

27 Jun 2019

STRANDLINE RES. LTD (STA)

Coburn site visit

We visited Strandline Res. Ltd's (STA) Coburn mineral sands project in Western Australia. Coburn is a very large zircon/chloride ilmenite/HiTi project (reserve of 523Mt grading 1.11% total heavy mineral). It is fully permitted and STA recently released an updated DFS study.

There were two studies in the DFS. One to produce final products (capex A\$257m) and the other producing a 95% heavy mineral concentrate (HMC) (capex \$207m). There is additional working capital requirement, although the Company is hopeful for pre-payment agreements to finance it.

Large zircon and chloride ilmenite project

The study envisages 32ktpa of premium zircon plus 58ktpa of zircon concentrate. Chloride ilmenite production is expected at 110ktpa and HiTi of 20ktpa. The DFS assumes annual EBITDA ~A\$84m pa, and our model is similar. On spot mineral sands prices, we estimate annual EBITDA A\$111m pa.

The site access was relatively straightforward with a 2.5hr drive to the Billabong Roadhouse from Geraldton, and then a sand track to site. Although sand, the access was a straight road with only moderate rises, suggesting the construction access road required to be built will be straightforward. The landscape was non-descript and the Company owns the pastoral lease and water access. We met with senior executives from Mid West Ports who would welcome shipping from Geraldton (Iluka is already importing HMC for the Narngulu MSP and exporting final product from the Geraldton Port).

Fungoni debt facility lined up

Separately, STA recently announced that Nedbank CIB has signed a Credit-Approved Term Sheet to underwrite a US\$26m to part fund the development of the Fungoni Project in Tanzania. STA has estimated the Fungoni capital cost to be US\$35m (excluding financing costs), meaning the Facility will meet most of the project's capital requirement. Fungoni is the Company's high-margin starter project situated close to the port of Dar es Salaam, and is earmarked to pave the way for succession of larger scale mineral sands projects in Tanzania.

Retain Speculative Buy

Coburn is a larger value driver in our model than Fungoni (in Tanzania). The Fungoni project is slightly more advanced than Coburn (offtakes are already in place), but at current mineral sands prices the Coburn project is not far behind. If the Company can arrange offtakes shortly then it is possible both project construction timetables have some overlap. We see possible challenges with financing two projects at the same time. Our preference is to prioritise the commercialisation of Coburn given its larger valuation impact. Exploration success at Fungoni (ongoing) or at Strandline's other Tanzanian assets (Tajiri and Bagamoyo) could change our preference though. We have a Speculative Buy recommendation.

Fig. 1: Coburn Site Visit Video (click to view)



Source: Hartleys Research.

Share Price	\$0.13
Preliminary valuation	\$0.28
Price Target (12 month)	\$0.24

Brief Business Description:

Mineral sands developer in Tanzania and Australia.

Hartleys Brief Investment Conclusion

STA has potential to build substantial mineral sands business in Tanzania and Australia. The Fungoni development is an attractive zircon rich project in Tanzania. Coburn is a large WA asset.

Chairman & MD

Didier Murcia (Non Exec-Chairman)

Luke Graham (MD)

Top Shareholders

Tembo	33.7%
C&H Investments	8.5%
Gasmere / Hatch	6.4%

Company Address

35 Richardson St
West Perth, WA 6005

Issued Capital	366.7m
- fully diluted	419.3m

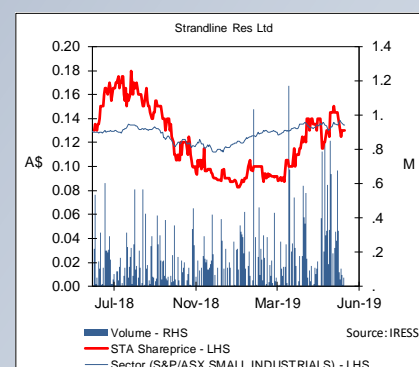
Market Cap	A\$47.7m
- fully diluted	A\$54.5m

