



## Strandline Resources Ltd (STA.ASX)

*Finish line tantalisingly close*

### Event:

- December 2020 quarterly report; PT change.

### Investment Highlights:

- Commercial debt still under negotiations.** The key highlight of the quarterly was always going to be any update on the finalisation of commercial debt – the major outstanding piece prior to Coburn FID. STA stated that discussions were still continuing with specialist mining funds, investment banks, and secured bond issuers, reiterating its expectation of a facility up to A\$100M with 5-7 year tenor. Together with the \$130M NAIF facility, STA expects this collective debt to fund the majority of the \$260M project capex.
- All major contracts awarded.** The company highlighted recent awards of various contracts, the last covering key areas such as port access, power, fuel, EPC, and FEED, and added to the previous bulk earthworks and mining contracts.
- Tanzania framework progressing.** The company is progressing resolving the government's proposed 16% interest in Fungoni via the previously announced Framework Agreement. While incurring delays due to COVID and the recent national elections, progress has resumed.
- Cash buffer sound.** STA ended the quarter with \$17.3M cash and nil debt after net free cash outflows of -\$2.9M. Key expenditure included FEED, earthworks, and production control drilling. Given immaterial expenditures in near term prior to FID, we expect cash should adequately cover STA's commitments for a number of quarters, during which we expect commercial debt and Coburn FID to be finalised.
- Tajiri scoping study highlights third advanced project.** Key attractive results from STA's October 2020 scoping study on Tajiri were NPV<sub>10</sub> pre-tax of US\$205M, IRR 36%, 23.4 year LOM, and revenue to C1 cost ratio of 2.4x. Tajiri now adds to Coburn and Fungoni as a third key advanced project for STA.

### Earnings and Valuation:

- We roll back our earnings forecasts by nine months due to the Coburn FID taking longer than expected.** We now forecast loss of -\$17M in FY22 (prior - \$34M) and -\$2M in FY23 (prior \$47M). We assume FID, financing, and construction start mid-CY2021, with commissioning at beginning CY23e.
- Risked share valuation rises to \$0.54 (0.75x NPV<sub>10</sub>) from \$0.53.** Our STA valuation is up to \$0.54 from \$0.53 with increase in Tanzania value due to accounting for the Tajiri scoping study, more than offsetting our assumed dilutive impact of future equity raising at \$0.25/share (\$0.29 previously), rollback of Coburn earnings, and higher long-term A\$ (US\$0.75 vs US\$0.73). Our unrisked STA share valuation (1.0x NPV<sub>10</sub>) has increased \$0.70 from \$0.66.

### Recommendation:

- We maintain our Buy and 12-month PT of \$0.54 (prior \$0.53), in-line with our risked share valuation.**
- 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) Coburn commissioning; and 6) Progress on Fungoni.

### Disclosures

The analyst owns 156,000 STA shares.  
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 156,000 STA shares.  
Cranport Pty Ltd owns 8,451,675 STA shares.  
Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
<b>Price Target</b>	<b>\$ 0.54</b>
Previous	\$0.53
<b>Share price (A\$)</b>	<b>\$ 0.23</b>
ASX code	STA
52 week low-high	\$0.067-\$0.29
<b>Valuation - risked (A\$/share)</b>	<b>\$ 0.54</b>
Methodology	risked NPV
Capital structure	
Shares on Issue (M)	523
Market cap (A\$M)	120
Net cash (debt) (A\$M)	17
Performance rights (M)	14
Options (M)	11
Diluted EV (A\$M)	109
Ave daily volume ('000)	880

Earnings Y/e Jun A\$M	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	44
EBITDA adj	-8	-9	-10	11
NPAT reported	-8	-9	-17	-2
<b>NPAT adj</b>	<b>-8</b>	<b>-9</b>	<b>-17</b>	<b>-2</b>
<b>EPS adj. \$*</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.02</b>	<b>0.00</b>
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm

