



## Strandline Resources Ltd (STA.ASX)

*Coburn on track while Tanzania de-risked*

### Event:

- December quarterly review; PT change.

### Investment Highlights:

- Coburn still on-time and on-budget.** Coburn project reached 50% completion on 17 January 2022, the company stating that it remains on-budget and on-time, with first commissioning of HMC still targeted for December quarter 2022. All major construction contracts either have been awarded or committed, representing 96% of project scope by value.
- We understand the critical path has now shifted to the process plant EPC** from bulk earthworks. This remains ahead of schedule, with engineering design 95% complete, concrete installation 70% complete, and steel fabrication underway with first steel installation this month.
- Well funded to first HMC sales.** Cash end quarter was \$61M and debt of \$59M was drawn down, for net cash of \$2M. Available undrawn debt for the project was \$153M, bringing total available funds to \$215M. \$73M of capex was spent during the December quarter, bringing our estimate of capex to date being \$127M, with \$137M remaining. Including our forecast working capital, finance costs, corporate, and exploration costs, we estimate the \$215M in funds can cover these costs and \$29M in contingency until first cash flow from HMC.
- STA and the Tanzanian Government signed a Framework Agreement (FWA)** to finalise the 16% free-carry interest of the Government in the company's projects. This will allow STA to progress commercialization of the projects, the FWA clearly defining operating and ownership terms. Establishment of a JV between the STA and Tanzania Government (Nyati) in which ownership will be 84%:16% respectively, will cover all STA's Tanzanian assets.
- Fungoni first project to be developed, being the most advanced,** small in size but fully permitted. It should pave the way for the larger and higher-value Tajiri to follow. The company flagged a modular relocatable plant design to move between Fungoni and Tajiri. We expect completion of Nyati JV, including reassigning of licenses and assets, which we anticipate by end 1QCY22.
- Larger tiles add to zircon demand.** Minerals sands markets remain strong, with spot zircon US\$2,415/t. Iluka Resources have noted the trend to larger tiles, which have approximate double the intensity of zircon use, enhancing demand.

### Earnings and Valuation:

- We mark-to-market mineral sand prices and make a slight NPAT upgrade in FY23e to \$3M from \$1M on higher zircon and rutile prices.** Otherwise our earnings are unchanged.
- Risked share valuation (0.8x NPV<sub>10</sub>) increases to \$0.65 from \$0.62,** on derisking of the Tanzanian assets via the FWA. Our unrisked valuation is unchanged at \$0.78 (1.0x NPV).

### Recommendation:

- We maintain our Buy and raise our 12-month PT to \$0.65 (prior \$0.62), in-line with our risked share valuation.** Catalysts for the share price include: 1) Further Coburn progress; 2) Resource and Reserves upgrades; 3) Coburn commissioning; 4) Completion of Nyati JV; and 5) higher mineral sands prices.

### Disclosures

The analyst owns 265,500 STA shares. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 2,415,500 STA shares. Cranport Pty Ltd owns 3,378,372 STA shares. Refer details end of report.

**Foster Stockbroking acted as Co-Manager and Sub-Underwriter to the \$122M placement and entitlement offer of 593M STA shares at \$0.205 in March 2021, for which it received fees.**

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.65			
Previous	\$0.62			
Share price (A\$)	\$ 0.310			
ASX code	STA			
52 week low-high	\$0.165-\$0.38			
Valuation - risked (A\$/share)	\$ 0.65			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	1,124			
Market cap (A\$M)	348			
Net cash (debt) (A\$M)	2			
Performance rights (M)	15			
Options (M)	10			
Diluted EV (A\$M)	354			
Ave daily volume ('000)	3,516			
Earnings Y/e Jun A\$M	FY21a	FY22e	FY23e	FY24e
Sales	0	0	53	204
EBITDA adj	-12	-7	31	102
NPAT reported	-13	-15	3	63
<b>NPAT adj</b>	<b>-13</b>	<b>-15</b>	<b>3</b>	<b>63</b>
<b>EPS adj. \$*</b>	<b>-0.02</b>	<b>-0.01</b>	<b>0.00</b>	<b>0.06</b>
<b>PE x</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>56.x</b>
EV/EBITDA x	nm	nm	19.4x	4.1x

