

September 6, 2021

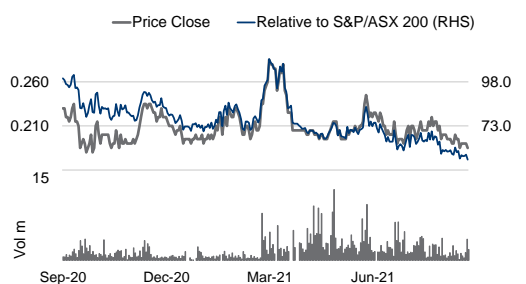
ADD (no change)

Stock code:	STA AU
Price:	A\$0.185
12-month target price:	A\$0.50
Previous target price:	A\$0.52
Up/downside to target price:	170.3%
Dividend yield:	0.00%
12-month TSR*:	170.3%
Market cap:	A\$207.3m
Average daily turnover:	A\$0.48m
Index inclusion:	N/A

* Total stock return – Up/downside to target price + 12-month forward dividend yield.

Price performance

(%)	1M	3M	12M	3Y
Absolute	-15.9	-21.3	-19.6	12.1
Rel ASX/S&P200	-16.5	-24.9	-42.7	-7.1



Source: Bloomberg

Financial summary

	Jun-21F	Jun-22F	Jun-23F	Jun-24F
Revenue (A\$m)	0.0	0.0	63.5	189.6
EBITDA Norm (A\$m)	-8.18	-4.00	14.55	92.54
Net Profit (A\$m)	-8.25	-4.00	-2.87	57.21
EPS Norm (A\$)	-0.011	-0.004	-0.003	0.051
EPS Growth Norm (%)	-49.0%	-66.5%	-28.1%	
P/E Norm (x)	NA	NA	NA	3.63
DPS (A\$)	0.000	0.000	0.003	0.050
Dividend Yield (%)	0.0%	0.0%	1.7%	27.0%
EV/EBITDA (x)	NA	NA	12.32	1.81
Gearing (Net Debt/EBITDA)	16.78	8.53	-1.94	-0.43

Source: Company data, Morgans estimates

Related research

[STA \(ADD - TP A\\$0.52\) - 04 May 2021](#)

[STA \(ADD - TP A\\$0.44\) - 17 Mar 2021](#)

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– N/A

Strandline Resources

Construction update shows plans on track

- Over 90% of construction scope (by value) is now committed and all major construction contracts awarded.
- Civil earthworks remain current focus (land clearing of plant sites and construction of site access road) ahead of process plant construction contractor mobilising to site next month.
- Accommodation village forecast to begin operation by end of September.
- Re-affirm project currently on track for first heavy mineral concentrate (HMC) production in the December quarter, CY22.
- We retain our Add rating, at a target price of 50cps, using a sum of the parts discounted cash flow valuation.

Event – Coburn construction update

- STA highlights that all major construction contracts are now awarded and that over 90% of the project scope by value is now committed.
- All major mechanical equipment has been ordered, with delivery of first mechanical equipment and construction materials planned for next month along with mobilisation of process plant construction contractor Primero.
- STA has re-affirmed guidance for first production of HMC in the December quarter of CY22.

Analysis

- Discussions with management suggest construction remains on schedule, with some time up their sleeves on critical path items.
- STA retains some flexibility in its schedule through the ability to sell HMC ahead of the full completion of the mineral separation plant.
- While progress to date is on track, next month's arrival of Primero to begin construction of surface infrastructure is when the rubber will hit the road for STA.
- STA still looks well placed, beginning construction in a tight supply market for Zircon in particular, where we forecast STA to earn 61% of its revenue across its two zircon products.

Forecast and valuation update

- We have adjusted available free cash but otherwise our model is unchanged.
- Our valuation reduces slightly to 50cps, and we retain an ADD rating on the stock.

Investment view

- Despite the recent price lift across most mineral sands products, and particularly zircon, STA's share price has remained relatively flat.
- We believe this is driven by STA's status as a project developer and compounded by the well-known pressures in the WA resources sector on both labour and material costs.
- Management has maintained a strong focus on costs and contracts throughout the project design phase and we believe this positions STA well for project development at a time of strong pricing in the mineral sands market.
- The risk of cost overruns or delays cannot be ignored, but we take some comfort from STA's arrangements to sell a mixed HMC, allowing cash to start flowing ahead of final project completion and softening the blow of any delays.

Price catalysts

- Commencement of process infrastructure on site.

Risks

- Cost or schedule overruns at Coburn.
- Commodity market movements, especially zircon pricing.

