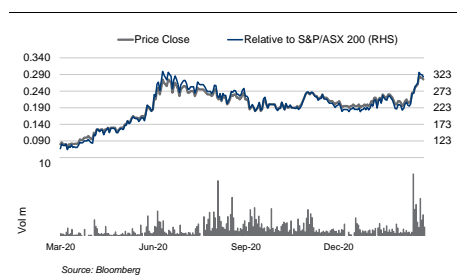


Strandline Resources

ADD (no change)

Current price:	A\$0.275
Target price:	A\$0.44 ▲
Previous target:	A\$0.39
Up/downside:	60.0%
Reuters:	STA.AX
Bloomberg:	STA AU
Market cap:	US\$111.4m A\$143.8m
Average daily turnover:	US\$0.19m A\$0.24m
Current shares o/s	426.8m
Free float:	60.0%



Price performance	1M	3M	12M
Absolute (%)	37.5	34.1	292.
Relative (%)	38.1	31.1	269.

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Analyst(s) own shares in the following stock(s) mentioned in this report:

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Bond buyers back Coburn

- STA has announced a successful US\$60m bond issue.
- The issue completes the debt funding of the world class Coburn Mineral Sands Project in WA, alongside the existing A\$150m facility from NAIF.
- STA requires an equity raise to complete the development funding for Coburn, which we now estimate at A\$120m, along with a final investment decision from the board.
- On revised funding assumptions and reduced P/NAV discount, we maintain an ADD rating at a target price of A\$0.44/share.

Bonds complete Coburn development debt

STA's announcement of a US\$60m (~A\$78m at 0.77 AUD/USD) bond issue completes the debt funding of the Coburn project, alongside the committed Northern Australia Infrastructure Facility (NAIF) funding of up to A\$150m. STA has traded relatively flat since late CY20 in anticipation of this announcement which, along with a positive decision to develop, should be a catalyst for the stock.

Final investment decision (FID) in sight

With debt funding in place, STA's focus now moves to securing a positive FID from its board and raising the required equity funding to develop Coburn. Incorporating today's announcement, we estimate a capital raising of A\$100-120m (previously A\$80m).

Coburn development timeline

STA has flagged an approximate 18-month construction period for Coburn from board approval for the project. Early sites are already underway, but with an FID and full funding now likely in the June quarter, commissioning is expected to commence in the December quarter of CY22. While this is later than originally expected it is not a material impact to the project valuation.

View and recommendation

Completion of debt funding for Coburn is a major step forward for STA, with the next key events being a positive FID from the board, likely concurrent with an equity raise. Strandline is well placed for development, having finalised key contracts with suppliers in the last 6 months and having binding offtakes in place for 90% of its first five years of revenue with a spread of quality counterparties across Europe, North America and China. Incorporating today's announcement and beginning to unwind our P/NAV discount from 0.6x to 0.8x NAV, we maintain an ADD recommendation for STA at an updated price target of A\$0.44/share (see page 4 for forecast updates).

Financial Summary

	Jun-21F	Jun-22F	Jun-23F	Jun-24F	Jun-25F
Revenue (A\$m)	0.0	0.0	97.6	190.2	197.9
Operating EBITDA (A\$m)	(8.2)	(4.0)	26.0	93.1	100.4
Net Profit (A\$m)	(8.25)	(3.95)	(1.48)	56.46	54.31
Normalised EPS (A\$)	(0.013)	(0.004)	(0.001)	0.056	0.054
Normalised EPS Growth	(31.9%)	(70.3%)	(62.4%)	(3.8%)	
FD Normalised P/E (x)	NA	NA	NA	4.90	5.10
DPS (A\$)	-	-	0.009	0.049	0.044
Dividend Yield	0.0%	0.0%	3.3%	17.7%	16.2%
EV/EBITDA (x)	NA	NA	10.25	2.77	2.49
P/FCFE (x)	NA	NA	NA	6.50	7.07
Net Gearing	(32.7%)	(16.0%)	(7.7%)	(14.0%)	(18.8%)
P/BV (x)	3.67	2.00	2.17	2.05	1.91
ROE	(27.8%)	(4.3%)	(1.1%)	43.0%	38.8%
% Change In Normalised EPS Estimates	(206%)	51%	(104%)	(20%)	(6%)
Normalised EPS/consensus EPS (x)	0.94	(0.44)	(0.03)		

SOURCE: MORGANS, COMPANY REPORTS

Strandline Resources

as at March 17, 2021

Market cap (A\$m):	143.8	Rating:	ADD
Shares outstanding (m):	426.8	Price (A\$):	0.275
Free float (%):	60.0	Target price (A\$):	0.44
Website:	www.strandline.com.au	Upside/downside to target price (%):	60.0