Cash (30 Jun 19e)	A\$5.3m
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Debt (30 Jun 19e)	A\$0.0m
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EV	A\$42.3m
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	FY19e	FY20e	FY21e
EBITDA	-1.9	-2.2	14.5
Op Cash Flw	-2.1	-2.7	7.2
Norm NPAT	-2.1	-5.7	-10.9
CF/Share (cps)	-0.7	-0.3	0.4
EPS (cps)	-0.7	-0.6	-0.7
P/E	-19.9	-23.2	-19.9



Trent Barnett

Head of Research

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Hartleys has assisted in the completion of a capital raising in the past 12 months for Strandline Resources Limited ("Strandline") for which it has earned gross fees. Hartleys has a beneficial interest in fully paid ordinary shares Strandline Resources Limited. See back page for disclosure

SUMMARY MODEL

Strandline Res Ltd						27 June 2019					
STA						Speculative Buy					
Key Market Information						Company Information					
Share Price					\$0.130	Directors					
Market Capitalisation - ordinary					A\$48m	Didier Murcia (Non Exec-Chairman)					
Net Debt (cash)					-\$5m	Luke Graham (MD)					
Market Capitalisation - fully diluted					A\$55m	Peter Watson (Exec Director)					
EV					A\$43m	Earnest (Tom) Eadie (Non- Exec Director)					
EV inc. assumed new capital					A\$458m	John Hodder (Non- Exec Director, Tembo nominee)					
Issued Capital					366.7m	www.strandline.com.au					
Options					52.6	Top Shareholders					
Issued Capital (fully diluted inc. all options)					419.3m	m shares %					
Issued Capital (fully diluted inc. all options and new capital)					1725.5m	Tembo 123.5 33.7%					
						C&H Investments 31.3 8.5%					
						Gasmere / Hatch 23.5 6.4%					
						Reserves & Resources					
						Total Resource					
						Fungoni Tanzania 22 2.8% 41% 17% 6%					
						Tanga Sth Tanzania 147 3.1% 71% 6% 10%					
						Coburn WA 1606 1.20%					
						Total Reserve					
						Fungoni Tanzania 535 1.2% 47.8% 22.9% 11.9%					
						Tanga Sth Tanzania 12 3.9%					
						Coburn WA 523 1.1% 48% 23% 12%					
						Coburn Production Summary					
						Mining Inventory					
						Mill Throughput					
						HM grade					
						Zr production					
						Rutile / Hi-Ti production					
						Chlor. Ilmenite production					
						Ilmenite					
						Zircon					
						Rutile / Hi-Ti production					
						Monazite					
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						Mining Inventory					
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						Rutile / Hi-Ti production					
						Chlor. Ilmenite production					
						Ilmenite					
						Zircon					
						Rutile / Hi-Ti production					
						Monazite					
						Price Assumptions					
						AUDUSD					
						Chloride Ilmenite					
						Zircon					
						Rutile					
						Leucocoxene					
						Monazite					
						Sensitivity Analysis					
						Base Case					
						Spot Prices					
						Spot USD/AUD 0.70, Sulphate Ilmenite cfr \$175/t, Chloride Ilmenite cfr \$225/t, Zircon \$1550/t, Rutile \$1050/t.					
						AUDUSD +/-10%					
						Ilmenite +/-10%					
						chloride ilmenite +/-10%					
						Zircon +/-10%					
						Rutile +/-10%					
						Leucocoxene +/-10%					
						Operating Costs +/-10%					
						Production +/-10%					
						Unpaid Capital					
						Year Expires					
						30-Jun-19					
						30-Jun-20					
						30-Jun-21					
						30-Jun-22					
						30-Jun-23					
						30-Jun-24					
						TOTAL					
						Valuation					
						Fungoni					
						100% Coburn (pre-tax NAV at disc. rate of 12%)					
						Tanga Sth					
						Other Assets/Exploration					
						Forwards					
						Corporate Overheads					
						Net Cash (Debt)					
						Tax (NPV future liability)					
						Options & Other Equity					
						Total					
						Balance Sheet					
						Cash					
						Other Current Assets					
						Total Current Assets					
						Property, Plant & Equip.					
						Exploration					
						Investments/other					
						Tot Non-Curr. Assets					
						Total Assets					
						Short Term Borrowings					
						Other					
						Total Curr. Liabilities					
						Long Term Borrowings					
						Other					
						Total Non-Curr. Liabil.					
						Total Liabilities					
						Net Assets					
						Net Debt					
						Cashflow					
						Operating Cashflow					
						Income Tax Paid					
						Interest & Other					
						Operating Activities					
						Property, Plant & Equip.					
						Exploration and Devel.					
						Other					
						Investment Activities					
						Borrowings					
						Equity or "tbc capital"					
						Dividends Paid					
						Financing Activities					
						Net Cashflow					
						Shares					
						Ordinary Shares - End					
						Ordinary Shares - W'ted					
						Diluted Shares - W'ted					
						Ratio Analysis					
						Cashflow Per Share					
						Cashflow Multiple					
						EV (+ cap.)/EBIT					
						EV (+ cap.)/EBITDA					
						Earnings Per Share					
						Price to Earnings Ratio					
						Dividends Per Share					
						Dividend Yield					
						Net Debt / Net Debt + Equity					
						Interest Cover					
						Return on Equity					
Analyst: Trent Barnett											
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tbc capital could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.											
Sources: IRESS, Company Information, Hartleys Research											