Strandline Resources

as at September 6, 2021

Rating	ADD	Price (A\$):	0.185
Market cap (A\$m):	207.3	12-month target price (A\$):	0.50
Shares outstanding (m):	1,120	Up/downside to target price (%):	170.3
Free float (%):	60.0	Dividend yield (%):	0.00

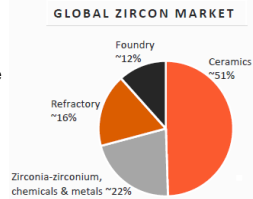
Company description

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

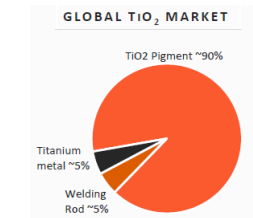
Zircon:

- 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



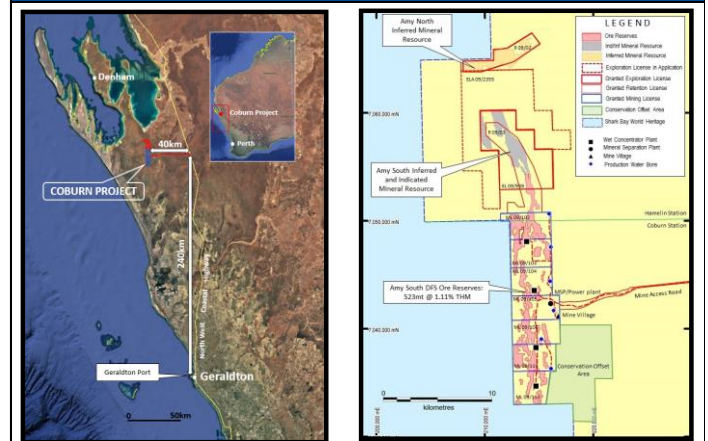
Titanium (Ti / TiO2):

- 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

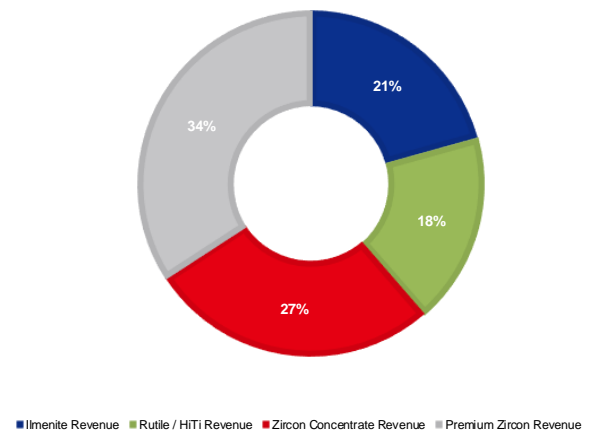
- Head grade and commodity make up of each project vary significantly
- Final product also varies (mixed concentrate, partial segregation or final products)
- Market cap or EV to grade ratios difficult to compare between projects as a result

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 2.3x (on Morgans assumptions)
- Coburn is a first quartile project able to ride pricing cycles ahead of its peers

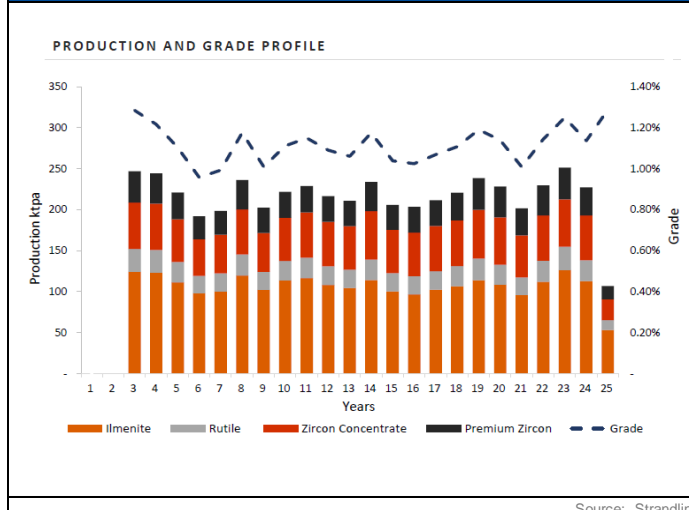
Source: Morgans

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

- Project construction
- First sales

Industry Drivers

- AUD:USD Exchange Rate
- Product demand is largely consumer/construction driven (pigments and ceramics) linked to global economic growth

