FOSTER STOCKBROKING

EQUITY RESEARCH

Materials

7 April 2021

Strandline Resources Ltd (STA.ASX)

Funding completed – focus now on construction

Event:

- **Equity placement and entitlement offer; Earnings and PT changes.**

Investment Highlights:

- **Equity raising means funding package now complete.** With $122M equity raising ($39M placement plus 1-for-1.3 entitlement at $0.205) announced, plus US$60M ($78M) bond, $130M NAIF and $8M contribution from existing balance sheet cash, STA now has $338M to fully fund Coburn – including contingency – plus working capital and maintain cash reserve. Placement and institutional offer have been completed, with retail entitlement to close end April.
- **Raising larger and price more dilutive than we expected.** We had previously forecast $90M equity raising at $0.27. We believe that STA has erred on the conservative side in terms of equity amount to ensure sufficient cash buffer. We estimate cash trough will be $44M prior to first Coburn cash flow.
- **FID expected end April, construction proper to begin immediately afterwards.** We anticipate positive FID once the retail entitlement closes end April, with construction to commence immediately afterwards. All major contracts have either been awarded or designated preferred status, including bulk earthworks, process plant EPC, gas, power, mine equipment, and mining.
- **First production expected 2HCY22.** With an 18-month construction time, STA expects first production 2HCY22. We are slightly more conservative expecting production beginning 1HCY23.
- **Upgrades to mineral sands prices.** We have upgraded our zircon, rutile, and ilmenite price forecasts by 1% to 5% over the next few years, including our long-term prices. Upgrades are based on gradual global economic recovery, as the frequency and number of COVID lockdowns decrease; Biden's US$2.3trillion infrastructure package; and China's continuing recovery, all positive for pigment and ceramics demand.

Earnings and Valuation:

- **Earnings changes – long-term upgrades.** We have made minor downgrades to FY21e-FY23e earnings on higher administration and finance costs, while from FY24e onwards we have made upgrades due to higher mineral sands prices. We now forecast Coburn to generate $91M EBITDA in its first full year of production (FY24e) vs $86M previously.
- **Risked share valuation (0.8x NPV$_{10}$) reduces to $0.52 from $0.56, due to dilutive impact of the equity raising.** This has been partially offset by upgrades to long term earnings on higher mineral sands prices.

Recommendation:

- **We maintain our Buy and reduce our 12-month PT to $0.52 (prior $0.56), in-line with our risked share valuation.**
- **Catalysts for the share price include:** 1) Coburn FID; 2) Commencement of Coburn construction; 3) Coburn commissioning; 4) Progress on Tanzanian assets; and 5) Coburn extension PFS.

Disclosures

The analyst owns 265,500 STA shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 265,500 STA shares.
Cranport Pty Ltd owns 8,031,927 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 will receive fees.

Recommendation	**Buy**
Previous	Buy
Risk	High
Price Target	**$ 0.52**
Previous	$0.56
Share price (A$)	**$ 0.205**
ASX code	STA
52 week low-high	$0.085-$0.298
Valuation - risked (A$/share)	**$ 0.52**
Methodology	risked NPV
Capital structure	
Shares on Issue (M)*	1,116
Market cap (A$M)*	229
Net cash (debt) (A$M)*	139
Performance rights (M)	14
Options (M)	11
Diliuted EV (A$M)	95
Ave daily volume ('000)	1,149

**Pro-forma adjusted for completion of $122M equity raising*

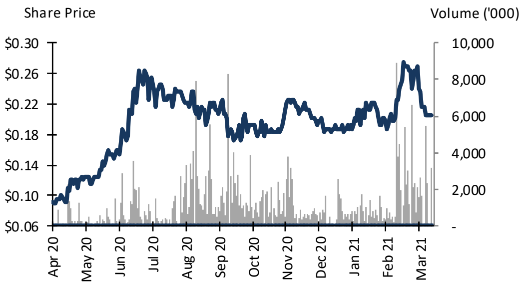
Earnings Y/e Jun A$M	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	45
EBITDA adj	-8	-13	-14	7
NPAT reported	-8	-13	-12	-9
NPAT adj	**-8**	**-13**	**-12**	**-9**
EPS adj. $*	**-0.02**	**-0.02**	**-0.01**	**-0.01**
PE x	**nm**	**nm**	**nm**	**nm**
EV/EBITDA x	nm	nm	nm	nm

