EQUITY RESEARCH

Materials

23rd April 2020

Strandline Resources Ltd (STA.ASX)

High quality offtake agreements pave way for financing

Event:

- **Binding offtake agreements for Coburn announced.**

Investment Highlights:

- **Strandline Resources (STA) announced signed binding offtake agreements for three of its four products to be produced from Coburn**, or 66% of forecast revenue in the first five years. The agreements have a forecast combined value US$400M, in-line with our own prior model estimate of US$396M.
- **100% of Ilmenite in first five years to be sold to US listed Chemours Company FC, the world's leading producer of high quality TiO_2.** Pricing is fixed with annual PPI adjustments. The value is equal to 20%-24% of Coburn's total.
- **Substantial portion (we estimate 50%) of premium zircon in first five years sold to Industrie Bitossi**, one of the world's leading zircon consumers and producer of ceramics headquartered in Italy. The contracted price references prevailing US$ market price for premium ceramic grade zircon. Value is 18% of Coburn's forecast total.
- **100% of zircon concentrate in first seven years sold to Sanxiang Advanced Materials Co and Nanjing Rzisources International Trading (both China) collectively under a strategic partnership.** Sanxiang will recover the contained zircon, titanium, and monazite from the concentrate while on-selling the latter two products to Nanjing. All prices are referenced to the prevailing market. Value is equivalent to 22%-26% of Coburn's forecast revenues.
- **HMC monetisation derisks Coburn via additional cash flow.** STA also has binding agreements with Sanxiang and Nanjing for Coburn's intermediate heavy mineral concentrate (HMC). This provides STA with cash flow during construction, commissioning, and ramp-up of the mineral separation plant.
- **Offtake sufficient to satisfy debt financiers.** The quantum of offtake signed, and the quality and diversification of customers are likely to be viewed favourably by financiers, providing impetus for debt progressing to finalisation. We expect STA to secure agreements for the balance of premium zircon and rutile product soon, with discussions well advanced.
- **Offtakers may provide equity.** We believe that one or more of the offtakers may potentially contribute equity funding of Coburn, either via the project or company level, to ensure development and enhance strategic relationships.
- **Agreements highlight long-life mine and product quality.** Overall we are impressed with the quality and geographic diversification of customers signed. Coburn's long-life, product quality, and low impurities were key in attracting the offtakers and the pricing negotiated.

Earnings and Valuation:

- **We make no material changes to earnings forecasts, while our valuation increases to $0.33 from $0.32 via 6-month roll forward of our Coburn model.**

Recommendation:

- **We maintain our Buy and increase 12-month PT to $0.33, based on 1.0x risked NPV_{10}.** Catalysts for the share price include: 1) Remaining Coburn offtake agreements; 2) Finalising financing and FID for Coburn; 3) Completion of financing and FID for Fungoni; and 4) Increased JORC Resources or Reserves.

Disclosures

The analyst does not own STA securities.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 500,000 STA shares.
Cranport Pty Ltd owns 8,138,115 STA shares.
Refer details end of report.

Recommendation	**Buy**
Previous	Buy
Risk	High
Price Target	**$ 0.33**
Previous	$0.32
Share price (A$)	**$ 0.125**
ASX code	STA
52 week low-high	$0.067-$0.16
Valuation (A$/share)	**$ 0.33**
Methodology	risked NPV
Capital structure	
Shares on Issue (M)	427
Market cap (A$M)	53
Net cash (debt) (A$M)	10
Performance rights (M)	19
Options (M)	11
Diluted EV (A$M)	48
Ave daily volume ('000)	242

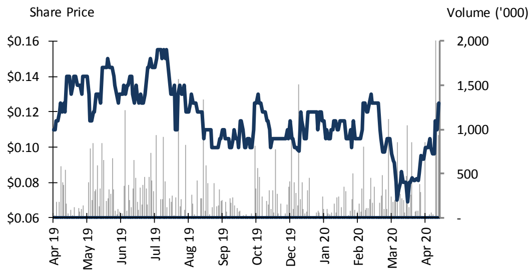
Earnings Y/e Jun A$M	**FY19a**	**FY20e**	**FY21e**	**FY22e**
Sales	0	0	0	43
EBITDA adj	-8	-8	-9	12
NPAT reported	-7	-7	-8	1
NPAT adj	**-8**	**-7**	**-8**	**1**
EPS adj. $*	**-0.03**	**-0.02**	**-0.01**	**0.00**
PE x	**nm**	**nm**	**nm**	**nm**
EV/EBITDA x	nm	nm	nm	4.6

** Adj =underlying*

Substantial shareholders	
Ndovu Capital VII BV & Tembo Capital Mining Fund II LP	37%
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
Tom Eadie	Non-Executive Director

