

March 21, 2022

## ADD (no change)

Stock code:	STA AU
Price:	A\$0.35
12-month target price:	A\$0.62
Previous target price:	A\$0.52
Up/downside to target price:	77.1%
Dividend yield:	0.7%
12-month TSR*:	77.8%
Market cap:	A\$393.4m
Average daily turnover:	A\$1.77m
Index inclusion:	ALL ORDINARIES

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

### Price performance

(%)	1M	3M	12M	3Y
Absolute	0	22.8	34.6	280.4
Rel ASX/S&P200	-1	22.9	26.5	262.6



Source: Bloomberg

### Financial summary

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (A\$m)	0.0	0.0	85.5	256.3
EBITDA Norm (A\$m)	-11.9	-4.1	35.4	155.8
Net Profit (A\$m)	-12.81	-4.42	17.58	99.86
EPS Norm (A\$)	-0.017	-0.004	0.016	0.089
EPS Growth Norm (%)	-20%	-77%		468%
P/E Norm (x)	NA	NA	22.37	3.94
DPS (A\$)	0.000	0.000	0.015	0.086
Dividend Yield (%)	0.0%	0.0%	4.3%	24.6%
EV/EBITDA (x)	NA	NA	10.04	2.18
Gearing (Net Debt/EBITDA)	9.27	9.01	-1.08	-0.34

Source: Company data, Morgans estimates

### Related research

[STA \(ADD - TP A\\$0.52\) - 28 Feb 2022](#)

[STA \(ADD - TP A\\$0.50\) - 06 Sep 2021](#)

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– N/A

# Strandline Resources

## Site visit demonstrates project progress

- We recently attended a site visit hosted by STA's board and management to the Coburn mineral sands project.
- While we continue to see cost and schedule pressures across the mining industry in WA, construction activities at Coburn appeared under control and well managed by STA and its EPC contractor Primero.
- We refresh our commodity price deck on the latest forecasts. The mineral sands market remains tight, with spot commodity pricing above industry forecasts, which in turn are well above STA's feasibility assumptions.
- Our underlying cost and production assumptions are unchanged following the site visit and management updates. We lift our price target for STA to A\$0.62/share (from A\$0.52/share) and retain an Add rating.

### Event

- A recent site visit to the Coburn Project attended by Morgans, and subsequent management updates, reinforce our view that Coburn's development is being well managed in a difficult construction market in WA and on track to meet STA's forecast of first production in the December quarter of CY22.

### Analysis

- Progress at Coburn appears on or slightly ahead of schedule, with management confirming the project is now ~63% complete on both a cash and physical basis.
- With the wet concentrate plant (WCP) steel beginning to be erected, the spiral concentrators already on site, and much of the mineral separation plant (MSP) coming ex-Queensland, we think many of the logistics challenges being seen in the market are mostly in the rear-view mirror for Coburn (though we note ~20% of structural steel is still to be delivered from China).
- While we see some upside to management's forecast of first mineral sands concentrate in the December quarter, we believe it is too early to adjust our base case schedule given the challenging WA market.
- Coburn production is forecast at an opportune time. The mineral sands market remains tight, with significant price rises over the last 12 months. Zircon has more than doubled since the start of 2021 on some industry reports while supply from existing projects globally is in decline.

### Forecast and valuation update

- We maintain our project cost and construction schedules following the site visit, which has given us further confidence development is being well managed by STA's experienced team in conjunction with the fixed price EPC manager Primero. First revenue is forecast for Q1 CY23.
- We revise our commodity price forecasts to reflect the latest industry consensus numbers, noting many of these still sit well below spot pricing in the market. STA is exposed to spot pricing for all its production except ilmenite, which is on a 5-year fixed price offtake.
- Our price target lifts to A\$0.62/share (from A\$0.52/share) and we retain and add rating, using our sum of the parts NPV methodology.

### Investment view

- Coburn is a world class, long life mineral sands project and stands to be 5% of the global zircon market and 10% of the chloride ilmenite market in full production.
- The project is fully funded and materially de-risked through its construction and procurement progress to date in a challenging market for developers.
- We see material upside potential for the share price if STA can maintain the current trajectory at Coburn. We maintain our Add rating.

### Price catalysts

- Continuing development milestone updates leading up to first production by the end of CY22.

### Risks

- COVID disruption or delays either at Coburn or at STA's suppliers.
- Performance of STA's construction contractors and close out of work packages.