\* Adj = underlying

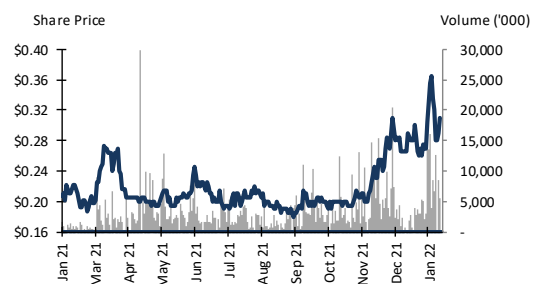
### Substantial shareholders

Ndovu Capital VII BV (Tembo)	21%
Regal Funds Management Pty Ltd	5%

### 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
Alexandra Atkins	Non-Executive Director
James Chialo	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	2021a	2022e	2023e	2024e
Revenue	0	0	53	204
Operating Costs adj.	12	7	31	102
<b>EBITDA adj.</b>	<b>-12</b>	<b>-7</b>	<b>22</b>	<b>102</b>
D&A	0	0	3	12
<b>EBIT adj.</b>	<b>-12</b>	<b>-7</b>	<b>19</b>	<b>90</b>
Net Interest exp / (income)	1	8	14	16
<b>PBT adj.</b>	<b>-13</b>	<b>-15</b>	<b>4</b>	<b>74</b>
Tax exp / (benefit) adj.	0	0	1	10
<b>NPAT adj.</b>	<b>-13</b>	<b>-15</b>	<b>3</b>	<b>63</b>
Non-recurring items	0	0	0	0
<b>NPAT reported</b>	<b>-13</b>	<b>-15</b>	<b>3</b>	<b>63</b>
<b>EPS diluted (\$) adj.</b>	<b>-0.02</b>	<b>-0.01</b>	<b>0.00</b>	<b>0.06</b>

Cashflow A\$M	2021a	2022e	2023e	2024e
EBITDA adj.	0	0	53	204
Change in WC	10	-14	-2	-7
Tax paid	0	0	-1	-10
Other	-7	0	0	0
Net interest	-2	-8	-14	-16
Share based payments	1	1	1	1
<b>Operating Cashflow</b>	<b>-10</b>	<b>-28</b>	<b>4</b>	<b>70</b>

Purchase of PP&E	-2	-2	0	-3
Acquisitions	0	0	0	0
Capitalised expenses	-12	-164	-89	0
Investments	0	0	0	0
<b>Investing Cashflow</b>	<b>-14</b>	<b>-165</b>	<b>-89</b>	<b>-3</b>
Equity issue	140	0	0	0
Debt proceeds	3	211	0	0
Debt repayments	0	0	0	-11
Other	-12	6	0	0
<b>Financing Cashflow</b>	<b>130</b>	<b>217</b>	<b>0</b>	<b>-11</b>
<b>Net Cashflow</b>	<b>106</b>	<b>23</b>	<b>-84</b>	<b>56</b>

Balance Sheet A\$M	2021a	2022e	2023e	2024e
Cash	116	140	55	111
Receivables	1	0	4	17
PPE	0	0	290	280
Capitalised exploration	37	201	0	0
Intangibles	0	0	0	0
Other	2	0	0	0
<b>Total Assets</b>	<b>156</b>	<b>340</b>	<b>349</b>	<b>408</b>
Accounts payable	16	1	3	8
Provisions	2	1	3	8
Debt	3	214	214	203
Other	0	5	7	3
<b>Total Liabilities</b>	<b>22</b>	<b>220</b>	<b>226</b>	<b>222</b>
Reserves and capital	221	221	221	221
Retained earnings	-86	-101	-98	-34
<b>Total Equity</b>	<b>135</b>	<b>120</b>	<b>123</b>	<b>187</b>

Capital structure	M
Ordinary shares	1,124
Performance rights	15
Options	9
<b>Fully diluted</b>	<b>1,147</b>

Financial Metrics	2021a	2022e	2023e	2024e
Sales growth %	nm	nm	nm	286%
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	41%	50%
EBIT margin	nm	nm	36%	44%
Gearing (ND/ND+E)	nm	38%	56%	33%
Interest Cover (EBIT/net int)	nm	-1x	1x	6x
Average ROE %	-10%	-12%	3%	41%
Average ROA %	-8%	-3%	5%	24%
Wtd ave shares (M)	645	1,120	1,124	1,124
Wtd ave share diluted (M)	669	1,139	1,148	1,148