Share price graph



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Strandline Resources (STA)

Full Year Ended 30 June

Profit and Loss A$M	2019a	2020e	2021e	2022e
Revenue	0	0	0	43
Operating Costs adj.	8	8	9	31
EBITDA adj.	**-8**	**-8**	**-9**	**12**
D&A	0	0	0	3
EBIT adj.	**-8**	**-8**	**-9**	**9**
Net Interest exp / (income)	0	0	0	8
PBT adj.	**-8**	**-7**	**-8**	**1**
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	**-8**	**-7**	**-8**	**1**
Non-recurring items	1	0	0	0
NPAT reported	**-7**	**-7**	**-8**	**1**
EPS diluted ($) adj.	**-0.03**	**-0.02**	**-0.01**	**0.00**

Cashflow A$M	2019a	2020e	2021e	2022e
EBITDA adj.	-8	-8	-9	12
Change in WC	0	0	0	-2
Tax paid	0	0	0	0
Other	1	1	1	1
Net interest	0	0	0	-8
Share based payments	1	1	1	1
Operating Cashflow	**-7**	**-6**	**-7**	**3**
Purchase of PP&E	0	0	0	0
Acquisitions	0	0	0	0
Capitalised expenses	0	0	-168	-134
Investments	0	0	0	0
Investing Cashflow	**0**	**0**	**-168**	**-134**
Equity issue	9	7	67	46
Debt proceeds	0	0	124	85
Debt repayments	0	0	0	0
Other	0	0	0	0
Financing Cashflow	**8**	**7**	**190**	**130**
Net Cashflow	**2**	**1**	**15**	**0**

Balance Sheet A$M	2019a	2020e	2021e	2022e
Cash	6	7	22	21
Receivables	0	0	0	3
PPE	0	0	0	254
Capitalised exploration	7	7	175	52
Intangibles	0	0	0	0
Other	0	0	0	0
Total Assets	**14**	**14**	**198**	**331**
Accounts payable	1	1	1	3
Provisions	0	1	1	3
Debt	0	0	124	208
Other	0	1	2	2
Total Liabilities	**1**	**2**	**127**	**215**
Reserves and capital	79	85	152	197
Retained earnings	-65	-73	-81	-81
Total Equity	**13**	**12**	**70**	**116**

Capital structure	M
Ordinary shares	426.8
Performance rights	18.9
Options	10.5
Fully diluted	**456.2**

Financial Metrics	2019a	2020e	2021e	2022e
Sales growth %	nm	nm	nm	nm
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	nm	28%
EBIT margin	nm	nm	nm	21%
Gearing (ND/ND+E)	nm	nm	59%	62%
Interest Cover (EBIT/net int)	nm	nm	nm	1x
Average ROE %	nm	nm	nm	nm
Average ROA %	nm	nm	nm	3%
Wtd ave shares (M)	297	387	1002	1424
Wtd ave share diluted (M)	297	417	1032	1454

Valuation multiples	2019a	2020e	2021e	2022e
P/E x	**nm**	**nm**	**nm**	**350.1**
EV/EBITDA x	**nm**	**nm**	**nm**	**4.6**

Company Valuation

DCF, WACC 10% nominal

Segment	Unrisked A$M	Unrisked A$/sh	Risked A$M	Risked A$/sh
Coburn	419	$0.29	290	$0.25
Fungoni	39	$0.03	29	$0.03
Corporate	-57	-$0.04	-40	-$0.03
Tanzania exploration	12	$0.01	12	$0.01
Net cash (debt)	9	$0.01	9	$0.01
Cash from in money options	2	$0.00	2	$0.00
Cash from future equity	112	$0.08	78	$0.07
Total	**537**	**$0.37**	**380**	**$0.33**
Shares now M	427		427	
Performance rights M	19		13	
Options-in-money at valuation M	11		7	
Shares future issue M	996		693	
Full diluted shares M	**1,452**		**1,140**	

Commodity Assumptions	2019a	2020e	2021e	2022e
Prices (US$/t)				
Zircon	-	1,495	1,474	1,462
Rutile	-	1,165	1,165	1,165
Ilmenite - chloride grade	-	238	242	242
Rutile/HiTi	-	1,114	1,149	1,014
Monazite	-	1,430	1,427	1,456
A$/U$	0.73	0.69	0.70	0.72
Production (kt)				
Zircon	0	0	0	8
Zircon concentrate	0	0	0	15
HiTi90	0	0	0	5
Ilmenite	0	0	0	28
Revenue to cost ratio	-	-	-	2.0

Segement Contribution	2019a	2020e	2021e	2022e
Coburn	-	-	-	42
Fungoni	-	-	-	0
Sales	**-**	**-**	**-**	**42**
Coburn	-	-	-	18
Fungoni	-	-	-	0
Corporate	-8	-8	-9	-10
Group EBIT	**-8**	**-8**	**-9**	**9**