## Strandline Resources

as at March 21, 2022

<b>Rating</b>	<b>ADD</b>	Price (A\$):	0.35
Market cap (A\$m):	393.4	12-month target price (A\$):	0.62
Shares outstanding (m):	1,124	Up/downside to target price (%):	77.1
Free float (%):	60.0	Dividend yield (%):	0.7

### 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.

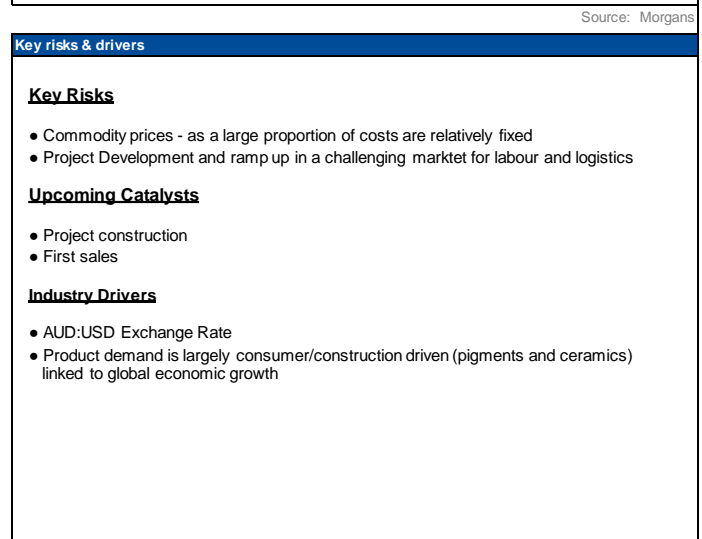
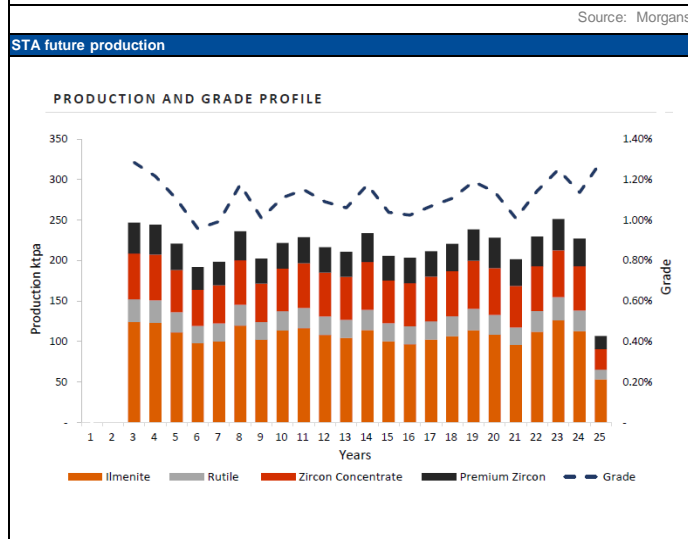
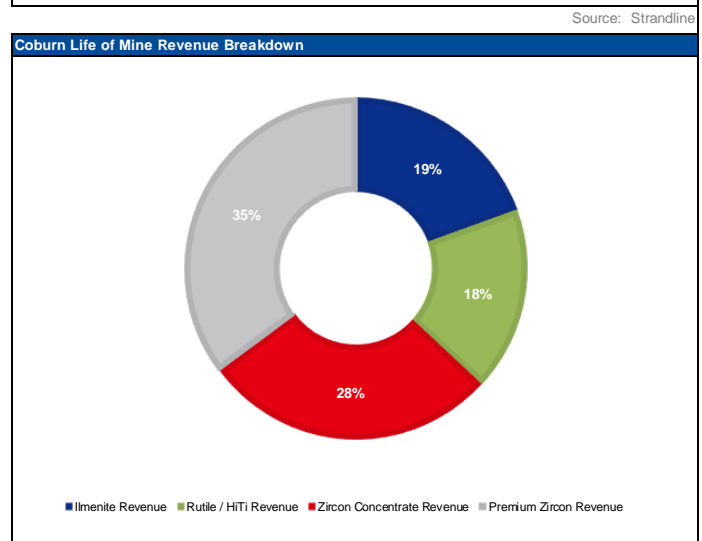
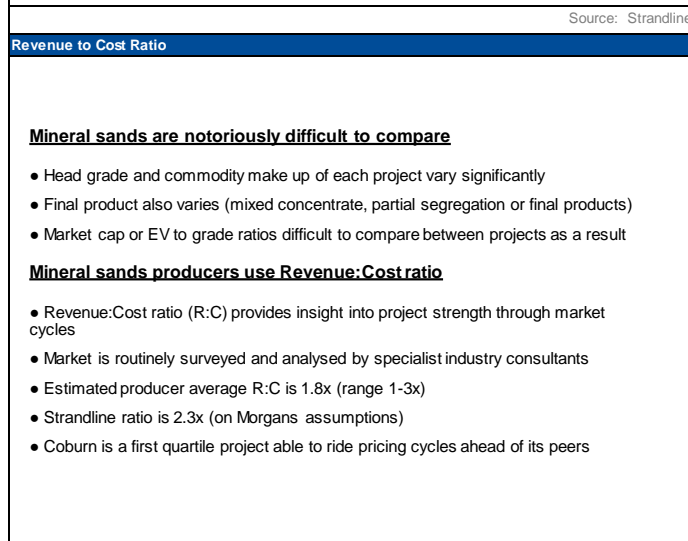
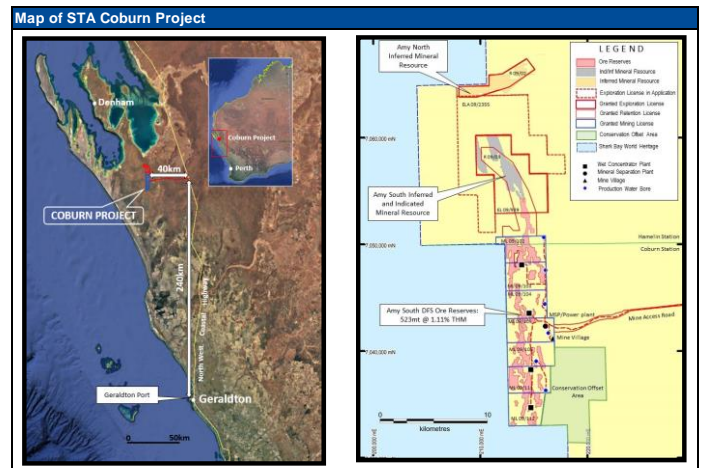
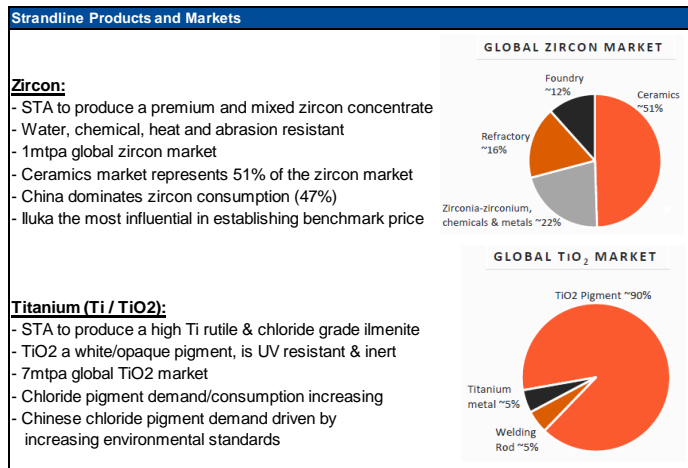


