

Strandline Resources Ltd

(STA \$0.45) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	19 th October 2022	\$0.74/sh

Site visit

Event

We attended a site visit to STA's Coburn mineral sands project (north of Geraldton, WA);

Impact

Commissioning of the HMC concentrator is due imminently. It is planned be a long commissioning to achieve BFS recovery and throughput estimates (several months) but the first product shipment (and cash flow) should be by year end;

It is possible that commissioning is faster than planned, given the preparatory work done to date, but it is better that expectations are set to the longer timetable, in our view, as this leaves potential for positive surprises over coming months;

The MSP construction is progressing. Meeting contractor timetables will be close, but the MSP is still on track to our estimates, with first shipments in March / June Qtr;

Whilst there has been no update on costs, we have conservatively increased our estimates and now assume FY24 cost/product of A\$482/t versus our previous assumption of A\$427/t and the DFS of A\$361/t. Spot A\$ selling prices more than offset our cost increases, but it affects our base valuation which assumes lower selling prices and a higher A\$;

Action

We maintain our Speculative Buy recommendation. Commissioning of mineral sands projects is often slow, and hence it will be several months still until we have indication of plant performance. If the plant achieves planned performance, there is significant re-rating potential if we moved from NPV12 to NPV8. Using spot prices increases our valuation by more again;

Key Catalysts

- First HMC shipments - December / January;
- Commissioning MSP - March Qtr 2023;
- First final product shipments - March / June Qtr 2023;
- Tajiri FS - 2H CY23;
- FID on potential Coburn expansion - early CY24;

Strandline Resources Ltd	Year End 30 June	
Share Price	0.45	A\$/sh
Price Target	0.74	A\$/sh
Valuation	0.44	A\$/sh
		npv (12.0%)

Shares on issue	1276	m, diluted *
Market Capitalisation	574	A\$m
Enterprise Value	643	A\$m
Debt (30 Jun 22a)	189	A\$m
Cash (30 Jun 22p)	120	A\$m
Largest Shareholder		Tembo

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

Assumptions	2022F	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	2024F	2025F
Revenue (A\$m)	74	208	201
EBITDA (A\$m)	30	106	99
NPAT (A\$m)	14	89	57
Cashflow (A\$m)	17	89	76

CFPS (Ac)	1	7	8
P/CFPS (x)	33.0	6.3	5.6

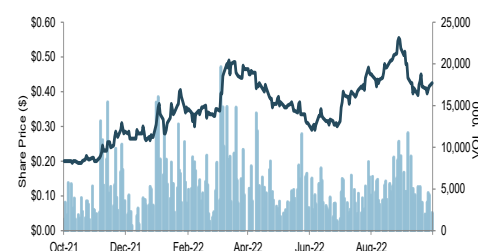
EPS (Ac)	1	7	5
EPS growth (%)	0%	518%	-36%
PER (x)	39.0	6.3	9.9

EV:EBITDA (x)	23.4	5.8	5.5
EV:EBIT (x)	49.0	6.9	6.7

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

ND:Net Debt+Equity (%)	40%	13%	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

HMC due to receive first ore imminently



Source: Euroz Hartleys

MSP construction due to finish by end CY22



Source: Euroz Hartleys

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DFS estimated costs

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

Price Target

Our price target is unchanged at 74cps

Price Target Methodology	Weighting	Spot	12 mth out
NPV12 consensus prices	50%	\$0.44	\$0.50
NPV12 at spot commodity and fx prices	9%	\$1.43	\$1.59
NPV8 consensus prices	30%	\$0.80	\$0.89
NPV8 at spot commodity and fx prices	4%	\$2.15	\$2.30
Net cash backing	8%	\$0.00	\$0.00
Risk weighted composite		\$0.67	
12 Months Price Target		\$0.74	
Shareprice - Last		\$0.450	
12 mth total return		65%	

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Key Variables

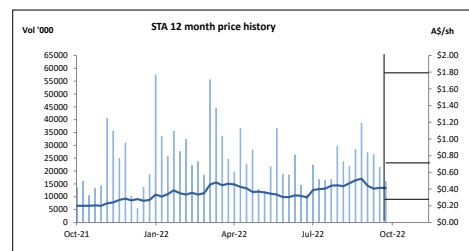
Val/ Sh		Zircon								
\$0.44		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.12	\$0.16	\$0.19	\$0.23	\$0.27	\$0.30	\$0.34	\$0.38	\$0.41
	10%	\$0.16	\$0.20	\$0.24	\$0.28	\$0.32	\$0.36	\$0.40	\$0.43	\$0.47
	5%	\$0.21	\$0.25	\$0.29	\$0.33	\$0.38	\$0.42	\$0.46	\$0.50	\$0.54
	0%	\$0.27	\$0.31	\$0.35	\$0.40	\$0.44	\$0.48	\$0.52	\$0.57	\$0.61
	-5%	\$0.33	\$0.37	\$0.42	\$0.46	\$0.51	\$0.55	\$0.60	\$0.64	\$0.69
	-10%	\$0.40	\$0.44	\$0.49	\$0.54	\$0.58	\$0.63	\$0.68	\$0.73	\$0.77
	-15%	\$0.47	\$0.52	\$0.57	\$0.62	\$0.67	\$0.72	\$0.77	\$0.82	\$0.87