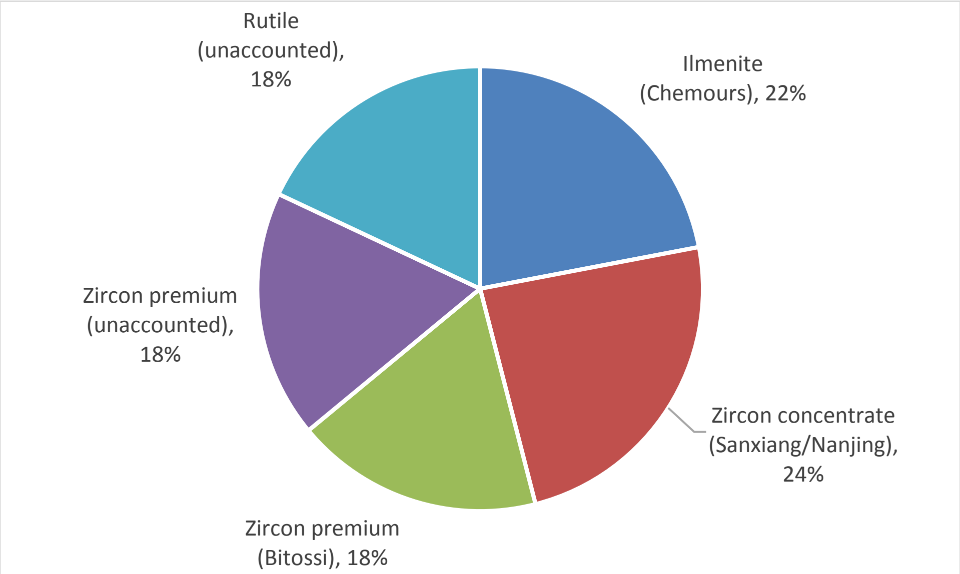
Source: Company; Foster Stockbroking estimates

BINDING OFFTAKE AGREEMENTS FOR COBURN

Premium zircon, zircon concentrate, and ilmenite contracts signed

- Strandline Resources (STA) announced signed binding offtake agreements for three of its four products to be produced from Coburn, or approximately 66% of forecast in first five years. The agreements in total have a forecast combined value of US$400M ($635M), which we estimate to be in line with our own model estimate of US$396M and just slightly below the DFS value of US$409M.
- The offtake accounts for:
  - Substantial portion of zircon premium product for first five years with Industrie Bitossi spa (Bitossi), or 18% of forecast Coburn revenue;
  - All of zircon concentrate for first seven years with Sanxiang Advanced Materials Co (Sanxiang) and Nanjing Rzisources International Trading Co (Nanjing), or 22%-26% of Coburn revenue; and
  - All of ilmenite for first five years with Chemours Company FC, LLC (Chemours), 20%-24% of Coburn revenue.

Figure 1: Coburn Forecast Revenues by Offtake



Source; Company; Foster Stockbroking estimates. Mid-points of forecast revenue from offtake agreements assumed.

Ilmenite - offtake with leading global producer of TiO_2

- STA has signed an agreement for 100% of ilmenite in the first five years – equivalent to 110ktpa - to be sold to US listed company Chemours, one of the world's leading producers of high quality chloride based TiO_2. Pricing is fixed with annual PPI adjustments, which provides functionality as a hedge, which is attractive to potential debt financiers. STA estimates the offtake to account for 20-24% of Coburn revenue (mid-point as per our model estimate of 22%). We believe the contract has option to extend beyond five years.
- Chemours was spun out of DuPont in 2015 and has nearly 90 years' experience in manufacturing TiO_2 for coatings, inks, plastics, and laminates used in the building, housing, automobile, marine, packaging, appliances, electronics, industrial, and agriculture industries. In 2019 it generated revenue of US$5.5b, with 42% from TiO_2 products. It has a market capitalisation of US$2b, with cash of US$943M and debt of US$4.2b end CY2019. Chemours has four TiO_2 manufacturing plants and over 600 customers worldwide. The company also owns two mineral sands mines in the US.

Premium zircon - offtake with leading global ceramics manufacturer

- STA has signed an offtake agreement for a substantial portion of premium zircon produced in the first five years sold to Bitossi, one of the world's leading zircon consumers and producer of ceramics headquartered in Italy. We estimate the portion to be approximately 50% of the first five years of production, equivalent to 17ktpa. The contracted price references prevailing US$ market price for premium ceramic grade zircon. STA estimates the offtake accounts for 18% of forecast Coburn revenue (in line with our prior model estimate of 19% for half of premium zircon).
- Bitossi was originally founded in 1962 and is part of the Florence-based Colorobbia Group which has been manufacturing ceramics since 1921 and has revenue of over €530M p.a ($912M p.a.). Bitossi operates globally, with manufacturing and technical facilities in Brazil, China, Turkey, and the US. It is a leading producer of ceramics, grinding media, and zirconium silicates for wear resistance, opacifiers, glazes, coatings, refractories and catalysts, and has customers in over 60 countries. It already sources Australian high quality zircon (mostly from Iluka).