** Adj =underlying*

Substantial shareholders	
Ndovu Capital VII BV	31%

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$M	2020a	2021e	2022e	2023e
Revenue	0	0	0	45
Operating Costs adj.	8	13	14	37
EBITDA adj.	**-8**	**-13**	**-14**	**7**
D&A	0	0	0	3
EBIT adj.	**-8**	**-13**	**-14**	**5**
Net Interest exp / (income)	0	0	-3	14
PBT adj.	**-8**	**-13**	**-12**	**-9**
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	**-8**	**-13**	**-12**	**-9**
Non-recurring items	0	0	0	0
NPAT reported	**-8**	**-13**	**-12**	**-9**
EPS diluted ($) adj.	**-0.02**	**-0.02**	**-0.01**	**-0.01**

Cashflow A$M	2020a	2021e	2022e	2023e
EBITDA adj.	-8	-13	-14	7
Change in WC	0	1	0	-2
Tax paid	0	0	0	0
Other	0	0	0	0
Net interest	0	0	3	-14
Share based payments	1	1	1	1
Operating Cashflow	**-7**	**-11**	**-10**	**-7**
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	6	141	0	0
Debt proceeds	0	0	210	0
Debt repayments	0	0	0	0
Other	0	-1	0	0
Financing Cashflow	**6**	**140**	**210**	**0**
Net Cashflow	**-1**	**129**	**29**	**-96**

Balance Sheet A$M	2020a	2021e	2022e	2023e
Cash	5	134	163	67
Receivables	0	0	0	4
PPE	0	0	0	260
Capitalised exploration	8	8	179	0
Intangibles	0	0	0	0
Other	0	0	0	4
Total Assets	**13**	**142**	**341**	**335**
Accounts payable	0	1	1	3
Provisions	0	1	1	3
Debt	0	0	210	210
Other	0	-1	1	-1
Total Liabilities	**1**	**2**	**213**	**215**
Reserves and capital	86	227	227	227
Retained earnings	-74	-87	-98	-107
Total Equity	**13**	**140**	**128**	**119**

Capital structure	M
Ordinary shares pro-forma*	1,116
Performance rights	14
Options	11
Fully diluted	**1,141**

**Assumes completion of March $122M equity raising.*

Financial Metrics	2020a	2021e	2022e	2023e
Sales growth %	nm	nm	nm	nm
EPS growth %	nm	nm	nm	nm
EBITDA margin	nm	nm	nm	17%
EBIT margin	nm	nm	nm	10%
Gearing (ND/ND+E)	nm	nm	27%	54%
Interest Cover (EBIT/net int)	nm	nm	nm	0x
Average ROE %	nm	nm	nm	-7%
Average ROA %	nm	nm	nm	1%
Wtd ave shares (M)	387	665	1118	1118
Wtd ave share diluted (M)	417	689	1143	1143

Valuation multiples	2020a	2021e	2022e	2023e
P/E x	**nm**	**nm**	**nm**	**nm**
EV/EBITDA x	**nm**	**nm**	**nm**	**nm**

Company Valuation

DCF, WACC 10% nominal

Segment	Unrisked A$M	Unrisked A$/sh	Risked A$M	Risked A$/sh
Coburn Reserves	349	$0.31	332	$0.29
Coburn Expansion	95	$0.08	71	$0.06
Fungoni (84%)	26	$0.02	17	$0.01
Tajiri (84%)	152	$0.13	76	$0.07
Corporate	-49	-$0.04	-44	-$0.04
Other Tanzania exploration	15	$0.01	5	$0.00
Net cash (debt)*	139	$0.12	139	$0.12
Cash from in money options	2	$0.00	2	$0.00
Total	**729**	**$0.64**	**597**	**$0.52**

Shares now M*	1,116
Performance rights M	14
Options-in-money at valuation M	11
Fully diluted shares M	**1,141**

**Assumes completion of March $122M equity raising.*

Commodity Assumptions	2020a	2021e	2022e	2023e
Prices (US$/t)				
Zircon	1,505	1,475	1,495	1,497
Ilmenite - chloride grade	220	221	223	229
Rutile/HiTi	1,145	1,169	1,186	1,221
Monazite	1,430	1,427	1,456	1,485
A$/U$	0.69	0.70	0.75	0.75
Shipments (kt)				
Zircon	0	0	0	9
Zircon concentrate	0	0	0	14
HiTi90	0	0	0	6
Ilmenite	0	0	0	28
Total	**0**	**0**	**0**	**56**
Revenue to C1 cost ratio	0.0	0.0	0.0	2.3

Segment Contribution	2020a	2021e	2022e	2023e
Coburn	0	0	0	45
Tanzania	0	0	0	0
Sales	**0**	**0**	**0**	**45**
Coburn	0	0	0	0
Tanzania	0	0	0	0
Corporate & expl'n	-8	-8	-13	-14
Group EBIT	**-8**	**-8**	**-13**	**-14**