Figure 1: Financial summary

STA						Mining and Metals					
<b>Income statement (A\$M)</b>						<b>Revenue by Product (A\$M)</b>					
	Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E		Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Revenue	-	-	85.5	256.3	297.5	Premium Zircon	-	-	33.4	100.1	115.3
Operating Costs	-	-	(46.1)	(96.4)	(98.5)	Zircon Concentrate	-	-	26.5	79.5	91.6
Other Income/Costs	(11.9)	(4.1)	(4.0)	(4.0)	(4.0)	Rutile / HiTi	-	-	13.3	40.1	47.1
<b>EBITDA</b>	<b>(11.9)</b>	<b>(4.1)</b>	<b>35.4</b>	<b>155.8</b>	<b>195.0</b>	Ilmenite	-	-	11.8	36.0	42.7
Depreciation & Amortisation	(0.1)	(0.1)	(10.4)	(20.7)	(20.7)	<b>Sales Revenue</b>	<b>-</b>	<b>-</b>	<b>85.1</b>	<b>255.8</b>	<b>296.7</b>
<b>EBIT</b>	<b>(12.0)</b>	<b>(4.2)</b>	<b>25.0</b>	<b>135.1</b>	<b>174.3</b>	<b>Annual Production (kt)</b>					
Other Income & Expenses	(0.8)	(0.2)	(7.5)	(15.3)	(14.9)		Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E
<b>Profit before Income Tax</b>	<b>(12.8)</b>	<b>(4.4)</b>	<b>17.6</b>	<b>119.8</b>	<b>159.4</b>	Premium Zircon	-	-	10.2	30.2	34.0
Income Tax Expense	-	-	-	(19.9)	(44.7)	Zircon Concentrate	-	-	16.2	47.9	54.0
<b>NPAT - Reported</b>	<b>(12.8)</b>	<b>(4.4)</b>	<b>17.6</b>	<b>99.9</b>	<b>114.7</b>	Rutile / HiTi	-	-	7.2	21.3	24.0
<b>Cashflow Statement (A\$M)</b>						Ilmenite	-	-	33.0	97.6	110.0
	Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E	<b>Total Production</b>	<b>-</b>	<b>-</b>	<b>66.6</b>	<b>197.0</b>	<b>222.0</b>
Operating EBITDA	(11.9)	(4.0)	35.4	155.8	195.0	<b>Key Metrics</b>					
Net Finance Income	(2.0)	0.0	(7.5)	(15.3)	(14.9)		Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Income Tax Paid	-	2.7	-	(19.9)	(44.7)	AUD:US	0.70	0.75	0.74	0.74	0.74
Other	3.6	(10.5)	(9.9)	(8.5)	0.2	EPS	-0.01	0.00	0.02	0.09	0.10
<b>Net operating Cashflow</b>	<b>(10.3)</b>	<b>(11.8)</b>	<b>18.0</b>	<b>112.1</b>	<b>135.7</b>	DPS	0.00	0.00	0.02	0.09	0.07
Capex (Development, PP&E, other)	(12.3)	(236.9)	(61.6)	-	-	Yield	0.0%	0.0%	4.4%	25.0%	19.6%
Net Proceeds from Sales/Acquisitions	-	-	-	-	-	EBITDA Margin	0%	0%	41%	61%	66%
Payment for Exploration / Tenements	-	-	-	-	-	P/E	-30.51	-89.09	22.37	3.94	3.43
Other Investing Cashflows	0.3	-	-	-	-	EV/EBITDA	-23.48	-86.50	10.04	2.18	1.50
<b>Net Cash from Investing Activities</b>	<b>(12.0)</b>	<b>(236.9)</b>	<b>(61.6)</b>	<b>-</b>	<b>-</b>	Free Cashflow Yield	-4.0%	-6.2%	3.0%	28.5%	34.4%
Net Proceeds from Debt	-	161.0	61.6	-	(11.5)	<b>Valuation</b>					
Dividends Paid	-	-	(17.1)	(96.9)	(75.8)		A\$M		A\$/sh		
Proceeds from Issues of Shares	140.1	0.6	-	-	-	Discount Rate (%)	8.0%				