VALUATION

Our base valuation assumes the development of both Fungoni and Coburn, which therefore assumes significant dilution. We assume Fungoni financing in FY20 with first production in December 2020. Our model assumes 95% of free cash flow until capital and debt is repaid, and then 79% project ownership. We assume no explicit residual value (but we attribute exploration value to other Tanzania assets).

We assume Coburn is financed in FY20, with first production in June 2021.

We assume mineral sands prices similar to consensus, which is now lower than spot prices.

Fig. 2: Assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Fungoni & Coburn are developed	High	High	We assume both assets are developed
Equity dilution	Low	High	We assume substantial new shares to develop both Fungoni and Coburn. This implies both projects also obtain debt financing
79% project ownership in Tanzania	Low	upside	We assume STA funds 95% of the capital (free carries Govt 16% interest but not the local partners interest), but the capital is repaid (including equity) before the Govt earns dividends. It is possible the yet to be determined 5% local partner cannot contribute and hence there is upside risk to our assumption for STA economic interest.
Commodity prices	Moderate	High	We assume improving AUD rutile prices and ilmenite prices but weaker AUD zircon prices
AUD appreciated modestly	High	Upside / Downside	Using current FX Coburn is substantially more viable. We assume modestly appreciated AUD. Further depreciation though would improve our STA valuation
Value for Tajiri	Moderate	High	We have a speculative unfunded model for Tajiri and use NPV14 given the speculative assumptions.
RIO options not exercised	Moderate	Upside	We don't assume the RIO options are exercised. This is purely to simplify our valuation. Exercise would increase STA cash balance.
Exploration success	Moderate	High	We attribute some value to exploration potential beyond the assumed mine life extension.

Conclusion

We believe our STA assumptions are realistic but given the risks and assumptions we rate it as a Speculative Buy.

Source: Hartleys Research

Fig. 3: STA Coburn financial economics

	DFS - Final Products Case	DFS – HMC Case
Mine Life	22.5yrs	22.5yrs
Ore Tonnes Mined	523Mt	523Mt
Ore Throughput	23.4Mtpa	23.4Mtpa
Capex	A\$257M	A\$207M
LOM Revenue	A\$3.91B	A\$3.42B
LOM Opex (C1)	A\$1.78B	A\$1.62B
LOM AISC	A\$1.97B	A\$1.79B
Avg. C1 Cost per Product Tonne	A\$346/t	A\$316/t
Avg. AISC per Product Tonne ("A")	A\$397/t	A\$361/t
Avg. Basket Price ("B")	A\$760/t	A\$665/t
Avg. Cash Margin (B-A)	A\$363/t	A\$304/t
LOM EBITDA	A\$1.93B	A\$1.62B
Avg. EBITDA	A\$86M	A\$69M
NPV ⁸ (pre-tax, real, no debt)	A\$551M	A\$481M
IRR (pre-tax, real, no debt)	32.3%	36.4%

