



Strandline Resources Ltd (STA.ASX)

On the verge

Event:

- Review post equity raising; Price target upgrade.

Investment Highlights:

- Equity raising readies company for early work.** Strandline Resources Ltd's (STA) recent \$18.5M equity raising bolstered its cash to \$23M, allowing it to maintain momentum as it seeks to finalise financing by its October FID target. Funds provide readiness for early works, front end design, and long lead procurement.
- Early works that the company is preparing for include the 43km access road connecting Coburn to the North West Coastal Highway, bulk earthworks, pads, and other site roads.** This work has been awarded to leading mining contractor Macmahon Holdings Ltd.
- Further offtake agreement likely.** 100% of STA's rutile and 30% of its premium zircon have not yet been contracted for, and we believe that one or both of these may be finalised prior to FID. Some of the potential customers for these, as well as Coburn existing offtakers, may be in the mix for any strategic equity component of Coburn funding.
- Commercial debt and FID still on track.** STA has been progressing its finance negotiation and documentation with banks, specialist funds, and other debt instrument providers to close the debt funding for Coburn, a precursor to determine its equity requirement for the project. We expect this to be completed prior to the October 2020 FID target. We assume a further \$90M of equity and \$200M debt (inclusive \$130M NAIF) in our forecasts.
- Tanzania progressing albeit not the priority.** While understandably FID and development of Coburn is STA's priority, it continues to negotiate with the Tanzanian Government over finalising Fungoni. A scoping study on the much larger Tajiri is scheduled to be completed end September 2020, which should highlight the material option value Tanzania presents to STA shareholders.
- Deferral of Toliara FID to tighten mineral sands market, positive for STA.** Base Resources Ltd (BSE) recently announced it has deferred its FID on its Madagascar Toliara project to no earlier than September 2021, due to COVID and fiscal terms not yet finalised. This was one of the few sources of new supply and now it seems unlikely to come onstream before mid-2020s. Its delay should be positive for timing of Coburn and mineral sand prices.

Earnings and Valuation:

- We have made no material change to earnings.**
- Risked valuation increases to \$0.53 from \$0.42.** We now assume less dilutive future equity raising, and we have lowered our risking of the Coburn project (0.8x NPV vs 0.7x previously) due to its advanced stage.

Recommendation:

- We maintain our Buy and increase 12-month PT to \$0.53 from \$0.42, in-line with our risked nominal NPV₁₀.**
- Catalysts for the share price include:** 1) Remaining Coburn offtake agreements; 2) Commercial debt financing for Coburn; 3) Coburn FID; 4) Commencement of Coburn construction; 5) Start of production; and 6) 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 8,024,852 STA shares.

Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$ 0.53
Previous	\$0.42
Share price (A\$)	\$ 0.20
ASX code	STA
52 week low-high	\$0.067-\$0.29
Valuation - risked (A\$/share)	\$ 0.53
Methodology	risked NPV

Capital structure

Shares on Issue (M)	523
Market cap (A\$M)	105
Net cash (debt) (A\$M)	23
Performance rights (M)	10
Options (M)	11
Diluted EV (A\$M)	86
Ave daily volume ('000)	463

Earnings Y/e Jun A\$M	FY19a	FY20e	FY21e	FY22e
Sales	0	0	0	10
EBITDA adj	-8	-8	-9	-20
NPAT reported	-7	-7	-9	-34
NPAT adj	-8	-7	-9	-34
EPS adj. \$*	-0.03	-0.02	-0.01	-0.04
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 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	10
Operating Costs adj.	8	7	9	30
EBITDA adj.	-8	-7	-9	-20
D&A	0	0	0	3
EBIT adj.	-8	-7	-9	-23
Net Interest exp / (income)	0	0	0	11
PBT adj.	-8	-7	-9	-34
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	-8	-7	-9	-34
Non-recurring items	1	0	0	0
NPAT reported	-7	-7	-9	-34

