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STA: Commissioning on track

STA.ASX | STRANDLINE RESOURCES LIMITED | MINERAL SANDS | ZIRCON / CHL ILMENITE
PRICE
A\$ 0.42 /sh
TARGET PRICE
A\$ 0.80 /sh
 (FROM A\$ 0.74 /sh)

RECOMMENDATION
SPECULATIVE BUY
 (FROM SPECULATIVE BUY)

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Event

STA is commissioning the Coburn mineral sands project;

The company has shipped ~15kt of HMC concentrate (~A\$14.5m revenue);

The HMC concentrator is still ramping up to nameplate (229ktpa, 19kt/mth), with the recent reported shipments implying current rate about 60% of nameplate. However, we expect nameplate HMC to be reached very soon. That will give a better indication on operating costs versus DFS;

The MSP (to convert HMC to final products) is commissioning this quarter. Remember, STA can sell HMC whilst the MSP is commissioning;

Impact

We estimate the company is around breakeven with HMC sales at current utilisation and has almost \$100m of cash and facilities, with capex almost all spent. Hence, the balance sheet risks appear minimal as STA finishes commissioning. Net debt was A\$150m at end December;

It won't be until nameplate production is achieved (mid CY23) that unit costs are known, in our view. Our cost assumptions are already well above the DFS, and so our valuation will not be affected should costs be higher than DFS. To date, there is no evidence costs will be higher, but in our experience of watching the commissioning of mines, it is rare that DFS costs estimates are ever achieved in the real world;

So even though there has been no update on costs since the DFS, we assume FY24 cost/product of A\$482/t, well above the the DFS of A\$361/t. This is hopefully a very conservative assumption, but we believe it is prudent to assume higher costs given cost inflation across the industry since the DFS.

Spot A\$ selling prices are rebounding again. Spot prices are well above our base valuation estimates (or spot valuation is \$1.25/shr, versus our base valuation of \$0.52);

Action

We maintain our Speculative Buy through commissioning. If the plant achieves planned performance (which will be known by the September quarter), there is significant re-rating potential if we moved from NPV12 to NPV8. Using spot prices increases our valuation by more again;

Catalyst

Commissioning MSP – March Qtr 2023;

First final product shipments – March / June Qtr 2023;

Tajiri FS – 2H CY23;

FID on potential Coburn expansion – early CY24;

| | |
|--------------|--------|
| Share Price | \$0.42 |
| Price Target | \$0.80 |
| Valuation | \$0.52 |

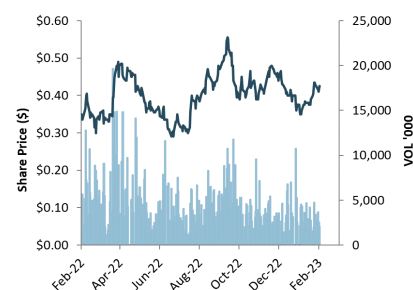
| | |
|-----------------------|------|
| Shares on issue | 1278 |
| Market Capitalisation | 540 |
| Enterprise Value | 691 |
| Debt (31 Dec 22a) | 253 |
| Cash (31 Dec 22a) | 102 |

| Production F'cast | 2023F | 2024F | 2024F |
|-------------------|-------|-------|-------|
| Zircon | 8 | 32 | 32 |
| Rutile / HiTi | 5 | 20 | 20 |
| Ilmenite | 26 | 105 | 105 |
| Zircon Conc. | 21 | 53 | 53 |

| Assumptions | 2023F | 2023F | 2023F |
|-------------------|-------|-------|-------|
| Chloride Ilmenite | 290 | 280 | 270 |
| Zircon | 1800 | 1600 | 1600 |
| Rutile | 1400 | 1350 | 1350 |
| AUDUSD | 0.66 | 0.71 | 0.73 |

| Key Financials | 2023F | 2023F | 2023F |
|-----------------|-------|-------|-------|
| Revenue (A\$m) | 73 | 208 | 201 |
| EBITDA (A\$m) | 29 | 106 | 99 |
| NPAT (A\$m) | 14 | 89 | 57 |
| Cashflow (A\$m) | 16 | 89 | 76 |
| CFPS (Ac) | 1 | 7 | 8 |