Source: STA

Fig. 4: Product specifications

PRODUCT QUALITY



STRANDLINE
resources limited

Outstanding metallurgical results confirm Coburn can produce both high-value HMC and final products, opening the door to a wide range of offtake and funding options

Key Features of Coburn Final products

- DFS design reveals development optionality with the ability to market a high-value 95% HMC product or refining further to final products
- Premium zircon product contains high 66% ZrO₂ and low contaminant trace elements making it suitable for a range of industry applications (including ceramics, foundry and chemical application)
- Chloride ilmenite product contains an attractive 62% TiO₂ and is low in most key impurities, attractive for direct chloride pigment application or upgrading via Synthetic Rutile (SR) or slag routes into high grade chloride route pigment feedstock
- HiTi90 product contains 90% TiO₂ and attractive for direct chloride pigment application or blending up of lower grade feedstocks for similar applications. Competes strongly with lower grade Leucoxene 88% TiO₂
- Zircon Concentrate contains 28% ZrO₂ and 11% TiO₂, with contained zircon suitable for blending with other ceramics grade zircon or as a stand-alone product for chemical and foundry applications. Contained TiO₂ comprises a majority of higher value HiTi minerals
- Engagement with global consumers confirms high demand for Coburn's products in both concentrate or final product form, providing a wide range of offtake and investment options



Analyses	Units	Ilmenite	HiTi	Primary Zircon	Zircon Concentrate
TiO ₂	%	62.3	90.1	0.17	10.8
Fe ₂ O ₃ (XRF)	%	29.4	1.5	0.14	4.4
Al ₂ O ₃	%	1.41	0.93	0.41	20.2
SiO ₂	%	3.4	2.7	32.8	33.7
Cr ₂ O ₃	%	0.14	0.2	0.0	0.05
ZrO ₂ + HfO ₂	%	0.12	2.4	65.8	27.9
CaO	%	0.1	0.1	0.01	0.09
MgO	%	0.2	0.05	0.03	0.67
MnO	%	0.8	0.01	0.0	0.07
CeO ₂	%	0.02	0.01	0.03	0.16
Th	ppm	130	56	117	390
U	ppm	14	50	220	151
D50	(µm)	148	121	125	NA

Table: Coburn Project Final Product Specification

Source: For more detail on DFS Product Specification refer ASX Announcement 01 April 2019

Source: STA

Fig. 5: Access road to be upgraded, but straight with modest rises



Source: Hartleys site visit

Fig. 6: Non-descript landscape



Source: Hartleys site visit

Fig. 7: Low head grade but beneficiates well at front end



Source: Hartleys site visit

Fig. 8: STA owns the pastoral lease where the first 20 years of ore reserves reside.



Source: Hartleys site visit

PRICE TARGET

Our price target is 24cps (previously 22cps).

