



Strandline Resources Ltd (STA.ASX)

Hola! Another quality customer for Coburn

Event:

- **Offtake agreement for portion of Coburn zircon; Price target upgrade.**

Investment Highlights:

- **Binding offtake for premium zircon.** Strandline Resources Ltd (STA) yesterday announced it secured a binding offtake agreement for approximately 7ktpa of premium zircon from the Coburn project with Spanish company Chilches Materials SA, part of the Torrecid Group.
- **70% of premium zircon now under binding offtake.** The agreement means that ca. 24ktpa, or 70%, of Coburn's premium zircon production has been secured under binding agreements, with 50% going to Industrie Bitossi and now ca. 20% with Chilches. A synergetic effect of the Chilches agreement is that STA can potentially minimise vessel shipments as both customers are headquartered in Europe.
- **72% of forecast revenue now secured.** In terms of Coburn's overall revenue, the company estimates 72% now has been secured (previously 66%). This comprises 100% of the ilmenite, 100% of zircon concentrate (and HMC); and 70% of zircon premium. This leaves only the balance of zircon premium and rutile. The agreement's sale price references the prevailing US\$ denominated market price for premium ceramic grade zircon, similar to that negotiated with Bitossi.
- **Another quality customer.** Chilches, like Bitossi, is a global producer of high end ceramics, and we believe was attracted to the high grade/low impurity of Coburn's zircon. It is headquartered in Castellon, Spain, and has direct presence in over 25 countries and customers across the ceramics, glass, refractory, and casting industries. Chilches is part of the Torrecid group which was founded in 1963 and has customers in 130 countries.
- **Further offtake agreement likely.** STA is still engaging with potential customers for balance of premium zircon and rutile and we expect another offtake agreement likely to occur.
- **Commercial debt and FID still on track.** We believe STA is currently negotiating with banks, specialist funds, and other debt instrument providers to close the debt funding for Coburn, a precursor to determine its equity requirement for project development. We expect this to be completed prior to the October 2020 FID guided target.

Earnings and Valuation:

- **Valuation increases to \$0.42 from \$0.39.** Following continued strength in the share price, we assume a further less dilutive equity raising – but still at discount to current share price - which increases our valuation and EPS forecasts.

Recommendation:

- **We maintain our Buy and increase 12-month PT to \$0.42 from \$0.39, in-line with our risked 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 978,944 STA shares.
 Cranport Pty Ltd owns 7,973,013 STA shares.
 Refer details end of report.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.42			
Previous	\$0.39			
Share price (A\$)	\$ 0.275			
ASX code	STA			
52 week low-high	\$0.067-\$0.29			
Valuation (A\$/share)	\$ 0.42			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	427			
Market cap (A\$M)	117			
Net cash (debt) (A\$M)	7			
Performance rights (M)	19			
Options (M)	11			
Diluted EV (A\$M)	118			
Ave daily volume ('000)	308			
Earnings Y/e Jun A\$M	FY19a	FY20e	FY21e	FY22e
Sales	0	0	0	10
EBITDA adj	-8	-8	-9	-19
NPAT reported	-7	-7	-8	-34
NPAT adj	-8	-7	-8	-34
EPS adj. \$*	-0.03	-0.02	-0.01	-0.03
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm

* Adj =underlying

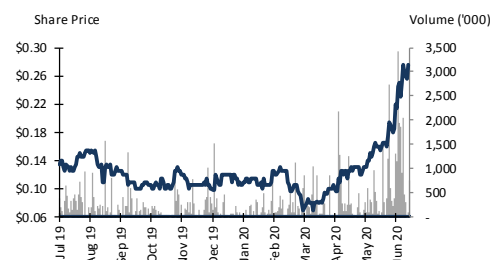
Substantial shareholders

Ndovu Capital VII BV & Tembo Capital Mining Fund IILP	37%
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
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	8	9	29
EBITDA adj.	-8	-8	-9	-19
D&A	0	0	0	3
EBIT adj.	-8	-8	-9	-22
Net Interest exp / (income)	0	0	0	11
PBT adj.	-8	-7	-8	-34
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	-8	-7	-8	-34
Non-recurring items	1	0	0	0
NPAT reported	-7	-7	-8	-34

EPS diluted (\$) adj.	-0.03	-0.02	-0.01	-0.03
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Cashflow A\$M	2019a	2020e	2021e	2022e
EBITDA adj.	-8	-8	-9	-19
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	-6	-7	-28

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	7	109	0
Debt proceeds	0	0	202	0
Debt repayments	0	0	0	0
Other	0	0	0	0
Financing Cashflow	8	7	310	0

Net Cashflow	2	1	132	-117
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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	318	287

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	-73	-81	-115
Total Equity	13	12	112	79

Capital structure	M
Ordinary shares	426.8
Performance rights	18.9
Options	10.5
Fully diluted	456.2

Financial Metrics	2019a	2020e	2021e	2022e
Sales growth %	nm	nm	nm	nm
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	nm	-197%
EBIT margin	nm	nm	nm	-226%
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	-7%
Wtd ave shares (M)	297	387	1038	1038
Wtd ave share diluted (M)	297	417	1068	1068

Valuation multiples	2019a	2020e	2021e	2022e
P/E x	nm	nm	nm	-8.7
EV/EBITDA x	nm	nm	nm	-6.3

Company Valuation

DCF, WACC 10% nominal

Segment	Unrisked		Risky	
	A\$M	A\$/sh	A\$M	A\$/sh
Coburn	429	\$0.39	298	\$0.33
Fungoni	33	\$0.03	24	\$0.03
Corporate	-57	-\$0.05	-40	-\$0.04
Tanzania exploration	12	\$0.01	12	\$0.01
Net cash (debt)	7	\$0.01	7	\$0.01
Cash from in money options	2	\$0.00	2	\$0.00
Cash from future equity	109	\$0.10	76	\$0.08
Total	535	\$0.48	380	\$0.42
Shares now M	427		427	
Performance rights M	19		13	
Options-in-money at valuation M	11		7	
Shares future issue M	652		455	
Full diluted shares M	1,108		902	

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\$/US\$	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
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Segment Contribution	2019a	2020e	2021e	2022e
Coburn	-	-	-	10
Fungoni	-	-	-	0
Sales	-	-	-	10
Coburn	-	-	-	-13
Fungoni	-	-	-	0
Corporate	-8	-8	-9	-10
Group EBIT	-8	-8	-9	-22

Source: Company; Foster Stockbroking estimates

FOSTER STOCKBROKING DISCLOSURES

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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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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 Rob Telford, Corporate.
