

Strandline Resources Ltd

(STA \$0.45) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	7 th April 2022	\$0.74/sh

Advancing growth projects, has a bigger buffer

Event

STA has raised A\$50m in equity at \$0.43 per share;

The proceeds will be used to fund the near-term development of Fungoni mineral sands project in Tanzania, and feasibility studies for the Tajiri project in Tanzania and the potential expansion at Coburn in WA;

Impact

We dilute for the additional shares;

Whilst the funds are earmarked for development of the secondary projects, the extra cash is a big positive as a buffer as we move towards completion of Coburn;

We have reduced our peak net debt estimate from A\$176m to \$146m and assume \$20m is spent on non-Coburn projects by March 2023;

Hence, there is now a bigger cash buffer as Coburn construction moves into the final stages (currently 65% complete) and allows for the possibility of accelerating construction of Fungoni or a Coburn expansion in CY23;

Action

As with most commodities, there appears to be improving momentum in mineral sands prices. Latest data suggests tightening with premium zircon trading around US\$2050/t (up from 2020 lows of -US\$1430/t), and rutile -US\$2100/t (from 2020 lows of US\$1090/t);

Ilmenite prices are also improving, with data suggesting sulphate prices now around US\$450/t (up from 2020 lows nearer to US\$200/t) and chloride prices (less volatile) are strong around US\$260/t (STA has 5yr fixed price + PPI changes for its chloride ilmenite).

We have a Speculative Buy recommendation;

We have a price target of 74cps, implying fully funded EV/EBITDA of 10.3x (spot prices 6.3x);

Key risks remain cost overrun potential and commissioning;

Key Catalyst

- Tajiri mining licence – imminent
- Completion of HMS – December Qtr 2022;
- Fungoni update capex and contracts ahead of possible FID – 2H CY22;
- First HMC shipments – December / March Qtr;
- Commissioning MSP – March Qtr 2023;
- First final product shipments – March / June Qtr 2023;
- Tajiri BFS – 2H CY23;
- FID on potential Coburn expansion – end CY23;

Strandline Resources Ltd	Year End 30 June	
Share Price	0.45	A\$/sh
Price Target	0.74	A\$/sh
Valuation	0.39	A\$/sh
	npv (12.0%)	

Shares on issue	1265m, diluted *
Market Capitalisation	569 A\$m
Enterprise Value	524 A\$m
Debt (31 Dec 21a)	120 A\$m
Cash (31 Dec 21p)	166 A\$m
Largest Shareholder	Tembo

Production F/Cast	2022F	2023F	2024F
Zircon	0	8	32
Rutile / HiTi	0	5	20
Ilmenite	0	26	105
Zircon Conc.	0	22	53

Assumptions	2022F	2023F	2024F
Chloride Ilmenite	284	290	280
Zircon	1750	1800	1500
Rutile	1500	1400	1210
AUDUSD	0.73	0.73	0.74

Key Financials	2022F	2023F	2024F
Revenue (A\$m)	0	67	188
EBITDA (A\$m)	-3	28	99
NPAT (A\$m)	-11	12	81
Cashflow (A\$m)	-8	16	83

CFPS (Ac)	-1	1	7
P/CFPS (x)	-69.8	35.8	6.8

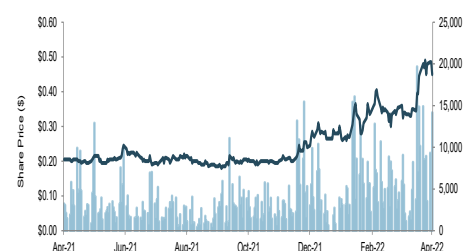
EPS (Ac)	-1	1	7
EPS growth (%)	0%	0%	558%
PER (x)	-49.7	45.4	6.9

EV:EBITDA (x)	nm	23.1	5.3
EV:EBIT (x)	nm	52.8	6.4

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	31%	25%	nm
Interest Cover (x)	-	-	-

Share Price Chart



Disclaimer

Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to STA during the last year. Euroz Hartleys has received a fee for these services.