Zircon concentrate - contract with Chinese companies

- 100% of Coburn's zircon concentrate – 54ktpa - in the first seven years will be sold to Chinese companies Sanxiang and Nanjing collectively under a strategic partnership. Sanxiang will recover the contained zircon, titanium, and monazite from the concentrate while on-selling the latter two products to Nanjng. All prices are referenced to the prevailing market. STA estimates the agreement to comprise 22-26% of forecast Coburn revenue (vs our model estimate of 23%).
- Sanxiang was founded in 1991 and is a supplier of refractory materials, ceramic pigment and glaze, and zirconium materials, including fused zirconia. It is listed on the Shanghai exchange with market capitalisation of US$2.3b.

HMC also under binding agreement

- STA also signed binding agreements with Sanxiang and Nanjing for Coburn's intermediate heavy mineral concentrate (HMC). This will provide STA with cash flow during construction, commissioning, and ramp-up of the mineral separation plant, which is constructed after the HMC plant. Sale of HMC product provides STA with cash flow especially if there are unforeseen delays to construction and commissioning of the MSP, as well as being one potential source of funding for the MSP.

Rutile and balance of premium zircon to be finalised

- The announcement leaves only 34% of Coburn's revenue – all of its rutile (24ktpa) and about 50% of its premium zircon (17ktpa) – unspoken for. However STA is engaged in discussions for the balance and we expect binding agreements to be secured in the short term.

Offtakers may provide equity

- Given the quantity and duration of offtake contracts, as well as the long 23 year mine life of Coburn, we believe there is high probability that one or more of the offtakers may contribute equity funding of Coburn, either via the project or company level, to ensure development and enhance strategic relationships.

Agreements highlight long-life mine and product quality

- Overall we are impressed with the quality and geographic diversification of customers signed. We believe that Coburn's long-life, product quality, and low impurities such as thorium plus uranium, were key in attracting the customers and the pricing negotiated.

DEBT FINANCING PROGRESSING

- We believe the quantum of offtake signed and the quality of the buyers are key criteria that should satisfy potential debt providers of the surety of selling Coburn's product. This should provide impetus for negotiations on debt to progress to finalisation.

EARNINGS AND VALUATION

Valuation increases to $0.33 from $0.32

- Given that the value of signed contracts are in-line with our estimates and STA's March equity raising of $6.5M at $0.12/share was also near our prior expectation of $5M at $0.11, we have made negligible changes to our earnings forecasts. Our risked share valuation has risen $0.01 to $0.33 by rolling forward our Coburn DCF model by 6 months.

Figure 2: STA Valuation

Segment	Unrisked A$M	A$/share	Risked A$M	A$/share	Risk Factor
Coburn	419	$0.29	290	$0.25	69%
Fungoni	39	$0.03	29	$0.03	74%
Corporate	-57	-$0.04	-40	-$0.03	70%
Tanzania exploration	12	$0.01	12	$0.01	100%
Net cash (debt)	9	$0.01	9	$0.01	100%
Cash from in money options	2	$0.00	2	$0.00	70%
Cash from future equity	112	$0.08	78	$0.07	70%
Total	**537**	**$0.37**	**380**	**$0.33**	**90%**
Shares now M	427		427		100%
Performance rights M	19		13		70%
Options-in-money at val'n M	11		7		70%
Shares future issue M	996		693		70%
Fully diluted shares M	**1,452**		**1,140**		79%

Source: Foster Stockbroking estimates.

MAINTAIN BUY, 12-MONTH PRICE TARGET NOW $0.33 (PRIOR $0.32)

- We maintain our Buy recommendation and raise our 12-month price target to $0.33, based on 1.0x risked NPV_{10}. We view share price catalysts for STA include 1) Rutile and balance of premium zircon offtake; 2) FID for both Fungoni and Coburn; 3) Construction of projects; 4) First production from projects; 5) Resource and Reserve upgrades; and 6) Advancement of other Tanzanian projects.

FOSTER STOCKBROKING DISCLOSURES

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Specific disclosure: Foster Stockbroking personnel, including the analyst, attended an STA site visit in November 2019 for which STA paid for their flights, accommodation, and meals.

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Disclosure review. All the disclosures in the report have been reviewed and checked by Rob Telford, Corporate.