\* Adj =underlying

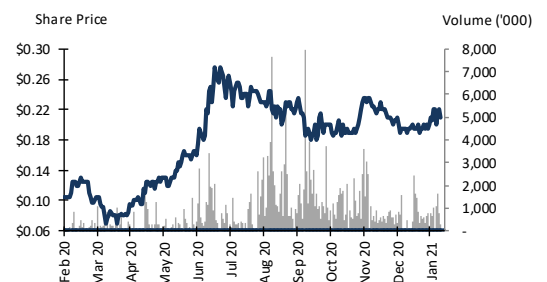
### Substantial shareholders

Ndovu Capital VII BV & Tembo Capital Mining Fund IILP	31%
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
Mark Hancock	Non-Executive Director
Tom Eadie	Non-Executive Director

### Share price graph



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Profit and Loss A\$M	2020a	2021e	2022e	2023e
Revenue	0	0	0	44
Operating Costs adj.	8	9	10	33
<b>EBITDA adj.</b>	<b>-8</b>	<b>-9</b>	<b>-10</b>	<b>11</b>
D&A	0	0	0	3
<b>EBIT adj.</b>	<b>-8</b>	<b>-9</b>	<b>-10</b>	<b>8</b>
Net Interest exp / (income)	0	0	7	11
<b>PBT adj.</b>	<b>-8</b>	<b>-9</b>	<b>-17</b>	<b>-2</b>
Tax exp / (benefit) adj.	0	0	0	0
<b>NPAT adj.</b>	<b>-8</b>	<b>-9</b>	<b>-17</b>	<b>-2</b>
Non-recurring items	0	0	0	0
<b>NPAT reported</b>	<b>-8</b>	<b>-9</b>	<b>-17</b>	<b>-2</b>
<b>EPS diluted (\$)</b> adj.	<b>-0.02</b>	<b>-0.01</b>	<b>-0.02</b>	<b>0.00</b>

Cashflow A\$M	2020a	2021e	2022e	2023e
EBITDA adj.	-8	-9	-10	11
Change in WC	0	0	0	-2
Tax paid	0	0	0	0
Other	0	0	0	0
Net interest	0	0	-7	-11
Share based payments	1	1	1	1
<b>Operating Cashflow</b>	<b>-7</b>	<b>-7</b>	<b>-15</b>	<b>0</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	6	117	0	0
Debt proceeds	0	182	0	0
Debt repayments	0	0	0	0
Other	0	0	0	0
<b>Financing Cashflow</b>	<b>6</b>	<b>299</b>	<b>0</b>	<b>0</b>
<b>Net Cashflow</b>	<b>-1</b>	<b>292</b>	<b>-186</b>	<b>-89</b>

Balance Sheet A\$M	2020a	2021e	2022e	2023e
Cash	5	297	111	22
Receivables	0	0	0	4
PPE	0	0	0	260
Capitalised exploration	8	8	179	0
Intangibles	0	0	0	0
Other	0	0	0	4
<b>Total Assets</b>	<b>13</b>	<b>305</b>	<b>290</b>	<b>290</b>
Accounts payable	0	1	1	3
Provisions	0	1	1	3
Debt	0	182	182	182
Other	0	1	2	1
<b>Total Liabilities</b>	<b>1</b>	<b>184</b>	<b>186</b>	<b>188</b>
Reserves and capital	86	203	203	203
Retained earnings	-74	-82	-99	-101
<b>Total Equity</b>	<b>13</b>	<b>121</b>	<b>104</b>	<b>102</b>

Capital structure	M
Ordinary shares	522.9
Performance rights	13.8
Options	10.5
<b>Fully diluted</b>	<b>547.2</b>

Financial Metrics	2020a	2021e	2022e	2023e
Sales growth %	nm	nm	nm	nm
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	nm	25%
EBIT margin	nm	nm	nm	19%
Gearing (ND/ND+E)	nm	nm	41%	61%
Interest Cover (EBIT/net int)	nm	nm	nm	1x
Average ROE %	nm	nm	nm	-2%
Average ROA %	nm	nm	nm	3%
Wtd ave shares (M)	387	552	959	959
Wtd ave share diluted (M)	417	577	984	984