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Analysis

Simplified cash waterfall

	Budget	Spent	Remaining
	30-Jun-21	31-Dec-21	Spend to 31-Mar-23
Capex	260	117	143
Contingency	22	9	13
WC	48		48
HMC shipment (3 x 10kt)	0		-24
Other Project Spend			20
Total	330	126	200
Funding	Available	Available	Available
- NAIF	130	94	0
- Bond	78	0	0
- Equity	130	118	62
Total Available Cash	338	212	62
	30-Jun-21	31-Dec-21	31-Mar-23
Net Debt (net cash)	-130	-4	146

Source: STA, Euroz Hartleys Estimates

Price Target

Our price target is unchanged at 74cps

Price Target Methodology	Weighting	Spot	12 mth out
NPV ₁₂ consensus prices	54%	\$0.39	\$0.43
NPV ₁₂ at spot commodity and fx prices	25%	\$1.07	\$1.20
NPV ₈ consensus prices	15%	\$0.65	\$0.72
NPV ₈ at spot commodity and fx prices	5%	\$1.71	\$1.89
Net cash backing	1%	\$0.04	\$0.04
Risk weighted composite		\$0.66	
12 Months Price Target		\$0.74	
Shareprice - Last		\$0.450	
12 mth total return		64%	

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Key Variables

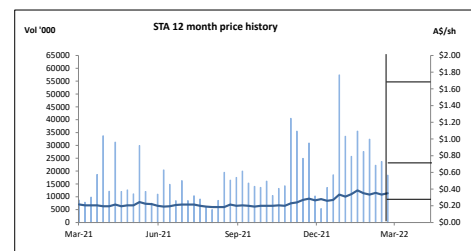
Val/sh		Zircon								
\$0.39		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.11	\$0.14	\$0.17	\$0.20	\$0.24	\$0.27	\$0.30	\$0.34	\$0.37
	10%	\$0.15	\$0.18	\$0.22	\$0.25	\$0.28	\$0.32	\$0.35	\$0.39	\$0.42
	5%	\$0.19	\$0.23	\$0.26	\$0.30	\$0.33	\$0.37	\$0.41	\$0.44	\$0.48
	0%	\$0.24	\$0.28	\$0.31	\$0.35	\$0.39	\$0.43	\$0.47	\$0.50	\$0.54
	-5%	\$0.29	\$0.33	\$0.37	\$0.41	\$0.45	\$0.49	\$0.53	\$0.57	\$0.61
	-10%	\$0.35	\$0.39	\$0.44	\$0.48	\$0.52	\$0.56	\$0.60	\$0.65	\$0.69
	-15%	\$0.42	\$0.46	\$0.51	\$0.55	\$0.60	\$0.64	\$0.69	\$0.73	\$0.77

Val/sh		Rutile								
\$0.39		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.21	\$0.22	\$0.22	\$0.23	\$0.24	\$0.25	\$0.25	\$0.26	\$0.27
	10%	\$0.25	\$0.26	\$0.27	\$0.28	\$0.28	\$0.29	\$0.30	\$0.31	\$0.32
	5%	\$0.30	\$0.31	\$0.32	\$0.33	\$0.33	\$0.34	\$0.35	\$0.36	\$0.37
	0%	\$0.36	\$0.36	\$0.37	\$0.38	\$0.39	\$0.40	\$0.41	\$0.42	\$0.43
	-5%	\$0.41	\$0.42	\$0.43	\$0.44	\$0.45	\$0.46	\$0.47	\$0.48	\$0.49
	-10%	\$0.48	\$0.49	\$0.50	\$0.51	\$0.52	\$0.53	\$0.54	\$0.55	\$0.56
	-15%	\$0.56	\$0.57	\$0.58	\$0.59	\$0.60	\$0.61	\$0.62	\$0.63	\$0.64

Val/sh		Chloride ilmenite								
\$0.39		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.21	\$0.22	\$0.22	\$0.23	\$0.24	\$0.25	\$0.25	\$0.26	\$0.27
	10%	\$0.25	\$0.26	\$0.27	\$0.28	\$0.28	\$0.29	\$0.30	\$0.31	\$0.32
	5%	\$0.30	\$0.31	\$0.32	\$0.33	\$0.33	\$0.34	\$0.35	\$0.36	\$0.37
	0%	\$0.36	\$0.36	\$0.37	\$0.38	\$0.39	\$0.40	\$0.41	\$0.42	\$0.43
	-5%	\$0.41	\$0.42	\$0.43	\$0.44	\$0.45	\$0.46	\$0.47	\$0.48	\$0.49
	-10%	\$0.48	\$0.49	\$0.50	\$0.51	\$0.52	\$0.53	\$0.54	\$0.55	\$0.56
	-15%	\$0.56	\$0.57	\$0.58	\$0.59	\$0.60	\$0.61	\$0.62	\$0.63	\$0.64