Valuation multiples	2021a	2022e	2023e	2024e
P/E x	nm	nm	nm	5.6
EV/EBITDA x	nm	nm	19.4	4.1

Company Valuation				
DCF, WACC 10% nominal				
Segment	Unrisked		Risked	
	A\$M	A\$/sh	A\$M	A\$/sh
Coburn Reserves	573	\$0.50	544	\$0.47
Coburn Expansion	112	\$0.10	84	\$0.07
Fungoni (84%)	32	\$0.03	26	\$0.02
Tajiri (84%)	205	\$0.18	123	\$0.11
Corporate	-51	-\$0.04	-48	-\$0.04
Other Tanzania exploration	20	\$0.02	8	\$0.01
Net cash (debt)	2	\$0.00	2	\$0.00
Cash from in money options	2	\$0.00	2	\$0.00
<b>Total</b>	<b>895</b>	<b>\$0.78</b>	<b>741</b>	<b>\$0.65</b>

Shares now M	1,124
Performance rights M	15
Options-in-money at valuation M	10
<b>Fully diluted shares M</b>	<b>1,148</b>

Commodity Assumptions	2021a	2022e	2023e	2024e
<b>Prices (US\$/t)</b>				
Zircon	1,471	1,644	1,746	1,718
Ilmenite - chloride grade	229	247	259	268
Rutile/HiTi	1,267	1,392	1,398	1,330
Monazite	1,427	1,456	1,485	1,514
A\$/U\$	0.72	0.74	0.73	0.74

Shipments (kt)				
Zircon	0	0	9	34
Zircon concentrate	0	0	14	54
HiTi90	0	0	6	24
Ilmenite	0	0	28	110
<b>Total</b>	<b>0</b>	<b>0</b>	<b>56</b>	<b>222</b>

<b>Revenue to C1 cost ratio</b>	0.0	0.0	2.6	2.5
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Segment Contribution	2021a	2022e	2023e	2024e
Coburn	0	0	53	204
Tanzania	0	0	0	0
<b>Sales</b>	<b>0</b>	<b>0</b>	<b>53</b>	<b>204</b>
Coburn	0	0	27	99
Tanzania	0	0	0	0
Corporate & expl'n	-8	-12	-8	-9
<b>Group EBIT</b>	<b>-8</b>	<b>-12</b>	<b>19</b>	<b>90</b>

Source: Company; Foster Stockbroking estimates

**COBURN DEVELOPMENT PASSES HALFWAY MARK****Progressing to budget and timeline**

- Strandline Resources (STA) Coburn project reached 50% completion on 17 January 2022, the company stating that it remains on-budget and on-time, with first commissioning of HMC still targeted for December quarter 2022. All major construction contracts either have been awarded or committed, representing 96% of project scope by value.
- We understand the critical path has now shifted to the process plant EPC from bulk earthworks. This remains ahead of schedule, with engineering design 95% complete, concrete installation 70% complete, and steel fabrication underway with first steel installation this month.

**Well-funded to completion**

- Cash at end of quarter was \$61M while total debt of \$59M had been drawn down, for net cash of \$2M. Available total undrawn debt facilities for the project were \$153M (excluding \$20M for the Denham community road), bringing total available funds of \$215M to first HMC sales (Figure 1).
- \$73M of capex was spent during the December quarter, bringing our estimate of the total capex expended on Coburn to date to be \$127M, with a balance of \$137M remaining. Including our forecast working capital, finance costs, corporate, and exploration, we estimate the \$215M availability can cover these costs plus and \$29M in contingency until first cash flow from HMC (Figure 1).

**Figure 1: STA Funds Balance and Remaining Expenditure as at 31 December 2021**

Available funds	A\$M	Remaining expenditure	A\$M
Cash	61	Capex	137
NAIF debt undrawn	94	Working capital	15
Nordic bond undrawn	60	Corporate	7
		Finance costs	25
		Exploration	2
		Contingency	29
<b>Total</b>	<b>215</b>	<b>Total</b>	<b>215</b>

Source: Company; Foster stockbroking estimates.