Performance



Source: Euroz Hartleys

| P&L | Jun 23e | Jun 24e | Jun 25e |
|------------------------|--------------|---------------|---------------|
| Net Revenue | 73.2 | 208.1 | 200.8 |
| Total Costs | -43.9 | -101.7 | -101.6 |
| EBITDA | 29.3 | 106.4 | 99.3 |
| - margin | 40% | 51% | 49% |
| Depreciation/Amort | -15.7 | -17.7 | -17.9 |
| EBIT | 13.6 | 88.7 | 81.3 |
| Net Interest | 0.0 | 0.0 | 0.0 |
| Pre-Tax Profit | 13.6 | 88.7 | 81.3 |
| Tax Expense | 0.0 | 0.0 | -24.4 |
| Normalised NPAT | 13.6 | 88.7 | 56.9 |
| Abnormal Items | 0.0 | 0.0 | 0.0 |
| Reported Profit | 13.6 | 88.7 | 56.9 |
| Minority | 0.0 | 0.0 | 0.0 |
| Profit Attrib | 13.6 | 88.7 | 56.9 |

| Balance Sheet | Jun 23e | Jun 24e | Jun 25e |
|--------------------------------|--------------|--------------|--------------|
| Cash | 84.3 | 169.0 | 246.8 |
| Other Current Assets | 13.0 | 37.1 | 35.8 |
| Total Current Assets | 97.4 | 206.1 | 282.6 |
| Property, Plant & Equip. | 293.4 | 275.7 | 257.8 |
| Exploration | 13.4 | 17.4 | 21.4 |
| Investments/other | 1.6 | 1.6 | 1.6 |
| Tot Non-Curr. Assets | 308.4 | 294.7 | 280.8 |
| Total Assets | 405.8 | 500.8 | 563.3 |
| Short Term Borrowings | 0.3 | 0.3 | 0.3 |
| Other | 5.1 | 11.4 | 11.4 |
| Total Curr. Liabilities | 5.4 | 11.7 | 11.7 |
| Long Term Borrowings | 210.8 | 210.8 | 216.5 |
| Other | 1.9 | 1.9 | 1.9 |
| Total Non-Curr. Liabil. | 212.8 | 212.8 | 218.4 |
| Total Liabilities | 218.2 | 224.5 | 230.1 |
| Net Assets | 187.6 | 276.3 | 333.2 |
| Net Debt | 126.8 | 42.1 | -30.0 |

| Cashflow | Jun 23e | Jun 24e | Jun 25e |
|------------------------------|--------------|-------------|-------------|
| Operating Cashflow | 16.3 | 88.7 | 100.6 |
| Income Tax Paid | 0.0 | 0.0 | -24.4 |
| Interest & Other | 0.0 | 0.0 | 0.0 |
| Operating Activities | 16.3 | 88.7 | 76.2 |
| Property, Plant & Equip. | -61.0 | 0.0 | 0.0 |
| Exploration and Devel. | -4.0 | -4.0 | -4.0 |
| Other | 0.0 | 0.0 | 0.0 |
| Investment Activities | -65.0 | -4.0 | -4.0 |
| Borrowings | 0.0 | 0.0 | 5.6 |
| Equity or "tbc capital" | 0.0 | 0.0 | 0.0 |
| Dividends Paid | 0.0 | 0.0 | 0.0 |
| Financing Activities | 0.0 | 0.0 | 5.6 |
| Net Cashflow | -48.7 | 84.7 | 77.8 |

| Shares | Jun 23e | Jun 24e | Jun 25e |
|-------------------------|---------|---------|---------|
| Ordinary Shares - End | 1243 | 1243 | 1257.8 |
| Ordinary Shares - W'ted | 1238 | 1243 | 1250.4 |
| Diluted Shares - W'ted | 1258 | 1258 | 1257.8 |

| Coburn Production Summary | | Jun 23e | Jun 24e |
|----------------------------|--------|---------|---------|
| Mining Inventory | Mt | 801.5 | 778.1 |
| Grade | % | 1.1% | 1.1% |
| Mill Throughput | Mt | 9.6 | 23.4 |
| HM grade | % | 1.1% | 1.1% |
| Zr production | kt | 8.1 | 32.4 |
| Rutile / Hi-Ti production | kt | 4.9 | 19.6 |
| Chlor. Ilmenite production | kt | 26.3 | 105.0 |
| Zr conc | kt | 21.3 | 53.3 |
| Ilmenite | % rev. | 15.1% | 19.0% |
| Zircon | % rev. | 29.6% | 34.4% |
| Zircon conc. | % rev. | 42.9% | 31.0% |
| Rutile / Hi-Ti production | % rev. | 12.4% | 15.6% |