Euroz Forecast	FY'23	FY'24	FY'25	FY'26	FY'27
AUDUSD	0.73	0.74	0.74	0.74	0.74
Chloride Ilmenite	\$290	\$280	\$270	\$230	\$230
Zircon	\$1,800	\$1,500	\$1,500	\$1,300	\$1,300
Rutile	\$1,400	\$1,210	\$1,252	\$1,200	\$1,200
Leucoxene	\$1,050	\$908	\$939	\$900	\$900
Monazite	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000

Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.39/sh
Target Price - \$0.74/sh

Bull Scenario - \$1.85/sh
 NPV8, spot commodity prices. Discount on Tanzanian assets.

Base Scenario - \$0.74/sh
 Rerating from NPV12 base case to NPV8 base case.

Bear Scenario - \$0.25/sh
 Market refuses to re-rate stock during construction phase.

Company Summary

STA is building a substantial mineral sands business. Coburn is a large WA asset and very advanced. The Fungoni development is small zircon rich project in Tanzania. The Tajiri project is a large development in Tanzania.

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The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz Hartleys.

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Market Statistics

		Year End 30 June			
Share Price	\$0.450	A\$/sh	Directors		
Issued Capital	1240.2	m	Didier Murcia	NE	Chair
Options	25.3	m	Luke Graham	MD	
Fully diluted	1265.5	m	Peter Watson	ED	
Fully diluted & financed	1265.5	m	Earnest (Tom) Eadie	NE	
			John Hodder	NE, Tembo	
Mkt Capital'n (dil.)	569.5	\$m	Mark Hancock	NE	
Enterprise Value	523.6	\$m	Alexandra Atkins	NE (alt)	
Debt	120.0	\$m	James Chialo	NE (alt)	
Cash	165.9	\$m	Shareholders		
EV post capex	647.0	\$m	Tembo		18.4%

Asset Valuation

	A\$m	A\$/sh
Coburn (NPV12)	385	0.30
Fungoni (discount to NPV12)	42	0.03
Tajiri (discount to NPV12)	181	0.14
Other Assets/Exploration	5	0.00
Forwards	0	0.00
Corporate Overheads	-36	-0.03
Net Cash (Debt)	46	0.04
Tax (NPV future liability)	-130	-0.10
Options & Other Equity	2	0.00
Total	494	0.39

Spot fx 0.74, S. Ilm. cfr \$440/t, Chl. Ilm.cfr \$260/t, Zir. \$2050/t, Rut. \$2100/t.
379 1.07

Coburn Production Summary

	2021A	2022F	2023F	2024F
Mining Inventory	Mt 848.3	824.9	801.5	778.1
Grade	% 1.1%	1.1%	1.1%	1.1%
Mill Throughput	Mt 0.0	0.0	9.6	23.4
HM grade	% -	-	1.1%	1.1%
Zr production	kt 0.0	0.0	8.1	32.4
Rutile / Hi-Ti production	kt 0.0	0.0	4.9	19.6
Chlor. Ilmenite production	kt 0.0	0.0	26.3	105.0
Zr conc	kt 0.0	0.0	21.9	53.3
Ilmenite	% rev. 14.9%	20.2%		
Zircon	% rev. 29.3%	34.2%		
Zircon conc.	% rev. 43.5%	30.9%		
Rutile / Hi-Ti production	% rev. 12.3%	14.8%		

Ratio Analysis (A\$m)

	2021A	2022F	2023F	2024F
CF (A\$m)	(8)	(8)	16	83
CF / Sh (Ac/sh)	(1)	(1)	1	7
CF Ratio (x)	(35)	(70)	36	7
Earnings (A\$m)	(13)	(11)	12	81
EPS (Ac/sh)	(2)	(1)	1	7
EPS Growth (%)				558%
Earnings Ratio (x)	(23)	(50)	45	7
E'prise Val. (A\$m) full funded	462	647	647	518
EV : EBITDA (x)	nm	nm	23	5
EV : EBIT (x)	nm	nm	53	6
Net Debt / ND+Eq (%)	nm	31%	25%	nm
Interest Cover (x)	na	-	-	-
EBIT Margin (%)	-11566%	nm	18%	43%
ROE (%)	nm	nm	6%	27%
ROA (%)	nm	nm	3%	16%
Div. (Ac/sh)	-	-	-	-
Div. payout ratio (x)	-	-	-	-
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%
Div. Franking (%)	100%	100%	100%	100%

Profit and Loss (A\$m)

	2021A	2022F	2023F	2024F
Net Revenue	0.1	0.0	66.9	188.0
Total Costs	-11.9	-3.2	-38.9	-89.4
EBITDA	-11.8	-3.2	27.9	98.6
- margin	-11457%	-	42%	52%
Depreciation/Amort	-0.1	-7.5	-15.7	-17.7
EBIT	-11.9	-10.6	12.3	81.0
Net Interest	-0.9	0.0	0.0	0.0
Pre-Tax Profit	-12.8	-10.6	12.3	81.0
Tax Expense	0.0	0.0	0.0	0.0
Normalised NPAT	-12.8	-10.6	12.3	81.0
Abnormal Items	0.0	0.0	0.0	0.0
Reported Profit	-12.8	-10.6	12.3	81.0
Minority	0.0	0.0	0.0	0.0
Profit Attrib	-12.8	-10.6	12.3	81.0

Cash Flow (A\$m)

	2021A	2022F	2023F	2024F
Operating Cashflow	-8.3	-7.6	15.6	82.6
Income Tax Paid	0.0	0.0	0.0	0.0
Interest & Other	-2.0	0.0	0.0	0.0
Operating Activities	-10.3	-7.6	15.6	82.6
Property, Plant & Equip.	-12.3	-224.0	-61.0	0.0
Exploration and Devel.	0.0	-4.0	-4.0	-4.0
Other	0.3	0.0	0.0	0.0
Investment Activities	-12.0	-228.0	-65.0	-4.0
Borrowings	-5.6	208.0	0.0	0.0
Equity or "tbc capital"	133.3	50.0	50.0	50.0
Dividends Paid	0.0	0.0	0.0	0.0
Financing Activities	127.7	258.0	50.0	50.0

Net Cashflow

	105.4	22.4	0.6	128.6
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Balance Sheet (A\$m)

	2021A	2022F	2023F	2024F
Cash	110.6	133.0	133.6	262.2
Other Current Assets	7.1	0.0	11.9	33.5
Total Current Assets	117.7	133.0	145.5	295.7
Property, Plant & Equip.	31.6	248.1	293.4	275.7
Exploration	5.4	9.4	13.4	17.4
Investments/other	1.6	1.6	1.6	1.6
Tot Non-Curr. Assets	38.5	259.1	308.4	294.7
Total Assets	156.3	392.1	453.9	590.4
Short Term Borrowings	0.3	0.3	0.3	0.3
Other	16.5	5.0	4.5	10.1
Total Curr. Liabilities	16.8	5.3	4.8	10.4
Long Term Borrowings	2.8	210.8	210.8	210.8
Other	1.9	1.9	1.9	1.9
Total Non-Curr. Liabil.	4.8	212.8	212.8	212.8
Total Liabilities	21.6	218.1	217.6	223.1
Net Assets	134.7	174.0	236.3	367.2
Net Debt	-107.5	78.1	77.5	-51.1

Reserves and Resources

	Mt	Grade	Ilmenite	Zircon	Rutile/HiTi
Total Resource	1896	1.5%	51.2%	19.7%	11.6%
Coburn (WA)	1606	1.2%	48%	22%	12%
Fungoni (Tanz.)	22	2.8%	41%	17%	6%
Tajiri (Tanz.)	268	3.3%	71%	6%	10%
Total Reserve	535	1.2%	47.8%	22.9%	11.9%
Coburn (WA)	523	1.1%	48%	23%	12%
Fungoni (Tanz.)	12	3.9%	41%	17%	6%
Tajiri (Tanz.)	0				

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