Val/ Sh		Rutile								
\$0.44		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.23	\$0.24	\$0.25	\$0.26	\$0.27	\$0.28	\$0.28	\$0.29	\$0.30
	10%	\$0.28	\$0.29	\$0.30	\$0.31	\$0.32	\$0.33	\$0.34	\$0.35	\$0.36
	5%	\$0.34	\$0.35	\$0.36	\$0.37	\$0.38	\$0.39	\$0.40	\$0.40	\$0.41
	0%	\$0.40	\$0.41	\$0.42	\$0.43	\$0.44	\$0.45	\$0.46	\$0.47	\$0.48
	-5%	\$0.46	\$0.48	\$0.49	\$0.50	\$0.51	\$0.52	\$0.53	\$0.54	\$0.55
	-10%	\$0.54	\$0.55	\$0.56	\$0.57	\$0.58	\$0.60	\$0.61	\$0.62	\$0.63
	-15%	\$0.62	\$0.63	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69	\$0.71	\$0.72

Val/ Sh		Chloride ilmenite								
\$0.44		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.23	\$0.24	\$0.25	\$0.26	\$0.27	\$0.27	\$0.28	\$0.29	\$0.30
	10%	\$0.28	\$0.29	\$0.30	\$0.31	\$0.32	\$0.33	\$0.34	\$0.35	\$0.35
	5%	\$0.34	\$0.35	\$0.36	\$0.37	\$0.38	\$0.38	\$0.39	\$0.40	\$0.41
	0%	\$0.40	\$0.41	\$0.42	\$0.43	\$0.44	\$0.45	\$0.46	\$0.47	\$0.48
	-5%	\$0.47	\$0.48	\$0.49	\$0.50	\$0.51	\$0.52	\$0.53	\$0.54	\$0.55
	-10%	\$0.54	\$0.55	\$0.56	\$0.57	\$0.58	\$0.60	\$0.61	\$0.62	\$0.63
	-15%	\$0.62	\$0.64	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69	\$0.71	\$0.72

Euroz Forecast	FY'23	FY'24	FY'25	FY'26	FY'27
AUDUSD	0.66	0.71	0.73	0.74	0.74
Chloride Ilmenite	\$290	\$280	\$270	\$240	\$240
Zircon	\$1,800	\$1,600	\$1,600	\$1,350	\$1,350
Rutile	\$1,400	\$1,350	\$1,350	\$1,300	\$1,300
Leucoxene	\$1,050	\$1,013	\$1,013	\$975	\$975
Monazite	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000

Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.44/sh

Target Price - \$0.74/sh

Bull Scenario - \$1.78/sh

NPV8, spot commodity prices. Discount on Tanzanian assets.

Base Scenario - \$0.74/sh

Blended scenario .

Bear Scenario - \$0.25/sh

Discount to base valuation .

Company Summary

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

Disclaimer

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	1250.9	m	Didier Murcia NE Chair
Options	25.3	m	Luke Graham MD
Fully diluted	1276.2	m	Peter Watson ED
Fully diluted & financed	1276.2	m	John Hodder NE, Tembo
			Mark Hancock NE
Mkt Capital'n (dil.)	574.3	\$m	Alexandra Atkins NE (alt)
Enterprise Value	643.3	\$m	James Chialo NE (alt)
Debt	189.0	\$m	Shareholders
Cash	120.0	\$m	Tembo 16.7%
EV post capex	700.5	\$m	

Asset Valuation

	A\$m	A\$/sh
Coburn (NPV12)	513	0.40
Fungoni (discount to NPV12)	50	0.04
Tajiri (discount to NPV12)	218	0.17
Other Assets/Exploration	5	0.00
Forwards	0	0.00
Corporate Overheads	-36	-0.03
Net Cash (Debt)	-69	-0.05
Tax (NPV future liability)	-124	-0.10
Options & Other Equity	2	0.00
Total	559	0.44
Spot fx 0.63, S. Ilm. cfr \$440/t, Chl. Ilm.cfr \$260/t, Zir. \$2050/t, Rut. \$1500/t.	379	1.43

F/Cast Production (A\$m)

	2022a	2023f	2024f
AUDUSD	0.73	0.66	0.71
Chloride Ilmenite	249	255	245
Zircon	1715	1765	1565
Rutile	1465	1365	1315
Leucoxene	1090	1015	978
Monazite	1965	1965	1965

Ratio Analysis (A\$m)

	2022a	2023f	2024f	2025f
CF (A\$m)	(8)	17	89	101
CF / Sh (Ac/sh)	(1)	1	7	8
CF Ratio (x)	(70)	33	6	6
Earnings (A\$m)	(11)	14	89	57
EPS (Ac/sh)	(1)	1	7	5
EPS Growth (%)			518%	-36%
Earnings Ratio (x)	(50)	39	6	10
E'prise Val. (A\$m) full funded	652	700	615	543
EV : EBITDA (x)	nm	23	6	5
EV : EBIT (x)	nm	49	7	7
Net Debt / ND+Eq (%)	31%	40%	13%	nm
Interest Cover (x)	-	-	-	-
EBIT Margin (%)	nm	19%	43%	40%
ROE (%)	nm	8%	38%	19%
ROA (%)	nm	4%	20%	11%
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)

	2022a	2023f	2024f	2025f
Net Revenue	0.0	74.0	208.1	200.8
Total Costs	-3.2	-44.0	-101.7	-101.6
EBITDA	-3.2	30.0	106.4	99.3
- margin	-	41%	51%	49%
Depreciation/Amort	-7.5	-15.7	-17.7	-17.9
EBIT	-10.6	14.3	88.7	81.3
Net Interest	0.0	0.0	0.0	0.0
Pre-Tax Profit	-10.6	14.3	88.7	81.3
Tax Expense	0.0	0.0	0.0	-24.4
Normalised NPAT	-10.6	14.3	88.7	56.9
Abnormal Items	0.0	0.0	0.0	0.0
Reported Profit	-10.6	14.3	88.7	56.9
Minority	0.0	0.0	0.0	0.0
Profit Attrib	-10.6	14.3	88.7	56.9

Cash Flow (A\$m)

	2022a	2023f	2024f	2025f
Operating Cashflow	-7.6	16.9	88.8	100.6
Income Tax Paid	0.0	0.0	0.0	-24.4
Interest & Other	0.0	0.0	0.0	0.0
Operating Activities	-7.6	16.9	88.8	76.2
Property, Plant & Equip.	-224.0	-61.0	0.0	0.0
Exploration and Devel.	-4.0	-4.0	-4.0	-4.0
Other	0.0	0.0	0.0	0.0
Investment Activities	-228.0	-65.0	-4.0	-4.0
Borrowings	208.0	0.0	0.0	5.6
Equity or "tbc capital"	50.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Financing Activities	258.0	0.0	0.0	5.6
Net Cashflow	22.4	-48.1	84.8	77.8

Balance Sheet (A\$m)

	2022a	2023f	2024f	2025f
Cash	133.0	84.9	169.7	247.5
Other Current Assets	0.0	13.2	37.1	35.8
Total Current Assets	133.0	98.1	206.8	283.3
Property, Plant & Equip.	248.1	293.4	275.7	257.8
Exploration	9.4	13.4	17.4	21.4
Investments/other	1.6	1.6	1.6	1.6
Tot Non-Curr. Assets	259.1	308.4	294.7	280.8
Total Assets	392.1	406.5	501.5	564.1
Short Term Borrowings	0.3	0.3	0.3	0.3
Other	5.0	5.1	11.4	11.4
Total Curr. Liabilities	5.3	5.4	11.7	11.7
Long Term Borrowings	210.8	210.8	210.8	216.5
Other	1.9	1.9	1.9	1.9
Total Non-Curr. Liabil.	212.8	212.8	212.8	218.4
Total Liabilities	218.1	218.2	224.5	230.1
Net Assets	174.0	188.3	277.0	333.9
Net Debt	78.1	126.2	41.4	-30.7

Reserves and Resources

Reserves & Resources	Mt Ilmenite	Zircon	Rutile/Hiti
Total Resource	1896	51.2%	19.7%
Coburn (WA)	1606	48%	22%
Fungoni (Tanz.)	22	41%	17%
Tajiri (Tanz.)	268	71%	6%
Total Reserve	535	47.8%	22.9%
Coburn (WA)	523	48%	23%
Fungoni (Tanz.)	12	41%	17%
Tajiri (Tanz.)	0		

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