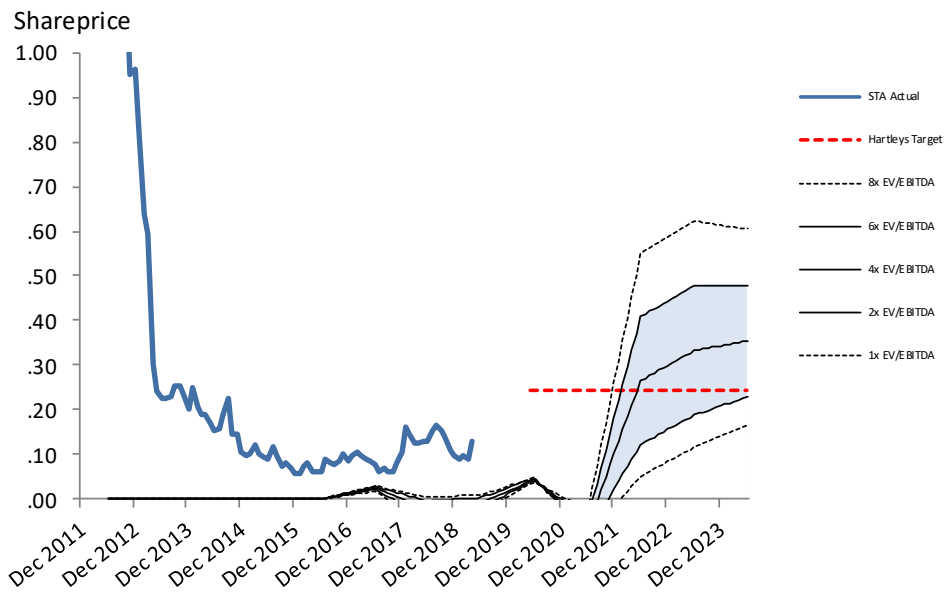
Price Target Methodology	Weighting	Spot	12 mth out
NPV ₁₂ (Fungoni + Coburn) consensus prices	30%	\$0.28	\$0.31
NPV ₁₂ at spot commodity and fx prices	20%	\$0.36	\$0.41
NPV ₈ consensus prices	1%	\$0.50	\$0.54
NPV ₈ at spot commodity and fx prices	1%	\$0.65	\$0.70
NPV ₁₂ (Fungoni development only, exploration value other assets) base commod.	35%	\$0.11	\$0.12
NPV ₁₂ , minimal dilution, divest Coburn for 50% of NPV (implied STA mcap \$158m)	3%	\$0.34	\$0.38
Net cash backing	10%	\$0.01	\$0.01
Risk weighted composite		\$0.22	
12 Months Price Target		\$0.24	
Shareprice - Last		\$0.130	
12 mth total return		86%	

RISKS

The key risks for STA (like most mine companies in development) is obtaining the necessary funding to complete the project. Other risks are earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, cost inflation, environmental regulations, plant and mine design mistakes or lower production. Although some earnings disappointments can be short term and are only a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example metallurgy problems). Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the company. High financial leverage (if it exists at that time) would add to the problem. Sovereign risk is also reasonably high in Africa.

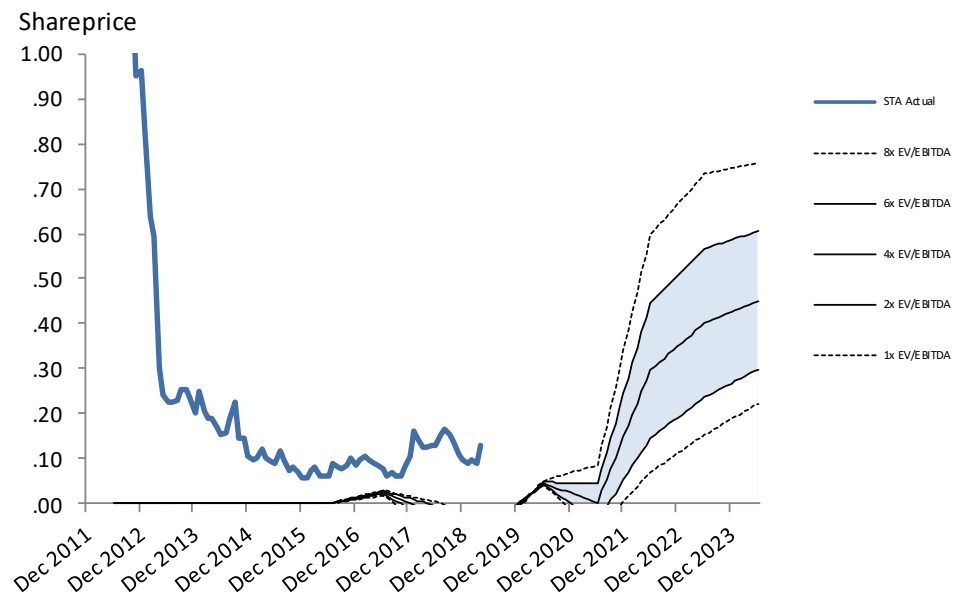
EV/EBITDA BANDS

Fig. 2: EV/EBITDA Base case



Source: Hartleys Estimates

Fig. 3: EV/EBITDA spot case



Source: Hartleys Estimates

HARTLEYS CORPORATE DIRECTORY

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.
Buy	

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