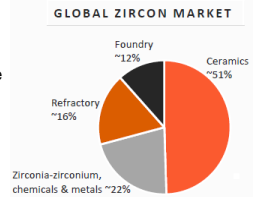
Company description

Strandline Resources Limited (STA) is a heavy mineral sands (HMS) explorer and developer, with projects in Australia and Tanzania. Its flagship asset is the Coburn Project (100%) located 250km north of the regional centre of Geraldton, Western Australia. The core asset of the Coburn Project is the Amy Zone deposit, with the Amy South Ore Reserve to JORC Code (2012) standard of 523Mt at 1.1% Heavy Mineral (HM). The HM comprises a high value assemblage of 23% zircon, 48% chloride ilmenite, 7% rutile, and 5% leucoxene.

Strandline Products and Markets

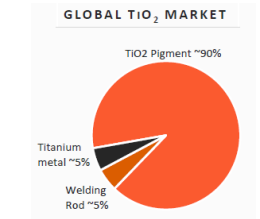
Zircon:

- STA to produce a premium and mixed zircon concentrate
- Water, chemical, heat and abrasion resistant
- 1mtpa global zircon market
- Ceramics market represents 51% of the zircon market
- China dominates zircon consumption (47%)
- Iluka the most influential in establishing benchmark price



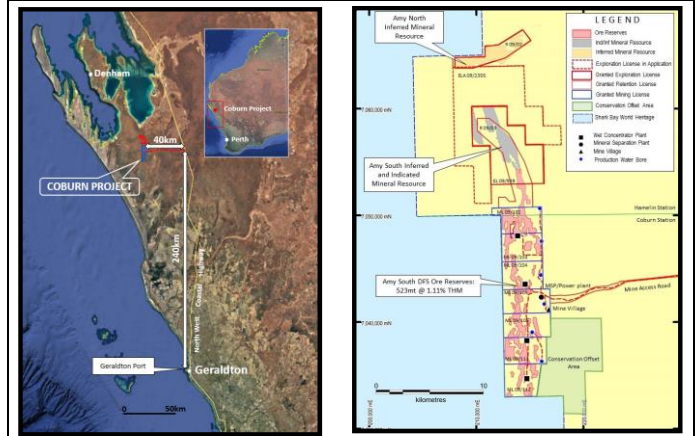
Titanium (Ti / TiO2):

- STA to produce a high Ti rutile & chloride grade ilmenite
- TiO2 a white/opaque pigment, is UV resistant & inert
- 7mtpa global TiO2 market
- Chloride pigment demand/consumption increasing
- Chinese chloride pigment demand driven by increasing environmental standards



Source: Strandline

Map of STA Coburn Project



Source: Strandline

Revenue to Cost Ratio

Mineral sands are notoriously difficult to compare

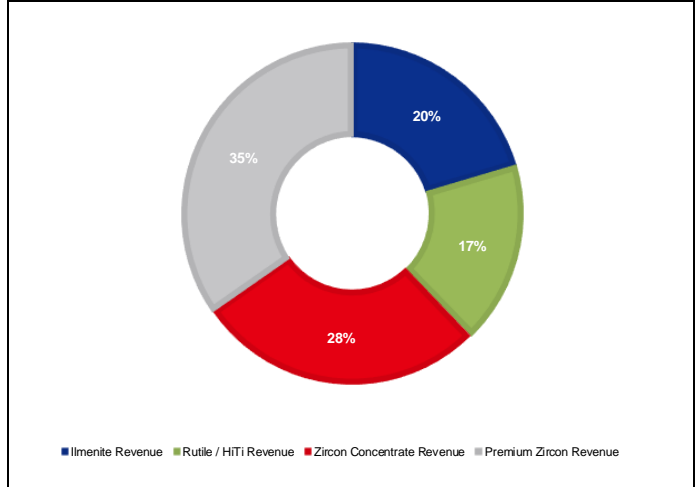
- Head grade and commodity make up of each project vary significantly
- Final product also varies (mixed concentrate, partial segregation or final products)
- Market cap or EV to grade ratios difficult to compare between projects as a result

Mineral sands producers use Revenue:Cost ratio

- Revenue:Cost ratio (R:C) provides insight into project strength through market cycles
- Market is routinely surveyed and analysed by specialist industry consultants
- Estimated producer average R:C is 1.8x (range 1-3x)
- Strandline ratio is 2.4x (on Morgans assumptions)
- Coburn is a first quartile project able to ride pricing cycles ahead of its peers