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 A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh
Coburn Reserves	320	\$0.35	288	\$0.31
Coburn Expansion	90	\$0.10	63	\$0.07
Fungoni (84%)	24	\$0.03	16	\$0.02
Tajjiri (84%)	127	\$0.14	63	\$0.07
Corporate	-49	-\$0.05	-44	-\$0.05
Other Tanzania exploration	15	\$0.02	5	\$0.00
Net cash (debt)	17	\$0.02	17	\$0.02
Cash from in money options	2	\$0.00	2	\$0.00
Cash from future equity	98	\$0.11	88	\$0.10
<b>Total</b>	<b>644</b>	<b>\$0.70</b>	<b>497</b>	<b>\$0.54</b>

Shares now M	523
Performance rights M	14
Options-in-money at valuation M	11
Shares future issue M	378
<b>Full diluted shares M</b>	<b>926</b>

Commodity Assumptions	2020a	2021e	2022e	2023e
<b>Prices (US\$/t)</b>				
Zircon	1,500	1,448	1,459	1,469
Ilmenite - chloride grade	220	223	225	225
Rutile/HiTi	1,133	1,149	1,171	1,183
Monazite	1,430	1,427	1,456	1,485
A\$/U\$	0.69	0.70	0.75	0.75

Shipments (kt)	2020a	2021e	2022e	2023e
Zircon	0	0	0	9
Zircon concentrate	0	0	0	14
HiTi90	0	0	0	6
Ilmenite	0	0	0	28
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>56</b>

<b>Revenue to cost ratio</b>	0.0	0.0	0.0	2.0
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Segment Contribution	2020a	2021e	2022e	2023e
Coburn	0	0	0	44
Tanzania	0	0	0	0
<b>Sales</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>44</b>
Coburn	0	0	0	0
Tanzania	0	0	0	0
Corporate & expl'n	-8	-8	-9	-10
<b>Group EBIT</b>	<b>-8</b>	<b>-8</b>	<b>-9</b>	<b>-10</b>

Source: Company; Foster Stockbroking estimates



## DECEMBER 2020 QUARTERLY HIGHLIGHTS

### Commercial debt still under negotiation

- The key highlight of the quarterly was always going to be any update on the finalisation of commercial debt – the major outstanding piece prior to Coburn FID. STA stated that discussions were still continuing with specialist mining funds, investment banks, and secured bond issuers., with STA reiterating its expectation of a facility up to A\$100M with 5-7 year tenor. Together with the \$130M NIAF facility, STA expects this collective debt to fund the majority of the \$260M project capex.

### All major contracts awarded

- The company highlighted recent awards of various contracts, the last covering key areas such as port access, power, fuel, EPC, and FEED, and added to the previous bulk earthworks and mining contracts.

### Tanzania framework progressing

- The company is progressing resolving the government's proposed 16% interest in Fungoni via the previously announced Framework Agreement. While incurring delays due to COVID and the recent national elections, progress has resumed.

### Cash buffer sound

- STA ended the quarter with \$17.3M cash and nil debt after net free cash outflows of -\$2.9M. Key expenditure included FEED, earthworks, and production control drilling. Given immaterial expenditures expected prior to FID, we expect cash should adequately cover STA's commitments for a number of quarters, during which we expect commercial debt and Coburn FID to be finalised.