Source: Company; Foster Stockbroking estimates

EQUITY RAISING COMPLETES FUNDING PACKAGE

$338M funding for Coburn from debt, equity, and cash

- STA last week announced a $122M equity raising comprising a $39M placement and $83M accelerated 1-for-1.3 pro-rata non-renounceable entitlement offer, both priced at $0.205/share. The placement and institutional component of the entitlement offer have been completed, with the fully underwritten retail entitlement offer expect to close 30 April 2021.
- The purpose of the raising is to complete the funding package for Coburn, enabling FID and construction start to advance. Together with contribution of $8M from cash on balance sheet ($17M total cash end December 2020), NAIF facility of $130M for Coburn specifically, and the US$60M senior secured bond (A$78M), this provides STA with $338M in funding which should see it to first Coburn cash flows.

Figure 1: STA Funding and Expenditure for Coburn

Use of funds	$M	Source of funds	$M
Coburn capex	238	Existing cash – contribution amount	8
Working capital & cash reserve	17	Equity	122
Owners contingency	47	NAIF	130
Finance costs and interest	36	Bond	78
Total	**338**	**Total**	**338**

Source: Company.

Equity more dilutive than we had forecast

- STA's $122M equity raising is greater than our previous expectation of $90M. We believe that STA has erred on the side of conservatism especially ensuring significant contingencies and cash reserves. We now estimate cash will trough at $44M just prior to generation of first cash flows. The $0.205 price of the raising was also lower than our previous assumption of $0.27.

FID expected end April

- Immediately following the completion of the retail offer in late April, we expect will STA will make a positive FID, with construction ramp-up to follow soon after. In the months prior to arranging and finalising both debt and equity financing, the company has made sufficient preparations for a quick move into construction. This includes all major contracts being awarded or designated preferred status. These comprise bulk earthworks, process plant EPC, gas, power, port, mine equipment, and mining.
- We expect initial activities will be bulk earthworks and access roads. Long lead items have already been ordered.

Company expecting first production 2HCY22

- With an 18-month construction time, STA expects first production in 2HCY22. We are slightly more conservative, forecasting production beginning 1HCY23.

MINERAL SANDS PRICE FORECAST CHANGES

Upgrades on global economic recovery

- We have made changes to our mineral sand price forecasts, with revisions of 1% to 5% up over the next four years for all commodities. We believe our forecasts lie within consensus.
- Our upgrades are predicated on a gradual global economic recovery, especially as the number and frequency of COVID lockdowns has reduced. Biden's US$2.3 trillion infrastructure package to bolster construction should enhance demand for pigments in the US. Continuing China economic growth should ensure strong demand for ceramics, following a recovery in zircon demand in 2HCY20. Iluka Resources Ltd this month has increased its zircon price by US$70/t due to improving market conditions. Meanwhile on the supply side, one of the expected major new projects – Toliara – still has its FID delayed.

Figure 2: Mineral sands commodity price forecasts (US$/t)

Commodity		FY21e	FY22e	FY23e	FY24e	LT nom.
Zircon premium	**New**	**1,475**	**1,495**	**1,497**	**1,495**	**1,505**
	Old	*1,448*	*1,459*	*1,469*	*1,455*	*1,484*
	Chng	*2%*	*2%*	*2%*	*3%*	*1%*
Zircon concentrate	**New**	**474**	**500**	**501**	**500**	**503**
	Old	*484*	*488*	*491*	*487*	*496*
	Chng	*-0%*	*2%*	*2%*	*3%*	*1%*
Rutile	**New**	**1,169**	**1,186**	**1,221**	**1,232**	**1,247**
	Old	*1,149*	*1,171*	*1,183*	*1,191*	*1,191*
	Chng	*2%*	*1%*	*3%*	*3%*	*5%*
Ilmenite	**New**	**222**	**223**	**229**	**235**	**242**
	Old	*223*	*225*	*225*	*225*	*230*
	Chng	*0%*	*-1%*	*2%*	*4%*	*5%*
A$:US$	**New**	**0.70**	**0.75**	**0.75**	**0.75**	**0.75**
	Old	*0.70*	*0.75*	*0.75*	*0.75*	*0.75*
	Chng	*0%*	*0%*	*0%*	*0%*	*0%*

Source: Foster Stockbroking estimates.

EARNINGS FORECASTS

Upgrade to long-term earnings

- We have made minor downgrades to FY21e-FY23e earnings due to higher finance and corporate costs. However our earnings from FY24e and beyond have increased due to higher mineral sands prices.

Forecast Coburn EBITDA $91M vs $86M previously

- We now forecast $91M Coburn EBITDA in its first year of full production capacity in FY24e, which is up 6% from our prior $86M forecast. Our forecast revenue/C1 cost ratio rises to 2.3x from 2.2x.