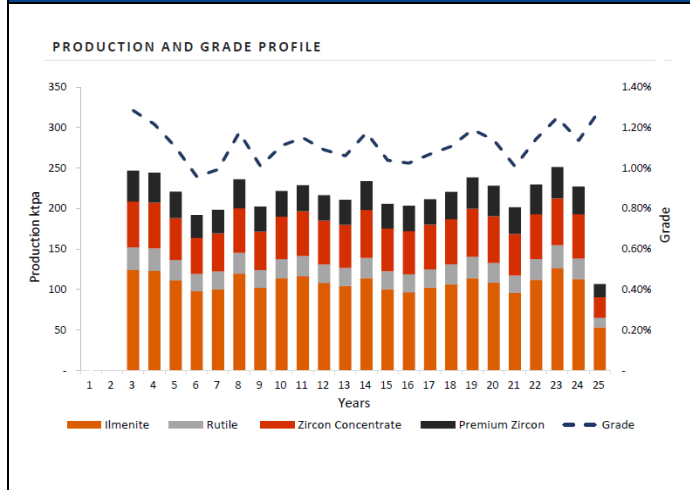
Source: Morgans

Coburn Life of Mine Revenue Breakdown



Source: Morgans

STA future production



Source: Strandline

Key risks & drivers

Key Risks

- Commodity prices - as a large proportion of costs are relatively fixed
- Project Development and ramp up

Upcoming Catalysts

- Final investment decision on Coburn Development
- Project construction
- First sales

Industry Divers

- AUD:USD Exchange Rate
- Product demand is largely consumer/construction driven (pigments and ceramics)

Source: Morgans

Figure 1: Financial summary

STA						Mining and Metals					
Income statement (A\$M)						Revenue by Product (A\$M)					
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Sales Revenue	-	0.0	97.6	190.2	197.9	Premium Zircon	-	-	34.1	67.0	69.5
Operating Costs	-	-	(67.6)	(93.1)	(93.5)	Zircon Concentrate	-	-	27.1	53.2	55.2
Other Income/Costs	(8.2)	(4.0)	(4.0)	(4.0)	(4.0)	Rutile / HiTi	-	-	17.5	33.2	34.3
EBITDA	(8.2)	(4.0)	26.0	93.1	100.4	Ilmenite	-	-	18.8	36.7	38.6
Depreciation & Amortisation	(0.1)	-	(16.0)	(21.3)	(21.3)	Sales Revenue	-	-	97.5	190.0	197.6
EBIT	(8.3)	(4.0)	10.1	71.8	79.2	Annual Production (kt)					
Other Income & Expenses	-	0.0	(11.6)	(15.3)	(13.5)		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Profit before Income Tax	(8.3)	(4.0)	(1.5)	56.5	65.7	Premium Zircon	-	-	16.6	32.3	34.0
Income Tax Expense	-	-	-	-	(11.4)	Zircon Concentrate	-	-	26.3	51.3	54.0
NPAT - Reported	(8.3)	(4.0)	(1.5)	56.5	54.3	Rutile / HiTi	-	-	11.7	22.8	24.0
Cashflow Statement (A\$M)						Ilmenite	-	-	53.6	104.5	110.0
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E	Total Production	-	-	108.2	210.9	222.0
Operating EBITDA	(3.2)	(4.0)	26.0	93.1	100.4	Key Metrics					
Net Finance Income	0.0	0.0	(11.6)	(15.3)	(13.5)		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Income Tax Paid	-	-	-	-	(11.4)	AUD:US	0.75	0.74	0.74	0.74	0.74
Other	(5.7)	0.9	(17.5)	(8.2)	0.4	EPS	-0.01	0.00	0.00	0.06	0.05
Net operating Cashflow	(8.9)	(3.1)	(3.1)	69.6	76.0	DPS	0.00	0.00	0.01	0.05	0.04
Capex (Development, PP&E, other)	(24.4)	(281.8)	(24.9)	-	-	Yield	0.0%	0.0%	3.2%	17.1%	15.6%
Net Proceeds from Sales/Acquisitions	-	-	-	-	-	EBITDA Margin	0%	0%	27%	49%	51%
Payment for Exploration / Tenements	-	-	-	-	-	P/E	-20.80	-70.09	-186.57	4.90	5.10
Other Investing Cashflows	-	-	-	-	-	EV/EBITDA	-19.12	-64.07	10.25	2.77	2.49
Net Cash from Investing Activities	(24.4)	(281.8)	(24.9)	-	-	Free Cashflow Yield	-3.9%	-10.7%	-1.9%	23.9%	26.1%
Net Proceeds from Debt	-	196.1	24.9	(11.5)	(23.0)	Valuation					
Dividends Paid	-	-	(9.2)	(49.0)	(44.7)		A\$M		A\$/sh		
Proceeds from Issues of Shares	42.8	95.6	-	-	-	Discount Rate (%)	8.0%				
Other Financing Cashflows	(1.0)	-	-	-	-	Coburn Equity NPV (risked 0.8x)	\$355		\$0.35		
Net Cash from Financing Activities	41.9	291.8	15.6	(60.5)	(67.7)	Fungoni Project NPV (risked 0.4x)	\$16		\$0.02		
Net Inc/Dec in Cash and Cash Equivalents	8.6	6.9	(12.3)	9.1	8.3	Tajiri Project NPV (Risked 0.4x)	\$77		\$0.07		
Balance Sheet (A\$M)						Corporate Overhead NPV LOM	-\$45		-\$0.04		
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E	Total Current NPV (A\$M)	\$403		\$0.39		
Cash & Cash Equivalents	15.3	22.2	9.9	18.9	27.2	Exploration Upside (A\$M)	\$27		\$0.03		
Other Current Assets	0.4	0.4	20.0	28.3	27.9	Cash & Cash Equivalents (A\$M)	\$17		\$0.02		
Total Current Assets	15.7	22.6	29.9	47.2	55.1	Listed Investments	\$1		\$0.00		
Development Assets	22.0	275.5	282.8	262.6	242.4	Total Valuation (A\$M)	\$46		\$0.04		
Property, Plant & Equipment	2.9	31.1	32.8	31.7	30.6	Fully Diluted Shares On Issue (million)	1,023				
Exploration and Evaluation Expenditure	7.1	7.1	7.1	7.1	7.1	Target Price (A\$/Share)	\$0.44				
Other Non-Current Assets	0.9	0.9	0.9	0.9	0.9	Coburn Project Annual Production (kt)					
Total Non-Current Assets	32.9	314.6	323.6	302.3	281.0		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Total Assets	48.6	337.2	353.5	349.5	336.1						
Trade & Other Payables	1.1	2.0	4.1	4.2	4.2						
Provisions & Other Current Liabilities	0.4	0.4	0.4	0.4	0.4						
Total Current Liabilities	1.5	2.4	4.4	4.6	4.5						
Senior Debt	0.3	196.4	221.3	209.8	186.8						
Provisions & Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0						
Total Non-Current Liabilities	0.3	196.4	221.3	209.8	186.8						
Total Liabilities	1.8	198.8	225.7	214.4	191.4						
Total Equity	46.8	138.4	127.7	135.2	144.7						
Annual Revenue (A\$M)											
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E						