## TAJIRI SCOPING STUDY

### Bigger than Fungoni

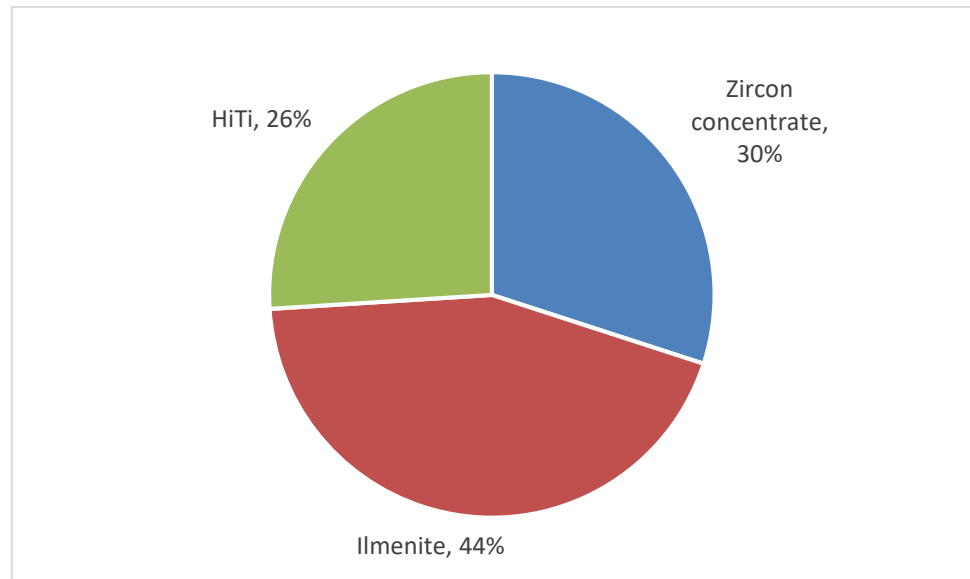
- Since our last report, STA released its scoping study on Tajiri, summarised in Figure 2. Key highlights were NPV<sub>10</sub> real, pre-tax, of US\$205M, IRR 36%, a 23.4 year mine life, and average annual production of 16kt HiTi, 150kt ilmenite, and 61kt of zircon concentrate, with a revenue to C1 cost ratio of 2.4x.
- The study assumes conventional mining of 185Mt (3.6% THM) of the 268Mt Tajiri JORC Resource (3.3% THM), starting from surface. A HMC plant will producing 261ktpa of a 95% HMC, processed by a MSP producing three products: A HiTi product comprising rutile-leucosene (93% TiO<sub>2</sub>); ilmenite (48-54% TiO<sub>2</sub>); and a zircon concentrate containing zircon (17%), monazite, titanium, and garnet minerals. The project is located only 35km south of Tanga, a port city.
- The robust metrics clearly now highlights that STA has key three advanced projects – Coburn, Fungoni, and Tajiri. While Tajiri may rank last in stage of development, it clearly dwarfs Fungoni in terms of NPV (US\$205M vs US\$49M) and size (23.4 vs 6.2 years LOM).

**Figure 1: Tajiri Scoping Study Key Metrics**

Parameter	Unit	Value
LOM	Years	23.4
Ore feed	Mtpa	8.0
HiTi production annual average	ktpa	16.0
Ilmenite production annual average	ktpa	150.1
Zircon concentrate production annual average	ktpa	60.7
Zircon price	US\$/t	1,495
Rutile bulk	US\$/t	1,138
Ilmenite chloride	US\$/t	274
Capex pre-production	US\$M	125
Revenue/C1 cost ratio	x	2.4
C1 cost average	US\$/t	124
AISC average	US\$/t	143
Basket price average	US\$/t	303
EBITDA annual average	US\$M	36.8
NPV <sub>10</sub> pre-tax real	US\$M	205
IRR	%	36%

Source: Company.

**Figure 2: Tajiri revenue composition**



Source: Company.

- Using the cost and production profile of the DFS, our unrisksed valuation of Tajiri is A\$127M, or US\$95M, the major differences to that of the scoping study NPV being ours is undertaken post-tax; we attribute 84% equity interest to STA, assuming Tanzanian government will eventually have 16% interest; and our more conservative mineral sands price forecasts. The valuation is markedly higher than our previous A\$30M valuation of Tajiri by resource in the ground (EV/tonne) as part of general Tanzania exploration.



**EARNINGS FORECASTS**

- We have rolled back by nine months our forecast commissioning of Coburn to mid-FY23 from beginning 4Q FY22 previously. This results in our forecast loss for FY22e reducing to -\$17M from -\$34M, and earnings reducing to loss of -\$2M from \$47M NPAT in FY23e.