**FRAMEWORK AGREEMENT DERISKS TANZANIAN ASSETS**

- Last month STA and the Tanzanian Government signed a Framework Agreement (FWA), much long awaited, to finalise the 16% free-carry interest of the Government in the company's projects. This will allow STA to commence commercialisation of the projects, especially in obtaining debt financing and achieving FID, the FWA clearly defining operating and ownership terms. Fiscal terms (tax, royalty) are as per previous agreements.
- Key highlights of the FWA include the establishment of JV company between STA and the Tanzania Government – named Nyati - in which ownership will be 84%:16% respectively. Nyati will cover all projects including Fungoni, Tajiri, Bagomoyo, and Sudi.
- Fungoni will be the first project to be developed, as it is the most advanced, small in size but fully permitted with low start up-capex. It should pave the way for the larger and higher-value Tajiri project to follow. The company has flagged a capital-efficient modular and relocatable plant design to move between Fungoni and Tajiri.
- We expect the next milestones for the Tanzanian assets will be completion of the formation of Nyati, including administrative and legal processes, such as reassigning of licenses and assets, which we expect by end 1QCY22. We then anticipate potentially updated study for Fungoni –



especially in terms of adoption of a relocatable plant, sometime in mid-CY22e, and further progress for Tajiri in terms of permitting. FID – for Fungoni at least – could be late CY2022 or early CY2023, dependent on successful commissioning of Coburn.

## MINERAL SANDS PRICES

### Mark-to-market and short-term upgrades

- We have marked-to-market mineral sands prices upgraded our zircon and rutile price forecasts in the short-term, mostly FY22e-FY24e, with upgrades of 2%-9%. Our LT assumptions remain unchanged, but we believe risk to our forecast lies mostly on the upside. Spot zircon is US\$2,415/t – well above our short-term forecasts.

Figure 2: Mineral sands commodity price forecasts (US\$/t)

Commodity		FY21a	FY22e	FY23e	FY24e	FY25e	LT
Zircon premium	<b>New</b>	<b>1,471</b>	<b>1,644</b>	<b>1,746</b>	<b>1,718</b>	<b>1,644</b>	<b>1,677</b>
	<i>Old</i>	1,458	1,602	1,708	1,711	1,644	1,677
	<i>Chng</i>	1%	3%	2%	0%	0%	0%
Zircon conc.	<b>New</b>	<b>493</b>	<b>550</b>	<b>584</b>	<b>575</b>	<b>550</b>	<b>561</b>
	<i>Old</i>	493	536	571	572	550	561
	<i>Chng</i>	0%	3%	2%	0%	0%	0%
Rutile (HiTi)	<b>New</b>	<b>1,267</b>	<b>1,392</b>	<b>1,398</b>	<b>1,330</b>	<b>1,307</b>	<b>1,333</b>
	<i>Old</i>	1,217	1,273	1,310	1,304	1,307	1,333
	<i>Chng</i>	4%	9%	7%	2%	0%	0%
Ilmenite chloride	<b>New</b>	<b>229</b>	<b>247</b>	<b>259</b>	<b>268</b>	<b>273</b>	<b>278</b>
	<i>Old</i>	229	246	259	268	273	278
	<i>Chng</i>	0%	0%	0%	0%	0%	0%
A\$:US\$	<b>New</b>	<b>0.72</b>	<b>0.74</b>	<b>0.73</b>	<b>0.74</b>	<b>0.74</b>	<b>0.74</b>
	<i>Old</i>	0.72	0.75	0.75	0.74	0.74	0.74
	<i>Chng</i>	0%	-1%	-3%	-1%	-1%	0%

Source: Foster Stockbroking estimates.

### Recent market commentary positive

- Major producers have reported recent price increases, with Iluka Resources (ILU) achieving US\$220/t increase (weighted average for zircon premium and standard) at the beginning of the current quarter, while Base Resources (BSE) achieved marginal increase for zircon in the current quarter, following a US\$600/t increase in the December 2021 quarter. ILU achieved rutile price rise of 9% in December quarter, citing South African logistics issues, while BSE realised a price increase in the current quarter.

### Larger tiles possess 50% more zircon intensity

- ILU observed the trend of larger format tiles, which generally have a higher zircon content (400-1,050g/m<sup>2</sup> vs 200-600g/m<sup>2</sup> for smaller tiles, so as to impart greater strength and support. The trend to larger tiles is being driven by visual aesthetics.



**EARNINGS FORECASTS**

- We have made a slight upgraded to STA NPAT in FY23e to \$3M from \$1M on slightly higher zircon and rutile prices. Otherwise no changes to longer term earnings forecasts.