Other Financing Cashflows	(12.4)	5.8	-	-	-	Coburn Equity NPV (risked 0.8x)	\$634		\$0.55		
<b>Net Cash from Financing Activities</b>	<b>127.7</b>	<b>167.4</b>	<b>44.5</b>	<b>(96.9)</b>	<b>(87.3)</b>	Fungoni Project NPV (risked 0.4x)	\$16		\$0.01		
<b>Net Inc/Dec in Cash and Cash Equivalents</b>	<b>105.4</b>	<b>(81.4)</b>	<b>1.0</b>	<b>15.2</b>	<b>48.4</b>	Tajiri Project NPV (risked 0.4x)	\$77		\$0.07		
<b>Balance Sheet (A\$M)</b>						Corporate Overhead NPV LOM	-\$44		-\$0.04		
	Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E	<b>Total Current NPV (A\$M)</b>	<b>\$683</b>	<b>\$0.60</b>			
<b>Cash &amp; Cash Equivalents</b>	<b>110.6</b>	<b>37.1</b>	<b>38.1</b>	<b>53.3</b>	<b>101.6</b>	Exploration Upside (A\$M)	\$28		\$0.02		
Other Current Assets	7.1	0.1	10.0	20.0	20.0	Cash & Cash Equivalents (A\$M)*	\$0		\$0.00		
<b>Total Current Assets</b>	<b>117.7</b>	<b>94.4</b>	<b>105.2</b>	<b>130.4</b>	<b>178.8</b>	Listed Investments	\$1		\$0.00		
Development Assets	31.4	267.9	21.6	20.6	19.5	<b>Other Assets / Upside (A\$M)</b>	<b>\$29</b>	<b>\$0.02</b>			
Property, Plant & Equipment	0.2	13.2	310.7	291.0	271.3	Fully Diluted Shares On Issue (million)	1,142				
Exploration and Evaluation Expenditure	5.4	5.0	5.0	5.0	5.0	<b>Target Price (A\$/Share)</b>	<b>\$0.62</b>				
Other Non-Current Assets	1.6	3.1	3.1	3.1	3.1	* Set to zero for cash committed to development - Free cash A\$61.2m at 31 December 2021					
<b>Total Non-Current Assets</b>	<b>38.5</b>	<b>289.2</b>	<b>340.4</b>	<b>319.7</b>	<b>299.0</b>	<b>Coburn Project Annual Production (kt)</b>					
<b>Total Assets</b>	<b>156.3</b>	<b>383.5</b>	<b>445.6</b>	<b>450.1</b>	<b>477.7</b>	<b>Annual Revenue (A\$M)</b>					
Trade & Other Payables	16.3	24.7	24.7	26.2	26.4						
Provisions & Other Current Liabilities	0.5	1.0	1.0	1.0	1.0	<p>Legend for Production: Premium Zircon (dark blue), Zircon Concentrate (light blue), Rutile / HiTi (yellow), Ilmenite (grey)</p> <p>Legend for Revenue: Premium Zircon (dark blue), Zircon Concentrate (light blue), Rutile / HiTi (yellow), Ilmenite (grey)</p>					
<b>Total Current Liabilities</b>	<b>16.8</b>	<b>25.7</b>	<b>25.7</b>	<b>27.2</b>	<b>27.4</b>						
Senior Debt	2.8	221.6	283.1	283.1	271.6						
Provisions & Other Non-Current Liabilities	1.9	4.8	4.8	4.8	4.8						
<b>Total Non-Current Liabilities</b>	<b>4.8</b>	<b>226.4</b>	<b>288.0</b>	<b>288.0</b>	<b>276.5</b>						
<b>Total Liabilities</b>	<b>21.6</b>	<b>252.1</b>	<b>313.6</b>	<b>315.2</b>	<b>303.9</b>						
<b>Total Equity</b>	<b>134.7</b>	<b>131.5</b>	<b>132.0</b>	<b>134.9</b>	<b>173.8</b>						

Source: Morgans estimates, company data

## Changes to forecasts

Our revenue and profit forecasts for FY23 and beyond increase on our revised commodity price forecasts. All other underlying assumptions, including construction cost and schedule as well as operating costs, remain unchanged.

Figure 2: Changes to forecasts

	2022F			2023F			2024F		
	Old	New	% change	Old	New	% change	Old	New	% change
Revenue (A\$m)	0.0	0.0	0%	63.5	85.5	35%	189.6	256.3	35%
EBITDA (A\$m)	-4.1	-4.1	0%	14.5	35.4	143%	92.5	155.8	68%
NPAT (A\$m)	(4.4)	(4.4)	0%	(2.9)	17.6	704%	57.1	99.9	75%
<b>Key Assumptions</b>									
AUD	0.75	0.75	0%	0.74	0.74	0%	0.74	0.74	0%
Premium Zircon (tpa)	0	0	0%	10	10	0%	30	30	0%
Zircon Con (tpa)	0	0	0%	16	16	0%	48	48	0%
Rutile (tpa)	0	0	0%	7	7	0%	21	21	0%
Ilmenite (tpa)	0	0	0%	33	33	0%	98	98	0%

Source: Morgans estimates, company data

## Site visit photos

Figure 3: WCP spiral on site for installation



Source: Morgans

Figure 4: Structural steel ready for installation



Source: Morgans

Figure 5: MSP formwork and construction



Source: Morgans

Figure 6: Water ponds filled ahead of commissioning



Source: Morgans

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Morgans Corporate Limited was Lead Manager and Underwriter to the Placement and Entitlement Offer of shares in Strandline Resources Limited in March 2021 and received fees in this regard.

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