EPS diluted (\$) adj. -0.03 -0.02 -0.01 -0.04

Cashflow A\$M	2019a	2020e	2021e	2022e
EBITDA adj.	-8	-7	-9	-20
Change in WC	0	0	0	1
Tax paid	0	0	0	0
Other	1	1	1	1
Net interest	0	0	0	-11
Share based payments	1	1	1	1
Operating Cashflow	-7	-5	-7	-29

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	9	6	109	0
Debt proceeds	0	0	202	0
Debt repayments	0	0	0	0
Other	0	0	0	0
Financing Cashflow	8	6	310	0

Net Cashflow 2 1 132 -118

Balance Sheet A\$M	2019a	2020e	2021e	2022e
Cash	6	7	139	21
Receivables	0	0	0	1
PPE	0	0	0	257
Capitalised exploration	7	7	178	7
Intangibles	0	0	0	0
Other	0	0	0	0
Total Assets	14	14	317	286

Accounts payable	1	1	1	2
Provisions	0	1	1	2
Debt	0	0	202	202
Other	0	1	2	2
Total Liabilities	1	2	205	208

Reserves and capital	79	85	194	194
Retained earnings	-65	-72	-81	-115
Total Equity	13	13	112	78

Capital structure	M
Ordinary shares	522.9
Performance rights	9.4
Options	10.5
Fully diluted	542.8

Financial Metrics	2019a	2020e	2021e	2022e
Sales growth %	nm	nm	nm	nm
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	nm	-201%
EBIT margin	nm	nm	nm	-230%
Gearing (ND/ND+E)	nm	nm	36%	70%
Interest Cover (EBIT/net int)	nm	nm	nm	-2x
Average ROE %	nm	nm	nm	nm
Average ROA %	nm	nm	nm	-8%
Wtd ave shares (M)	297	387	826	826
Wtd ave share diluted (M)	297	417	846	846

Valuation multiples	2019a	2020e	2021e	2022e
P/E x	nm	nm	nm	-5.0
EV/EBITDA x	nm	nm	nm	-5.4

Company Valuation

DCF, WACC 10% nominal				
Segment	Unrisked		Risked	
	A\$M	A\$/sh	A\$M	A\$/sh
Coburn Reserves	317	\$0.37	285	\$0.34
Coburn Expansion	112	\$0.13	67	\$0.08
Funconi reserves	33	\$0.04	20	\$0.02
Corporate	-48	-\$0.06	-43	-\$0.05
Tanzania exploration	30	\$0.04	12	\$0.01
Net cash (debt)	23	\$0.03	23	\$0.03
Cash from in money options	2	\$0.00	2	\$0.00
Cash from future equity	90	\$0.11	81	\$0.10
Total	560	\$0.66	447	\$0.53

Shares now M	523
Performance rights M	9
Options-in-money at valuation M	11
Shares future issue M	303
Full diluted shares M	846

Commodity Assumptions	2019a	2020e	2021e	2022e
Prices (US\$/t)				
Zircon	-	1,495	1,474	1,459
Rutile	-	1,165	1,165	1,171
Ilmenite - chloride grade	-	227	223	225
Rutile/HiTi	-	1,114	1,149	1,171
Monazite	-	1,430	1,427	1,456
A\$/U\$	0.73	0.67	0.69	0.70

Shipments (kt)				
Zircon	0	0	0	0
Zircon concentrate	0	0	0	0
HiTi90	0	0	0	0
Ilmenite	0	0	0	0
HMC	0	0	0	14
Total	0	0	0	14

Revenue to cost ratio 0 - - 0.5

Segment Contribution	2019a	2020e	2021e	2022e
Coburn	-	-	-	10
Funconi	-	-	-	0
Sales	-	-	-	10
Coburn	-	-	-	-13
Funconi	-	-	-	0
Corporate	-8	-7	-9	-10
Group EBIT	-8	-7	-9	-23

Source: Company; Foster Stockbroking estimates



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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.