SOURCE: MORGANS RESEARCH, COMPANY

Key changes to forecasts

Since our previous update, we have reduced our P/NAV discount from 0.6 to 0.8x NAV on the back of the successful debt raising and our view the equity raising will be well supported. We have adjusted our estimated total debt balance on today's announcement, increased our estimated equity raise to A\$120m (from A\$80m) and increased our target raising price to 25cps from 20cps on the back of recent strong buying in STA on market. Updates to estimated project commissioning have pushed revenue timing back compared to previous estimates.

The impact on our near term forecasts is presented in the table below.

Figure 2: Changes to forecasts				
	2021F	2022F	2023F	2024F
Revenue previous	0.0	27.1	159.7	200.3
Revenue revised	0.0	0.0	97.6	190.2
Change (%)		(99.9%)	(38.9%)	(5.0%)
EBITDA - previous	-4.0	-4.1	44.0	82.6
EBITDA - revised	-8.2	-4.0	26.0	93.1
Change (%)		3.0%	(40.8%)	12.7%
NPAT - previous	-4.0	-7.4	31.1	65.3
NPAT - revised	-8.3	-4.0	-1.5	56.5
Change (%)		46.62%	(104.77%)	(13.54%)
Key Assumptions				
AUD	0.75	0.74	0.74	0.74
Premium Ziron (tpa)	0	0	17	32
Zircon Con (tpa)	0	0	26	51
Rutile (tpa)	0	0	12	23
Ilmenite (tpa)	0	0	54	105

SOURCES: MORGANS, COMPANY REPORTS

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Analyst owns shares in the following mentioned company(ies): N/A

Morgans Corporate Limited was Co-Manager to the Placement of shares in Strandline Resources Limited in August 2020 and received fees in this regard.

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For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

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