**Figure 3: STA Earnings Forecasts - Changes**

	FY21e			FY22e			FY23e		
	New	Old	Chng	New	Old	Chng	New	Old	Chng
Coburn	0	0	0%	0	10	-100%	44	169	-74%
Tanzania	0	0	0%	0	0	0%	0	0	0%
<b>Sales</b>	<b>0</b>	<b>0</b>	<b>0%</b>	<b>0</b>	<b>10</b>	<b>-100%</b>	<b>44</b>	<b>169</b>	<b>-74%</b>
Operating costs	9	9	0%	10	30	-67%	33	92	-65%
Coburn	0	0	0%	0	-10	-100%	22	88	-75%
Tanzania	0	0	0%	0	0	0%	0	0	0%
Corp & expln	-9	-9	0%	-10	-10	-3%	-11	-11	-2%
<b>EBITDA</b>	<b>-9</b>	<b>-9</b>	<b>0%</b>	<b>-10</b>	<b>-20</b>	<b>-51%</b>	<b>11</b>	<b>77</b>	<b>-86%</b>
D&A	0	0	0%	0	3	-100%	3	12	-76%
Coburn	0	0	0%	0	-13	-100%	19	75	-75%
Tanzania	0	0	0%	0	0	0%	0	0	0%
Corp & expln	-9	-9	0%	-10	-10	0%	-11	-11	-2%
<b>EBIT</b>	<b>-9</b>	<b>-9</b>	<b>0%</b>	<b>-10</b>	<b>-23</b>	<b>-58%</b>	<b>8</b>	<b>65</b>	<b>-87%</b>
Net interest	0	0	0%	7	11	-38%	11	14	-25%
PBT	-9	-9	0%	-17	-34	-51%	-2	51	-105%
Tax	0	0	0%	0	0	0%	0	4	-100%
<b>NPAT adj.</b>	<b>-9</b>	<b>-9</b>	<b>0%</b>	<b>-17</b>	<b>-34</b>	<b>-51%</b>	<b>-2</b>	<b>47</b>	<b>-105%</b>
NRI	0	0	0%	0	0	0%	0	0	0%
<b>NPAT reported</b>	<b>-9</b>	<b>-9</b>	<b>0%</b>	<b>-17</b>	<b>-34</b>	<b>-51%</b>	<b>-2</b>	<b>47</b>	<b>-105%</b>

Source: Foster Stockbroking estimates.

**STA VALUATION****\$0.54/share risked**

- Our risked share valuation of STA has increased slightly to \$0.54 from \$0.53, due to accounting for the Tajiri scoping study, which has more than offset the value decrement from assumption of future equity raising for Coburn at a lower share price than we had before (\$0.25 vs \$0.29), the roll back of Coburn earnings, and a higher long-term A\$ (\$0.75 vs \$0.73). Our unrisked valuation (1.0x NPV<sub>10</sub>) has increased to \$0.70 from \$0.66.

**Figure 2: STA Valuation, nominal 10% WACC**

Segment	Unrisked		Risked		1-Risk Factor
	A\$M	A\$/share	A\$M	A\$/share	
Coburn	320	\$0.35	288	\$0.31	90%
Coburn Expansion	90	\$0.10	63	\$0.07	70%
Fungoni (84%)	24	\$0.03	16	\$0.02	65%
Tajiri (84%)	127	\$0.14	63	\$0.07	50%
Corporate	-49	-\$0.05	-44	-\$0.05	90%
Other Tanzania exploration	15	\$0.02	5	\$0.00	30%
Net cash (debt)	17	\$0.02	17	\$0.02	100%
Cash from in money options	2	\$0.00	2	\$0.00	90%
Cash from future equity	98	\$0.11	88	\$0.10	90%
<b>Total</b>	<b>644</b>	<b>\$0.70</b>	<b>497</b>	<b>\$0.54</b>	<b>75%</b>
Shares now M	523				
Performance rights M	14				
Options-in-money at valuation M	11				
Shares future issue M	378				
<b>Fully diluted shares M</b>	<b>926</b>				

Source: Foster Stockbroking estimates.

**MAINTAIN BUY, 12-MONTH PT \$0.54 (PRIOR \$0.53)**

- We maintain our Buy recommendation on STA, raising our 12-month share price target to \$0.54, based on 0.75x NPV<sub>10</sub>. Share price catalysts for STA include:
  - 1) Finalisation of commercial debt for Coburn;
  - 2) FID for Coburn;
  - 3) Commencement of Coburn construction of projects;
  - 4) Progress on Fungoni; and
  - 5) Higher mineral sand prices.



## 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.

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