| Fungoni Production Summary | | Yr3 | Yr4 |
|----------------------------|--------|-------|-------|
| Mining Inventory | Mt | 10.5 | 8.5 |
| Grade | % | 3.3% | 2.9% |
| Mill Throughput | Mt | 2.0 | 2.0 |
| HM grade | % | 5.5% | 4.2% |
| Zr production | kt | 18.5 | 16.6 |
| Rutile / Hi-Ti production | kt | 4.2 | 3.7 |
| Chlor. Ilmenite production | kt | 41.8 | 37.5 |
| Ilmenite | % rev. | 20.9% | 20.9% |
| Zircon | % rev. | 59.2% | 59.2% |
| Rutile / Hi-Ti production | % rev. | 12.2% | 12.2% |
| Monazite | % rev. | 7.8% | 7.8% |

| Price Assumptions (at Geraldton) | | Jun 24e | Jun 23e | Jun 24e |
|----------------------------------|---------|---------|---------|---------|
| AUDUSD | USD/AUD | 0.66 | 0.71 | |
| Chloride Ilmenite | US\$/t | 255 | 245 | |
| Zircon | US\$/t | 1765 | 1565 | |
| Rutile | US\$/t | 1365 | 1315 | |
| Leucoxene | US\$/t | 1015 | 978 | |
| Monazite | US\$/t | 1965 | 1965 | |

| | | | |
|--|---|---|---|
| | - | - | - |
| | - | - | - |

| Valuation | \$m | /shr |
|-----------------------------|------------|-------------|
| Coburn (NPV12) | 606 | 0.47 |
| Fungoni (discount to NPV12) | 105 | 0.08 |
| Tajiri (discount to NPV12) | 261 | 0.20 |
| Other Assets/Exploration | 5 | 0.00 |
| Forwards | 0 | 0.00 |
| Corporate Overheads | -36 | -0.03 |
| Net Cash (Debt) | -151 | -0.12 |
| Tax (NPV future liability) | -124 | -0.10 |
| Options & Other Equity | 2 | 0.00 |
| Total | 667 | 0.52 |
| Spot | 379 | 1.25 |

Figure 1: DFS cost estimates...we are much higher in our model

| Operating Cost Item | DFS Final Products Case (A\$/Saleable t) Jun-20 |
|--------------------------------------|--|
| Mining | 143.19 |
| Processing | 149.37 |
| Administration & General | 37.63 |
| Transportation to Ship | 30.98 |
| C1 Cash Costs | 361.17 |
| Government Royalty | 43.85 |
| Sustaining Capital | 13.11 |
| All in Sustaining Cost (ASIC) | 418.13 |
| Product Basket Price | 877.00 |
| Operating C1 Cost Margin | 515.83 |
| AISC Margin | 458.87 |

Note:

¹ Mining includes tailings and slimes handling, mine backfill, DMU-EMU and rehabilitation activities. Other key cost assumptions: Foreign exchange of AUD:USD 0.72; Cost of fuel per litre A\$0.90/ltr (net of rebate); cost of electrical power A\$17 cents/kWh; WCP relocations to occur in years 8, 10, 18 and 19; WCP relocations to each incur 14 days of production downtime. The downtime has been averaged over the life of mine and included in the overall downtime schedule

Source: STA

Figure 2: DFS production estimates at steady state

| | Per Annum | Per Mth |
|-----------------------------|-----------|---------|
| Stead State Production (Mt) | 23.4 | 2.0 |
| - HM Grade | 1.11% | 1.11% |
| HMC (kt) | 229 | 19.1 |
| Premium Zircon (kt) | 34 | 2.8 |
| Rutile (kt) | 24 | 2.0 |
| Ilmenite (kt) | 110 | 9.2 |
| Zir Con (kt) | 54 | 4.5 |

Source: STA

Our price target is increased to \$0.80 (from \$0.74)

Figure 3: Price Target

| Price Target Methodology | Weighting | Spot | 12 mth out |
|---|-----------|---------------|------------|
| NPV ₁₂ consensus prices | 50% | \$0.52 | \$0.60 |
| NPV ₁₂ at spot commodity and fx prices | 9% | \$1.25 | \$1.41 |
| NPV ₈ consensus prices | 36% | \$0.78 | \$0.84 |
| NPV ₈ at spot commodity and fx prices | 4% | \$1.82 | \$1.97 |
| Net cash backing | 2% | \$0.00 | \$0.00 |
| Risk weighted composite | | \$0.72 | |
| 12 Months Price Target | | \$0.80 | |
| Shareprice - Last | | \$0.420 | |
| 12 mth total return | | 91% | |

Source: Euroz Hartleys

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Strandline Resources Limited (STA.ASX) | Price A\$0.42 | Target price A\$0.80 | Recommendation Speculative Buy;

Price, target price and rating as at 03 February 2023 (not covered)*

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