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
Revenue	-	-	63.5	189.6	214.9	Premium Zircon	-	-	22.1	65.8	73.7
Operating Costs	-	-	(45.0)	(93.1)	(94.3)	Zircon Concentrate	-	-	17.5	52.3	58.6
Other Income/Costs	(8.2)	(4.0)	(4.0)	(4.0)	(4.0)	Rutile / HiTi	-	-	11.8	35.1	39.2
EBITDA	(8.2)	(4.0)	14.5	92.5	116.5	Ilmenite	-	-	11.8	36.0	42.7
Depreciation & Amortisation	(0.1)	-	(10.2)	(20.3)	(20.3)	Sales Revenue	-	-	63.1	189.2	214.3
EBIT	(8.3)	(4.0)	4.4	72.2	96.2	Annual Production (kt)					
Other Income & Expenses	-	-	(7.2)	(15.0)	(14.6)		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Profit before Income Tax	(8.3)	(4.0)	(2.9)	57.2	81.5	Premium Zircon	-	-	10.2	30.2	34.0
Income Tax Expense	-	-	-	-	(17.0)	Zircon Concentrate	-	-	16.2	47.9	54.0
NPAT - Reported	(8.3)	(4.0)	(2.9)	57.2	64.6	Rutile / HiTi	-	-	7.2	21.3	24.0
Cashflow Statement (A\$M)						Ilmenite	-	-	33.0	97.6	110.0
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E	Total Production	-	-	66.6	197.0	222.0
Operating EBITDA	(3.2)	(4.0)	14.5	92.5	116.5	Key Metrics					
Net Finance Income	0.0	-	(7.2)	(15.0)	(14.6)		Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Income Tax Paid	-	-	-	-	(17.0)	AUD:US	0.70	0.75	0.74	0.74	0.74
Other	(5.7)	0.9	(9.6)	(9.9)	0.0	EPS	-0.01	0.00	0.00	0.05	0.06
Net operating Cashflow	(8.9)	(3.1)	(2.3)	67.6	84.9	DPS	0.00	0.00	0.00	0.05	0.06
Capex (Development, PP&E, other)	(0.0)	(230.9)	(86.2)	-	-	Yield	0.0%	0.0%	1.7%	26.3%	29.1%
Net Proceeds from Sales/Acquisitions	-	-	-	-	-	EBITDA Margin	0%	0%	23%	49%	54%
Payment for Exploration / Tenements	-	-	-	-	-	P/E	-25.15	-51.89	-72.19	3.63	3.21
Other Investing Cashflows	-	-	-	-	-	EV/EBITDA	-8.59	-43.36	12.32	1.81	1.34
Net Cash from Investing Activities	(0.0)	(230.9)	(86.2)	-	-	Free Cashflow Yield	-3.5%	-12.2%	-5.1%	31.3%	39.4%
Net Proceeds from Debt	-	130.9	86.2	-	(11.5)	Valuation					
Dividends Paid	-	-	(3.5)	(56.0)	(62.0)		A\$M		A\$/sh		
Proceeds from Issues of Shares	140.5	-	-	-	-	Discount Rate (%)	8.0%				
Other Financing Cashflows	(1.0)	-	-	-	-	Coburn Equity NPV (risked 0.8x)	\$487		\$0.43		
Net Cash from Financing Activities	139.5	130.9	82.6	(56.0)	(73.5)	Fungoni Project NPV (risked 0.4x)	\$16		\$0.01		
Net Inc/Dec in Cash and Cash Equivalents	130.6	(103.1)	(5.8)	11.7	11.4	Tajiri Project NPV (risked 0.4x)	\$77		\$0.07		
Balance Sheet (A\$M)						Corporate Overhead NPV LOM	-\$44		-\$0.04		
	Jun-21E	Jun-22E	Jun-23E	Jun-24E	Jun-25E	Total Current NPV (A\$M)	\$536	\$0.47			
Cash & Cash Equivalents	137.3	34.1	28.3	39.9	51.4	Exploration Upside (A\$M)	\$26		\$0.02		
Other Current Assets	0.4	0.4	10.0	20.0	20.0	Cash & Cash Equivalents (A\$M)*	\$0		\$0.00		
Total Current Assets	137.7	34.5	38.3	59.9	71.4	Listed Investments	\$1		\$0.00		
Development Assets	-	207.8	275.7	256.4	237.1	Total Valuation (A\$M)	\$27	\$0.02			
Property, Plant & Equipment	0.5	23.6	31.7	30.7	29.6	Fully Diluted Shares On Issue (million)	1,136				
Exploration and Evaluation Expenditure	7.1	7.1	7.1	7.1	7.1	Target Price (A\$/Share)	\$0.50				
Other Non-Current Assets	0.9	0.9	0.9	0.9	0.9	* Set to zero for cash committed to development - cash on hand A\$110m at 30 June 2021					
Total Non-Current Assets	8.5	239.4	315.4	295.1	274.8	Coburn Project Annual Production (kt)					
Total Assets	146.1	273.9	353.7	355.0	346.1	Annual Revenue (A\$M)					
Trade & Other Payables	1.1	2.0	2.0	2.1	2.1						
Provisions & Other Current Liabilities	0.4	0.4	0.4	0.4	0.4						
Total Current Liabilities	1.5	2.4	2.4	2.4	2.4						
Senior Debt	0.3	131.2	217.4	217.4	205.9						
Provisions & Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0						
Total Non-Current Liabilities	0.3	131.2	217.4	217.4	205.9						
Total Liabilities	1.8	133.6	219.8	219.8	208.4						
Total Equity	144.4	140.4	134.0	135.2	137.8						

Source: Morgans estimates, company data

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

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