

Resources

Rising Stars

Opportunities and insights for resources investors

Strandline poised to rebound on rising mineral sands prices

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Barry FitzGerald

Mineral sands prices have bounced back from the pummelling they took between 2013-2016. The 40% share price gain for the industry leader in this market Iluka since March is ample demonstration of the recovery underway.

Zircon is in tight supply, with Iluka having announced a couple of reference price increases during the year. Prices have also improved for rutile but the urgency for restocking by the pigment end users is not as severe.

While the higher prices are not reflecting a surge in demand for mineral sands, they do point to the need for the return of incentive pricing for the global industry to begin investing in new capacity to offset a depleting production base.

That is patently good news for the juniors of the industry as the higher pricing will provide fresh momentum to their development ambitions.

The momentum has not yet been reflected in leveraged share price gains for the juniors who suffered something shocking share price-wise during the big chill of 2013-2016.

But assuming the higher prices for mineral sands holds together, it will come. Because one thing is for certain, the need for new mines – even at modest consumption growth rates – is not going to go away.

One of the juniors that has been waiting for its re-rating in light of the improved pricing is Strandline Resources. It traded yesterday at the princely price of 0.8c for a market cap of \$25m, with its sub-1c pricing a feature for most of the year, notwithstanding the rebound in mineral sands prices.

There is a simple explanation for that. Strandline has a dual focus in Tanzania and Australia, with Tanzania spooking the resources world earlier this year with its grab for a bigger share of the resources pie.

The grab had as its target the gold producers sending concentrates out of the country which obviously raised transparency questions about whether the correct taxes and royalties were being paid.

Fired up by that, the government went a step further and grabbed a 16% free-carried interest for its people in the mining projects. Outrageous some said. But a more pragmatic response was that the country probably needed to rebalance its industry take in line with modern rather than colonial expectations.

Anyway, things have settled down and everyone is talking to each other again. More importantly for Strandline, mineral sands were clearly not the target of the government grab, even if the 16% free carried interest sticks in the company's mining licence application for its first project in the country – the Fungoni project just to the south of Dar es Salam.

The development would be a first for Tanzania, which is keen to see the benefits of mineral sands industries in neighbouring countries flow in to the country. A recently released DFS on the project pointed to a \$US30m zircon-rich development generating strong margins.

It is very much a starter project for Strandline in the country, with more projects to be brought forward for development as they are proved up in the group's exploration efforts in the north of the country.

Interestingly, Rio Tinto, one of the true heavyweights of the mineral sands business, shares Strandline's enthusiasm for Tanzania as a mineral sands destination. So much so it is funding a big joint exploration effort by the pair in the south of the country.

And getting back to this year's mining law changes, it can be said that Rio signed up to the joint venture after the news hit the wires.

Back in Australia, Strandline owns the ready-to-go Coburn project in WA. It has had \$30m spent on it over the years and when it was held by Gunson Resources (which became Strandline through the backdoor listing of the privately owned Jacana), it was once considered good enough - during a period of strong prices - to give Gunson a \$65m market cap.

Coburn is a big and long-life development opportunity. Maybe too big for Strandline, which is currently right-sized to handle smaller and modular developments like Fungoni in its own right. That's why Strandline has flagged it is looking for a strategic partner to get Coburn to the starting stalls.

Argonaut has been following Strandline and on October 10 when the Fungoni DFS was released, it re-set its price target to 2.2c. The target was previously 3c, with the change due to the impacts of the new mining law in Tanzania.