



Strandline Resources Ltd (STA.ASX)

Coburn rutile offtake with high quality customer

Event:

- **Binding rutile offtake for Coburn.**

Investment Highlights:

- **Offtake for Coburn rutile with Venator Materials.** STA yesterday announced a binding offtake agreement for Coburn rutile production with Venator Materials, a leading and reputable producer of titanium oxide (TiO₂) pigments. The agreement is for 100% of Coburn's rutile production over five years.
- **Global pigment producer.** Venator is headquartered in the UK with operations in 120 countries, including seven TiO₂ manufacturing plants spread across UK, Germany, Italy, Spain, USA, and Malaysia. Venator spun out of Huntsman via an IPO in in 2017. The company's revenues in 2020 were US\$1.9b and it has a market capitalisation of US\$430M.
- **Rutile comprises 17%-20% of Coburn forecast revenue.** STA expects rutile to be 17%-20% of forecast Coburn revenue, while we estimate 22% (due to slightly different product mix price assumptions).
- **90% of Coburn's forecast revenue is now under binding contracts.** The key positive takeaway from the announcement is that Coburn now has 90% of forecast revenue under binding offtake. The company estimates it to be worth US\$600M over five years, or US\$120M pa. (just above our estimate of US\$114M pa).
- **Further diversifies customer base, tilted to non-China parties.** Another highlight for us is that Venator joins Chemours, Industrie Bitossi, and Chilches in being high quality Western offtakers which we estimate collectively account for 70% of total forecast revenue, while China customers comprise only 20%, with the balance of 10% (remaining zircon premium) uncommitted. This skew to the West minimizes counterparty risk especially given current geopolitical tensions between China and West.
- **FID edges closer.** While the company has already satisfied potential financiers when it had signed binding agreements for two-thirds of its Coburn offtake last year, we believe that now having accounted for 90% of product further strengthens the appeal of the Coburn project and reduces customer risk. We remain optimistic on FID for Coburn by end June CY2021, believing the company has to date well advanced its debt financing discussions.

Earnings and Valuation:

- **We make no changes to earnings**, as we had already forecast rutile sales.
- **Our risked valuation of STA remains unchanged at \$0.54/share**, based on 0.75x NPV₁₀ nominal.

Recommendation:

- **We maintain our Buy and 12-month PT of \$0.54, in-line with our risked share valuation.**
- **Catalysts for the share price include:** 1) Commercial debt financing for Coburn; 2) Coburn FID; 3) Commencement of Coburn construction; 4) Coburn commissioning; and 5) 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
Price Target	\$ 0.54
Previous	\$0.54
Share price (A\$)	\$ 0.235
ASX code	STA
52 week low-high	\$0.067-\$0.29
Valuation - risked (A\$/share)	\$ 0.54
Methodology	risked NPV

Capital structure

Shares on Issue (M)	523
Market cap (A\$M)	123
Net cash (debt) (A\$M)	17
Performance rights (M)	14
Options (M)	11
Diluted EV (A\$M)	112
Ave daily volume ('000)	946

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
NPAT adj	-8	-9	-17	-2
EPS adj. \$*	-0.02	-0.02	-0.02	0.00
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm

* Adj =underlying

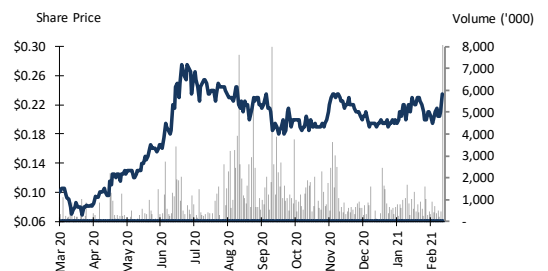
Substantial shareholders

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 Edie	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
EBITDA adj.	-8	-9	-10	11
D&A	0	0	0	3
EBIT adj.	-8	-9	-10	8
Net Interest exp / (income)	0	0	7	11
PBT adj.	-8	-9	-17	-2
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	-8	-9	-17	-2
Non-recurring items	0	0	0	0
NPAT reported	-8	-9	-17	-2
EPS diluted (\$) adj.	-0.02	-0.01	-0.02	0.00

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
Operating Cashflow	-7	-7	-15	0
Purchase of PP&E	0	0	0	0
Acquisitions	0	0	0	0
Capitalised expenses	0	0	-171	-89
Investments	0	0	0	0
Investing Cashflow	0	0	-171	-89
Equity issue	6	117	0	0
Debt proceeds	0	182	0	0
Debt repayments	0	0	0	0
Other	0	0	0	0
Financing Cashflow	6	299	0	0
Net Cashflow	-1	292	-186	-89

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
Total Assets	13	305	290	290
Accounts payable	0	1	1	3
Provisions	0	1	1	3
Debt	0	182	182	182
Other	0	1	2	1
Total Liabilities	1	184	186	188
Reserves and capital	86	203	203	203
Retained earnings	-74	-82	-99	-101
Total Equity	13	121	104	102

Capital structure	M
Ordinary shares	522.9
Performance rights	13.8
Options	10.5
Fully diluted	547.2

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
Total	644	\$0.70	497	\$0.54

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

Commodity Assumptions	2020a	2021e	2022e	2023e
Prices (US\$/t)				
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
Total	0	0	0	56

Revenue to cost ratio	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
Sales	0	0	0	44
Coburn	0	0	0	0
Tanzania	0	0	0	0
Corporate & expl'n	-8	-8	-9	-10
Group EBIT	-8	-8	-9	-10

Source: Company; Foster Stockbroking estimates



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