336

Accounts payable	0	1	1	3
Provisions	0	1	1	3
Debt	0	3	213	213
Other	0	0	0	0
Total Liabilities	1	5	215	218

Reserves and capital	86	226	226	226
Retained earnings	-74	-87	-99	-108
Total Equity	13	140	127	118

Capital structure	M
Ordinary shares	1,116
Performance rights	14
Options	11
Fully diluted	1,141

Financial Metrics	2020a	2021e	2022e	2023e
Sales growth %	nm	nm	nm	nm
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	nm	17%
EBIT margin	nm	nm	nm	10%
Gearing (ND/ND+E)	nm	nm	31%	56%
Interest Cover (EBIT/net int)	nm	nm	nm	0x
Average ROE %	nm	nm	nm	-8%
Average ROA %	nm	nm	nm	1%
Wtd ave shares (M)	387	664	1116	1116
Wtd ave share diluted (M)	417	689	1141	1141

Valuation multiples	2020a	2021e	2022e	2023e
P/E x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm

Company Valuation				
DCF, WACC 10% nominal				
Segment	Unrisked	Unrisked	Risked	Risked
	A\$M	A\$/sh	A\$M	A\$/sh
Coburn Reserves	370	\$0.32	352	\$0.31
Coburn Expansion	95	\$0.08	71	\$0.06
Fungoni (84%)	26	\$0.02	17	\$0.01
Tajiri (84%)	152	\$0.13	76	\$0.07
Corporate	-50	-\$0.04	-45	-\$0.04
Other Tanzania exploration	15	\$0.01	5	\$0.00
Net cash (debt)	114	\$0.10	114	\$0.10
Cash from in money options	2	\$0.00	2	\$0.00
Total	724	\$0.63	591	\$0.52

Shares now M	1,116
Performance rights M	14
Options-in-money at valuation M	11
Fully diluted shares M	1,140

Commodity Assumptions	2020a	2021e	2022e	2023e
Prices (US\$/t)				
Zircon	1,505	1,475	1,495	1,497
Ilmenite - chloride grade	220	221	223	229
Rutile/HiTi	1,145	1,169	1,186	1,221
Monazite	1,430	1,427	1,456	1,485
A\$/U\$	0.69	0.70	0.75	0.75

Shipments (kt)				
Zircon	0	0	0	9
Zircon concentrate	0	0	0	14
HiTi90	0	0	0	6
Ilmenite	0	0	0	28
Total	0	0	0	56

Revenue to C1 cost ratio	0.0	0.0	0.0	2.3
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Segment Contribution	2020a	2021e	2022e	2023e
Coburn	0	0	0	45
Tanzania	0	0	0	0
Sales	0	0	0	45
Coburn	0	0	0	0
Tanzania	0	0	0	0
Corporate & expl'n	-8	-8	-13	-14
Group EBIT	-8	-8	-13	-14

Source: Company; Foster Stockbroking estimates



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Specific disclosure: Foster Stockbroking acted as Co-Manager and Sub-Underwriter to the \$122M placement and entitlement offer of 593M STA shares at \$0.205 in March 2021, for which it received fees.

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Review disclosure: The report was authored by the analyst named on the front page of the report and was reviewed and checked by Matthew Chen, Research Analyst.

Disclosure review. All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance.