

SPEC BUY

Current Price \$0.11
Target Price \$0.26

Ticker: **STA**
Sector: **Materials**

Shares on Issue (m): **269.9**
Market Cap (\$m): **27.0**
Net Cash (\$m): **3.5**
Enterprise Value (\$m): **23.5**

52 wk High/Low: **\$0.132** **\$0.048**
12m Av Daily Vol (m): **0.33**

Projects

Name	Commodity	Location
Fungoni	Mineral Sands	Tanzania
Tanga	Mineral Sands	Tanzania
Coburn	Mineral Sands	Western Australia

Resources

Project	Mt	% THM	% VHM in THM
Fungoni	22.0	2.8%	65%
Tanga	59.0	3.7%	87%
Coburn	979.0	1.3%	83%

Reserves	Mt	% THM	% VHM in THM
Fungoni	12.3	3.9%	68%
Coburn	308.0	1.2%	83%

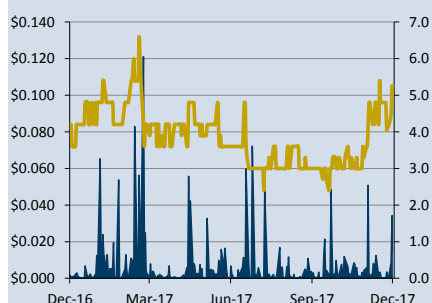
Directors

Didier Murcia	Non-Executive Chairman
Luke Graham	CEO and MD
Tom Eadie	Non-Executive Director
Asimwe Kabunga	Non-Executive Director
John Hodder	Non-Executive Director

Substantial Shareholders

Tembo Capital	38.5%
C&H International	13.9%
Gasmere Pty Ltd	6.7%

Share Price Graph and Ave Trading Vol (m shares)



Wednesday, 13 December 2017

Strandline Resources

Tajiri gaining critical mass

Analysts | Matthew Keane | James Wilson

Quick Read

Strandline Resources (STA) released positive drilling results from the Tajiri corridor located on the northern Tanzanian coast. Air core drilling at the T1-T4 targets highlighted probable extensions to the current Mineral Resources of 59Mt @ 3.7% total heavy mineral (THM). In addition, a new thick channel/trench zone was discovered east of the T3-T4 strandline deposits. Argonaut estimates up to 40-50Mt could be added to Tajiri in the updated Resource estimate, due Q1 2018. Other newsflow in the new year includes offtake and funding options for the Fungoni Project and the likely commencement of a Tajiri feasibility study. We also anticipate potential monetisation or partnering on the Western Australian Coburn Project. SPEC BUY recommendation maintained with a \$0.26 target price.

Event & Impact | Positive

Strong exploration at Tajiri: Recent drilling at the Tajiri is likely to materially extend the current resource of 59Mt @ 3.7% THM. We estimate extensions to the T1-T4 mineralisation and the new discovery of a deep channel zone will increase the resource to >100Mt @ 3.5-4.0% THM. Mineralisation comprises a sequence of strandline deposits spanning a 20km corridor. Recent drilling also defined deeper channel style mineralisation up to 42m thick alongside the T3-T4 deposits.

Coburn back in focus: STA announced it is engaging with potential partners on its 100% owned Coburn project in Western Australia. Coburn is a fully permitted large scale, low grade deposit with a zircon rich Reserve of 308Mt @ 1.2% THM. In 2015, a revised BFS by the Company detailed a 19-year mine life, producing 182ktpa of mineral sands with upfront capex of \$173m generating a \$306m NPV₈. Little or no value is ascribed to this project in the current share price, therefore any monetisation or partnering could result in a re-rating of the stock.

Mining permit lodged for Fungoni: STA has lodged a Mining Licence application for the Fungoni Project and is expecting a response from the Energy and Minerals Ministry in early-2018. We believe this project will be among the first to navigate the new approvals process under the revised mining legislation. As mineral sands are non-metalliferous, they should not incur increased royalties and are unlikely to require mandatory Government warehousing prior to export.

Recommendation

STA recently undertook a 1 for 12 share consolidation decreasing the ordinary shares on issue to 270m (from 3.2b). Subsequently, our target price is revised to \$0.26 (from 2.2¢). SPEC BUY recommendation maintained.

Positive exploration results at Tajiri

Tajiri has a current resource of 59Mt @ 3.7% THM...

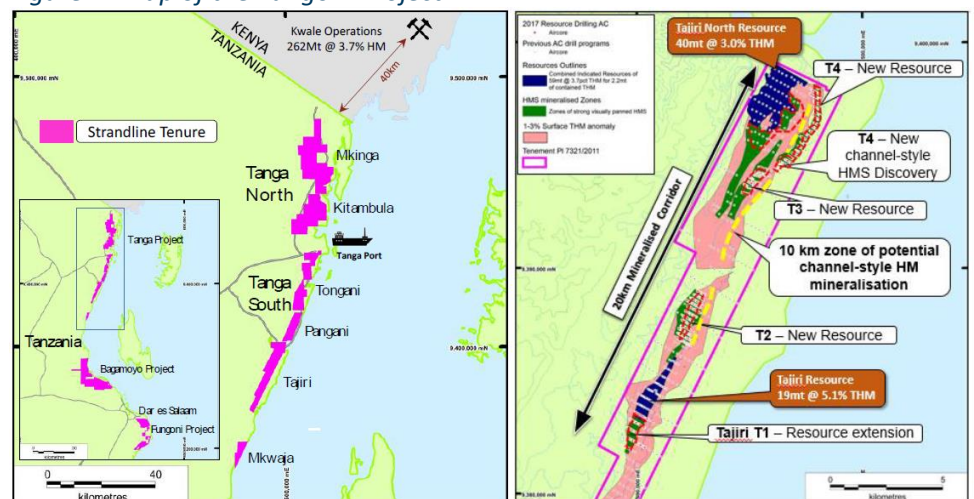
Recent drilling at the Tajiri should materially extend the current resource of 59Mt @ 3.7% THM. Tajiri is a TiO₂ dominated resource with a high proportion valuable heavy minerals (VHM) within the THM (87%). Mineralisation comprises a sequence of strandline deposits spanning a 20km corridor. Tajiri is ~120km from Base Resources (BSE) Kwale operation which has a 91Mt @ 3.9% THM reserve and ~6-year mine life.

Better results for the recent drilling included:

...but positive drill results from the T1-T4 target will likely extend this

- T1 - 9m @ 4.6% THM from surface & 4.5m @ 6.2% THM from surface
- T2 – 6m @ 9.4% THM from 3m & 9m @ 5% THM from surface
- T3 – 15m @ 6.8% THM from surface & 9m @ 7.1% THM from surface
- T4 – 7.5m @ 9.2% THM from surface & 6m @ 7.5% THM from surface

Figure 1. Map of the Fungoni Project



Source: STA

Tajiri now extends over 20km along the northern Tanzanian coast

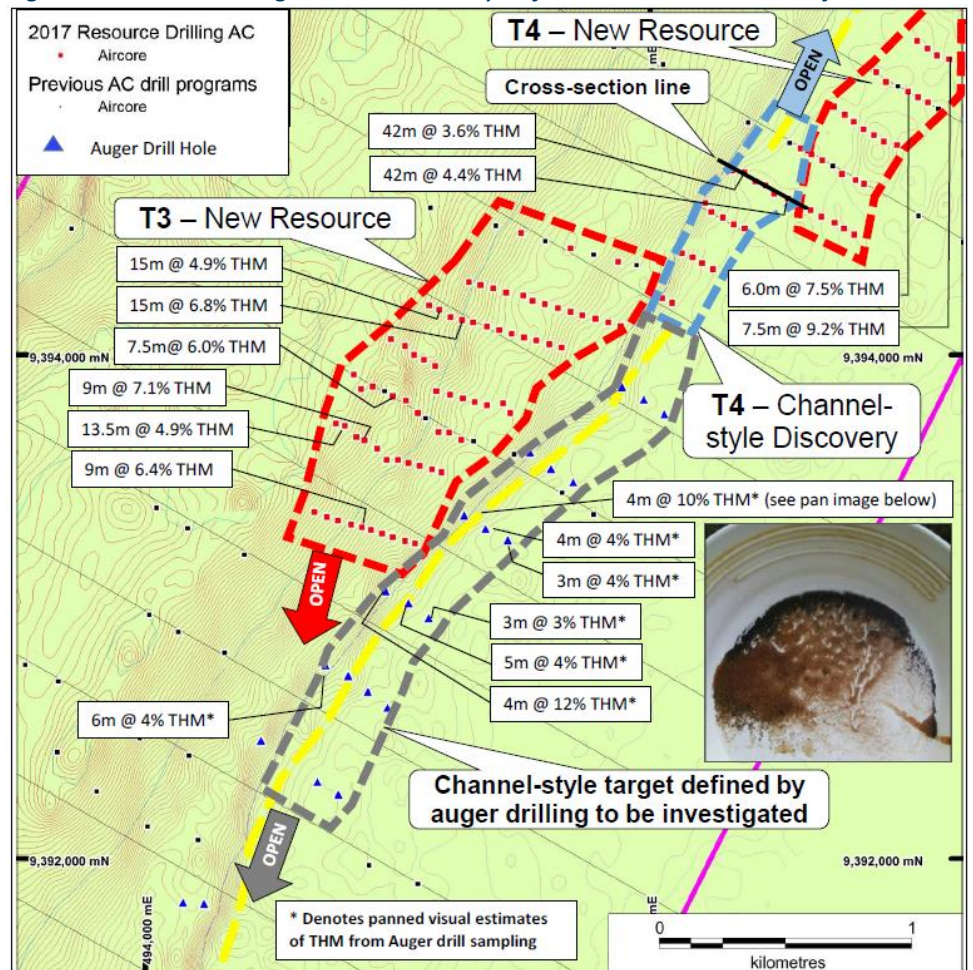
New channel zone at Tajiri

A new channel zone to the east of T3-T4 presents potential for deep, low slimes mineralisation at Tajiri

The last drilling program also uncovered a new, thick zone of mineralisation to the east of a limestone ridge and adjacent to the T4 strandline. Aircore drilling (AC) finished in mineralisation with intercepts up to 42m thick over a ~1km strike length. Shallow auger drilling to the south highlighted a continuation of this mineralisation for a further ~2km adjacent to T3. Importantly, this mineralisation contains lower slimes, which could make it an important blending source. High slimes can impact upon handling and processing under a production scenario. We note that Tajiri slimes are mostly silt, not clay, similar to BSE's Kwale deposit. This limits adverse impacts. The channel system also contains a high proportion of garnet, another potential payable mineral.

The newly discovered channel zone at Tajiri is up to 3km long with >40m thick mineralisation

Figure 2. T3 and T4 targets and the newly defined channel zone at Tajiri



Source: STA

Attaining critical mass

We believe STA will now pursue a feasibility study on Tajiri

Argonaut estimates extensions to the T1-T4 mineralisation and the new discovery of a deep channel zone will increase the Tajiri resource by 40-50Mt to >100Mt @ 3.5-4.0% THM. The T1 target has extended mineralisation 1,600m to the south and T2 is now up to 2,000m in strike and 800m wide. T3 is a more discrete zone of mineralisation, but has high grades (5% THM) over a 1,200m strike. The T4 extension spans a 3,200m strike and is 200-400m wide. We believe the project has attained a sizable inventory to warrant a feasibility study.

Argonaut estimates that 40-50Mt has been added to Tajiri from recent drilling

Table 1. Argonaut’s estimated additional resources from recent drilling

	THM (%)	SLIME (%)	Interval (m)	Strike (m)	Width (m)	Tonnes (kt)
T1	4.0	31.3	7.5	1,600	350	8.4
T2	4.2	28.6	7.4	2,000	450	13.3
T3	5.1	34.7	5.1	1,200	400	4.9
T4	4.9	26.3	5.2	3,200	300	10.0
T4Channel	3.0	20.4	39.75	1,000	100	8.0
Total/Average	4.2	27.8	13.0	9,000	320	44.6

Source: Argonaut

Note: Applied a specific gravity of 1.8-2.0

Valuation

Argonaut derives a NPV₁₂ of \$36m for Fungoni...

Argonaut incorporates metrics from the recent Fungoni DFS into our model. We also assume a 16% Government free-carry interest and a 1% export clearing levy. We derive an NPV₁₂ valuation for Fungoni of \$35.7m and a 29% IRR. Our NAV valuation applies conservative valuations for other Tanzanian and Australian assets of 40m.

...with a 29% IRR

Table 2. Argonaut's Fungoni Project assumptions and forecast metrics

	Metric	2018	2019	2020	2021	2022	2023	2024	2025	Total
Assumptions										
AUD/USD	#	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	
Zircon Price	US\$/t	950	950	1150	1150	1150	1150	1150	1150	
Rutile Price	US\$/t	850	900	1000	1000	1000	1000	1000	1000	
Ilmenite Price	US\$/t	180	200	220	220	220	220	220	220	
Leucoxene	US\$/t	350	350	350	350	350	350	350	350	
Basket Price Received	A\$/t	0	594	683	683	683	683	683	1380	
Production										
Ore processed	Mt	0.0	2.0	2.0	2.0	2.0	2.0	2.0	0.3	12.3
HM Grade	%	0.0%	4.1%	4.9%	4.9%	4.1%	3.2%	2.7%	2.0%	
HM Processed	kt	0.0	80.8	96.5	96.5	80.8	63.0	53.2	5.9	
Zircon in conc. Produced	kt	0.0	14.1	16.9	16.9	14.4	10.9	9.5	1.1	84
Rutile in conc. Produced	kt	0.0	2.5	3.0	3.0	2.6	2.0	1.7	0.2	15
Ilmenite Produced	kt	0.0	32.7	39.2	39.2	33.5	25.3	22.1	2.5	194
Leucoxene Produced	kt	0.0	0.7	0.8	0.8	0.7	0.5	0.5	0.1	4
Total VHM Production	kt	0.0	50.0	60.0	60.0	51.2	38.7	33.7	3.7	297
Financials										
Capex	A\$m	26.7	13.3	0.2	0.2	0.2	0.2	0.2	0.8	42
Opex (per tonne processed)	A\$/t	0.00	6.68	6.68	6.68	6.68	6.68	6.68	6.68	
Revenue	A\$m	0	30	42	42	36	27	24	3	203
EBITDA	A\$m	-2	14	25	25	19	11	8	-1	99
NPAT	A\$m	-2	16	28	28	24	19	5	-1	119
Project Free Cashflow	A\$m	-27	-0	22	22	18	12	7	-0	52
NPV ₁₂	A\$m	35.7								
Post Tax IRR	%	29%								

Table 3. Valuation summary

Asset Valuation	A\$m	A¢/sh
Fungoni Project	35.7	13.2
TZ Exploration Assets	35.0	13.0
Aust Assets	5.0	1.9
Corporate Overheads	-7.8	-2.9
Cash est.	3.5	1.3
Debt	0.0	0.0
Sum of Parts Valuation	71.5	26
Discount Rate	12%	
Shares on Issue (msh)	270	
Options*	83	

Source: Argonaut

*Option exercise prices range from 12¢ to 18¢

We currently ascribe a conservative \$40m to Tanzanian exploration projects and the Coburn Project in West Australia

RESEARCH:

Ian Christie | Director, Industrial Research
+61 8 9224 6872 ichtistie@argonaut.com

Matthew Keane | Director, Metals & Mining Research
+61 8 9224 6869 mkeane@argonaut.com

James Wilson | Analyst, Metals & Mining Research
+61 8 9224 6835 jwilson@argonaut.com

Helen Lau | Analyst, Metals & Mining Research
+852 3557 4804 hlau@argonaut.com

Daniel Williamson | Analyst, Industrial Research
+61 8 9224 6831 dwilliamson@argonaut.com

INSTITUTIONAL SALES - PERTH:

Chris Wippl | Executive Director, Head of Sales & Research
+61 8 9224 6875 cwippl@argonaut.com

Damian Rooney | Director Institutional Sales
+61 8 9224 6862 drooney@argonaut.com

John Santul | Consultant, Sales & Research
+61 8 9224 6859 jsantul@argonaut.com

Ben Willoughby | Institutional Dealer
+61 8 9224 6876 bwilloughby@argonaut.com

Phil Russo | Institutional Dealer
+61 8 9224 6813 prusso@argonaut.com

Josh Welch | Institutional Dealer
+61 8 9224 6868 jwelch@argonaut.com

George Ogilvie | Institutional Dealer
+61 8 9224 6871 gogilvie@argonaut.com

INSTITUTIONAL SALES – HONG KONG:

Damian Rooney | Director Institutional Sales
+61 8 9224 6862 drooney@argonaut.com

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Managing Director, Desk Manager
+61 8 9224 6874 gcolgan@argonaut.com

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880 kjohnson@argonaut.com

James McGlew | Executive Director, Corporate Stockbroking
+61 8 9224 6866 jmcglew@argonaut.com

Ian Dorrington | Director, Corporate Stockbroking
+61 8 9224 6865 IDorrington@argonaut.com

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854 bj@argonaut.com

Rob Healy | Dealer, Private Clients
+61 8 9224 6873, rhealy@argonaut.com

Cameron Prunster | Dealer, Private Clients
+61 8 9224 6853 cprunster@argonaut.com

James Massey | Dealer, Private Clients
+61 8 9224 6849 jmassey@argonaut.com

Chris Hill | Dealer, Private Clients
+61 8 9224 6830, chill@argonaut.com

Important Disclosure

Argonaut acted as Lead Manager to the Placement to raise up to \$6.0M in May 2017 and received fees commensurate with this service.

Information Disclosure

Each research analyst of this material certifies that the views expressed in this research material accurately reflect the analyst's personal views about the subject securities and listed corporations. None of the listed corporations reviewed or any third party has provided or agreed to provide any compensation or other benefits in connection with this material to any of the analyst(s).

General Disclosure and Disclaimer

This research has been prepared by Argonaut Securities Pty Limited (ABN 72 108 330 650) ("ASPL") or by Argonaut Securities (Asia) Limited ("ASAL") for the use of the clients of ASPL, ASAL and other related bodies corporate (the "Argonaut Group") and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this report in any way. ASPL is a holder of an Australian Financial Services License No. 274099 and is a Market Participant of the Australian Stock Exchange Limited. ASAL has a licence (AXO 052) to Deal and Advise in Securities and Advise on Corporate Finance in Hong Kong with its activities regulated by the Securities and Futures Ordinance ("SFO") administered by the Securities and Futures Commission ("SFC") of Hong Kong.

Nothing in this report should be construed as personal financial product advice for the purposes of Section 766B of the Corporations Act 2001 (Cth). This report does not consider any of your objectives, financial situation or needs. The report may contain general financial product advice and you should therefore consider the appropriateness of the advice having regard to your situation. We recommend you obtain financial, legal and taxation advice before making any financial investment decision.

This research is based on information obtained from sources believed to be reliable and ASPL and ASAL have made every effort to ensure the information in this report is accurate, but we do not make any representation or warranty that it is accurate, reliable, complete or up to date. The Argonaut Group accepts no obligation to correct or update the information or the opinions in it. Opinions expressed are subject to change without notice and accurately reflect the analyst(s)' personal views at the time of writing. No member of the Argonaut Group or its respective employees, agents or consultants accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Nothing in this research shall be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from engaging in any transaction. The Argonaut Group and/or its associates, including ASPL, ASAL, officers or employees may have interests in the financial products or a relationship with the issuer of the financial products referred to in this report by acting in various roles including as investment banker, underwriter or dealer, holder of principal positions, broker, director or adviser. Further, they may buy or sell those securities as principal or agent, and as such may effect transactions which are not consistent with the recommendations (if any) in this research. The Argonaut Group and/or its associates, including ASPL and ASAL, may receive fees, brokerage or commissions for acting in those capacities and the reader should assume that this is the case.

There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment.

The analyst(s) principally responsible for the preparation of this research may receive compensation based on ASPL's and / or ASAL's overall revenues.

Hong Kong Distribution Disclosure

This material is being distributed in Hong Kong by Argonaut Securities (Asia) Limited which is licensed (AXO 052) and regulated by the Hong Kong Securities and Futures Commission. Further information on any of the securities mentioned in this material may be obtained on request, and for this purpose, persons in the Hong Kong office should be contacted at Argonaut Securities (Asia) Limited of Unit 701, 7/F, Henley Building, 5 Queen's Road Central, Hong Kong, telephone (852) 3557 48000.

Copyright

© 2017. All rights reserved. No part of this document may be reproduced or distributed in any manner without the written permission of Argonaut Securities Pty Limited and / or Argonaut Securities (Asia) Limited. Argonaut Securities Pty Limited and Argonaut Securities (Asia) Limited specifically prohibits the re-distribution of this document, via the internet or otherwise, and accepts no liability whatsoever for the actions of third parties in this respect.