Figure 3: STA Earnings Forecasts - Changes

		FY21e			FY22e			FY23e	
	New	**Old**	**Chng**	**New**	**Old**	**Chng**	**New**	**Old**	**Chng**
Coburn	0	*0*	*0%*	0	*0*	*0%*	45	*44*	*1%*
Tanzania	0	*0*	*0%*	0	*0*	*0%*	0	*0*	*0%*
Sales	**0**	***0***	***0%***	**0**	***0***	***0%***	**45**	***44***	***1%***
Operating costs	13	*9*	*49%*	14	*10*	*44%*	37	*33*	*13%*
Coburn	0	*0*	*0%*	0	*0*	*0%*	23	*22*	*3%*
Tanzania	0	*0*	*0%*	0	*0*	*0%*	0	*0*	*0%*
Corp & expln	-13	*-9*	*48%*	-14	*-10*	*nm*	-15	*-11*	*nm*
EBITDA	**-13**	***-9***	***48%***	**-14**	***-10***	***nm***	**7**	***11***	***-32%***
D&A	0	*0*	*0%*	0	*0*	*0%*	3	*3*	*0%*
Coburn	0	*0*	*0%*	0	*0*	*0%*	20	*19*	*4%*
Tanzania	0	*0*	*0%*	0	*0*	*0%*	0	*0*	*0%*
Corp & expln	-13	*-9*	*nm*	-14	*-10*	*nm*	-15	*-11*	*nm*
EBIT	**-13**	***-9***	***nm***	**-14**	***-10***	***nm***	**5**	***8***	***-43%***
Net interest	0	*0*	*0%*	-3	*7*	*nm*	14	*11*	*23%*
PBT	-13	*-9*	*nm*	-12	*-17*	*nm*	-9	*-2*	*nm*
Tax	0	*0*	*0%*	0	*0*	*0%*	0	*0*	*0%*
NPAT adj.	**-13**	***-9***	***nm***	**-12**	***-17***	***nm***	**-9**	***-2***	***nm***
NRI	0	*0*	*0%*	0	*0*	*0%*	0	*0*	*0%*
NPAT reported	**-13**	***-9***	***nm***	**-12**	***-17***	***nm***	**-9**	***-2***	***nm***

Source: Foster Stockbroking estimates.

STA VALUATION

$0.52/share risked (prior $0.56)

- Our risked share valuation (0.8x NPV_{10}) of STA reduces to $0.52 from $0.56, due to the equity raising being more dilutive than we previously forecast, partially offset by our long-term earnings upgrades from our increased mineral sands price forecasts. Our unrisked valuation (1.0x NPV_{10}) is now $0.64/share (prior $0.70).

Figure 4: STA Valuation, nominal 10% WACC

Segment	Unrisked A$M	A$/share	Risked A$M	A$/share	1-Risk Factor
Coburn	349	$0.31	332	$0.29	95%
Coburn Expansion	95	$0.08	71	$0.06	75%
Fungoni (84%)	26	$0.02	17	$0.01	65%
Tajiri (84%)	152	$0.13	76	$0.07	50%
Corporate	-49	-$0.04	-44	-$0.04	90%
Other Tanzania exploration	15	$0.01	5	$0.00	30%
Net cash (debt) pro-forma*	139	$0.12	139	$0.12	100%
Cash from in money options	2	$0.00	2	$0.00	90%
Total	**729**	**$0.64**	**597**	**$0.52**	**82%**

Shares now M pro-forma*	1,116
Performance rights M	14
Options-in-money at valuation M	11
Fully diluted shares M	**1,141**

**Assumes completion of $122M equity raising.*

Source: Foster Stockbroking estimates.

MAINTAIN BUY, 12-MONTH PT $0.52 (PRIOR $0.56)

- We maintain our Buy, reducing our 12-month price target to $0.52 from $0.56, based on our risked valuation (0.8x NPV_{10}). Share price catalysts include:

    1) FID for Coburn;

    2) Commencement of Coburn construction;

    3) Progress on advancing Tanzanian projects;

    4) PFS on Coburn on extension; and

    5) Higher mineral sands prices.

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For an overview of the research criteria and methodology adopted by Foster Stockbroking; the spread of research ratings; and disclosure of the cessation of particular stock coverage, refer to our website http://www.fostock.com.au.

Specific disclosure: The analyst owns 265,500 STA shares at the time of this report. Diligent care has been taken care by the analyst to maintain honesty and fairness in writing the report and making the recommendation.

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 265,500 STA shares and Cranport Pty Ltd owned 8,031,927 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.