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

	FY22e			FY23e			FY24e		
	New	Old	Chng	New	Old	Chng	New	Old	Chng
Coburn	0	0	0%	53	50	6%	204	203	0%
Tanzania	0	0	0%	0	0	0%	0	0	0%
<b>Sales</b>	<b>0</b>	<b>0</b>	<b>0%</b>	<b>53</b>	<b>50</b>	<b>6%</b>	<b>204</b>	<b>203</b>	<b>0%</b>
Operating costs	7	7	0%	31	31	0%	102	103	1%
Coburn	0	0	0%	30	27	10%	111	110	1%
Tanzania	0	0	0%	0	0	0%	0	0	0%
Corp & expln	-7	-7	0%	-8	-8	0%	-9	-9	0%
<b>EBITDA</b>	<b>-7</b>	<b>-7</b>	<b>0%</b>	<b>22</b>	<b>19</b>	<b>15%</b>	<b>102</b>	<b>101</b>	<b>1%</b>
D&A	0	0	0%	3	3	0%	12	12	0%
Coburn	0	0	0%	27	24	12%	99	98	1%
Tanzania	0	0	0%	0	0	0%	0	0	0%
Corp & expln	-7	-7	0%	-8	-8	0%	-9	-9	0%
<b>EBIT</b>	<b>-7</b>	<b>-7</b>	<b>0%</b>	<b>19</b>	<b>16</b>	<b>18%</b>	<b>90</b>	<b>89</b>	<b>1%</b>
Net interest exp	8	7	0%	14	14	0%	16	16	0%
PBT	-15	-15	0%	4	2	124%	74	73	1%
Tax	0	0	0%	1	1	0%	10	10	0%
<b>NPAT adj.</b>	<b>-15</b>	<b>-15</b>	<b>0%</b>	<b>3</b>	<b>1</b>	<b>214%</b>	<b>63</b>	<b>63</b>	<b>0%</b>
NRI	0	0	0%	0	0	0%	0	0	0%
<b>NPAT reported</b>	<b>-15</b>	<b>-15</b>	<b>0%</b>	<b>3</b>	<b>1</b>	<b>214%</b>	<b>63</b>	<b>63</b>	<b>0%</b>

Source: Foster Stockbroking estimates.

**STA VALUATION****Increases to \$0.65 risked from \$0.62 on derisking Tanzania**

- Our risked share valuation (0.8x NPV<sub>10</sub>) of STA increases to \$0.65 from \$0.62 due to derisking our Tanzania assets, following the Framework Agreement. Our unrisked valuation (1.0x NPV<sub>10</sub>) remains \$0.78.

**Figure 4: STA Valuation, nominal 10% WACC**

Segment	Unrisked		Risked		1-Risk Factor
	A\$M	A\$/share	A\$M	A\$/share	
Coburn Reserves	573	\$0.50	544	\$0.47	95%
Coburn Expansion	112	\$0.10	84	\$0.07	75%
Fungoni (84%)	32	\$0.03	26	\$0.02	80%
Tajiri (84%)	205	\$0.18	123	\$0.11	50%
Corporate	-51	-\$0.04	-48	-\$0.04	95%
Other Tanzania exploration	20	\$0.02	8	\$0.01	34%
Net cash (debt) end Dec 2021	2	\$0.00	2	\$0.00	100%
Cash from in money options	2	\$0.00	2	\$0.00	95%
<b>Total</b>	<b>895</b>	<b>\$0.78</b>	<b>741</b>	<b>\$0.65</b>	<b>83%</b>
Shares now M	1,124				
Performance rights M	15				
Options-in-money at valuation M	10				
<b>Fully diluted shares M</b>	<b>1,148</b>				

Source: Foster Stockbroking estimates.

**MAINTAIN BUY, 12-MONTH PT \$0.65 (PRIOR \$0.62)**

- We maintain our Buy, increasing our 12-month price target to \$0.65 from \$0.62, based on our risked valuation (0.8x NPV<sub>10</sub>). Share price catalysts include:
  - 1) Further progress on Coburn project construction;
  - 2) Coburn Resource and Reserves upgrades;
  - 3) Completion of establishment of Nyati JV; and
  - 4) Higher mineral sands prices.



## FOSTER STOCKBROKING DISCLOSURES

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