



## Strandline Resources Ltd (STA.ASX)

Tajiri environmental approval, SML to follow

### Event:

- Tajiri environmental approval.

### Investment Highlights:

- STA's Tajiri yesterday received the Environmental Certificate** from the Tanzania government. This means now the Special Mining Licence (SML) is the major outstanding regulatory approval required, given the Framework Agreement for all of STA's Tanzanian assets (including Tajiri and Fungoni) had been signed in December 2021, which allows STA to clearly commercialise its assets with defined operating and ownership terms via the 84:16 Nyati JV with the Government. We expect the Tajiri SML to be granted some time in CY22e.
- Tajiri - STA's second most valuable asset after Coburn.** We value Tajiri at \$205M unrisked (\$0.18/share), ranking it only behind Coburn (\$473M, or \$0.50/sh) as the company's most valuable asset. While Fungoni is more advanced – completed DFS, granted Mining License – it is relatively smaller in Resource size and value (FSB: \$32M or \$0.03/sh) than Tajiri. Increasingly, we see Fungoni as more of a starter project with Tajiri later becoming the flagship Tanzanian asset.
- Recap on Tajiri.** The 2020 Scoping Study on Tajiri contemplated a 23-year mine life yielding pre-tax NPV<sub>10</sub> of US\$205M (A\$277M) and IRR of 26%. This included an attractive revenue/C1 cost ratio of 2.4x and production of 16ktpa HiTi, 150ktpa ilmenite, and 61ktpa zircon concentrate. The project encompasses 268Mt JORC Resource at 3.3% THM.
- We expect STA will complete a DFS on Tajiri some time in CY23,** with the project to follow Coburn and Fungoni into development, providing an attractive staggered project growth pipeline for the company.
- Meanwhile we anticipate that completion of the Nyati JV,** including reassigning of STA's Tanzanian licences and assets into the JV in the 2QCY22. We also expect STA is progressing its plans for commercialising its Tanzanian assets, including potentially examining strategic alliances as an option.

### Earnings and Valuation:

- No changes to earnings.
- Unchanged risked share valuation of \$0.65, based on 0.8x NPV<sub>10</sub>.

### Recommendation:

- We maintain both our Buy recommendation and 12-month PT of \$0.65,** in-line with our risked share valuation.
- Upside to P/E based on peers supports our PT.** We note that when Coburn is commissioned, the market will start to price STA at FY24e earnings. Currently STA is on FY24e PE of 7x vs Resource producers forward PE of 11x. This represents ca. 50% upside to current share price, which is also in-line with our 12-month PT of \$0.65.
- Catalysts for the share price include:** 1) Coburn progress; 2) Resource and Reserves upgrades; 3) Coburn commissioning; 4) Completion of Nyati JV; 5) Commercialisation of Tanzanian assets; 6) Tajiri SML; and 7) Higher mineral sands prices.

### Disclosures

The analyst owns 265,500 STA shares.  
 Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 2,015,500 STA shares.  
 Cranport Pty Ltd owns 1,757,618 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	\$0.65			
Share price (A\$)	\$ 0.395			
ASX code	STA			
52 week low-high	\$0.165-\$0.41			
Valuation - risked (A\$/share)	\$ 0.65			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	1,124			
Market cap (A\$M)	444			
Net cash (debt) (A\$M)	2			
Performance rights (M)	15			
Options (M)	10			
Diluted EV (A\$M)	452			
Ave daily volume ('000)	4,182			
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>7.1x</b>
EV/EBITDA x	nm	nm	23.8x	5.1x

\* Adj =underlying

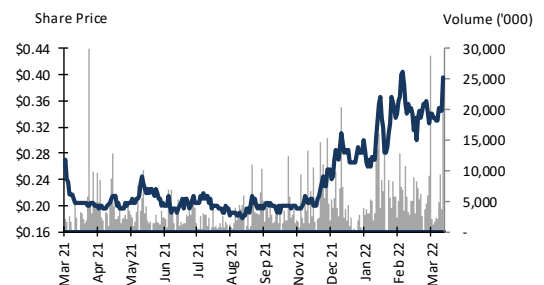
### Substantial shareholders

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>

**EPS diluted (\$) adj.** -0.02 -0.01 0.00 0.06

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>

**Net Cashflow** 106 23 -84 56

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	7.1
EV/EBITDA x	nm	nm	23.8	5.1

### 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>

**Revenue to C1 cost ratio** 0.0 0.0 2.6 2.5

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



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**Specific disclosure:** 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 will receive fees.

**Specific disclosures:** At date of the report, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) owned 2,015,500 STA shares and Cranport Pty Ltd owned 1,757,618 STA shares. The position may change at any time and without notice, including on the day that this report has been released. Foster Stockbroking and its employees may from time to time own shares in STA, and trade them in ways different from those discussed in research. Foster Stockbroking may also make a market in securities of STA, including buying and selling securities on behalf of clients.

**Review disclosure:** The report was authored by the analyst named on the front page of the report and was reviewed and checked by Matthew Chen, Research Analyst.

**Disclosure review.** All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance.