October 18, 2022

Strandline Resources

Heavy Mineral Cashflow catalyst imminent

- STA's site visit highlighted Coburn's strong execution to plan, STA's management/ technical calibre, risk mitigation in place and production upside opportunities.
- First Heavy Mineral Concentrate production looks imminent, with first revenue potentially pre-Xmas marking a major de-risking milestone and price catalyst.
- Full commissioning will bring challenges, and we'd expect longer term opex/ cash flows to become clearer by mid-2023 post ramp-up and tuning of the MSP.
- Coburn's +40-years of cashflows provide compelling optionality for STA to consider Coburn's expansion (very likely), Tanzanian growth, other M&A and/or returns.
- STA offers +65% upside to our revised target price. Maintain Add rating.

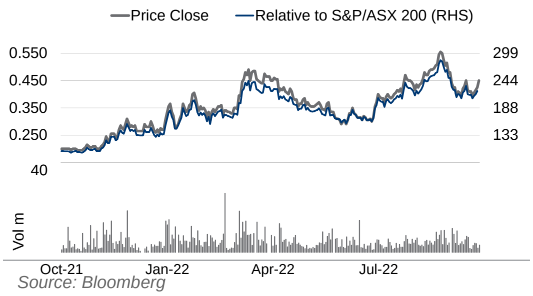
ADD (no change)

Stock code:	STA AU
Price:	A$0.45
12-month target price:	A$0.75
Previous target price:	A$0.70
Up/downside to target price:	66.7%
Dividend yield:	0.0%
12-month TSR*:	66.7%
Market cap:	A$562.9m
Average daily turnover:	A$2.20m
Index inclusion:	ALL ORDINARIES

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-14.3	42.9	125	309.1
Rel ASX/S&P200	-13.2	43.2	134.7	308.9



Source: Bloomberg

Financial summary

	Jun-22A	Jun-23F	Jun-24F	Jun-25F
Revenue (A$m)	0.0	83.8	223.2	227.4
EBITDA Norm (A$m)	-4.1	32.8	122.5	126.6
Net Profit (A$m)	-4.42	15.05	77.76	68.04
EPS Norm (A$)	-0.004	0.013	0.069	0.061
EPS Growth Norm (%)	-68%		417%	-12%
P/E Norm (x)	NA	33.60	6.50	7.43
DPS (A$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
EV/EBITDA (x)	NA	14.23	3.09	2.38
Gearing (Net Debt/EBITDA)	30.98	-1.16	-1.04	-1.61

Source: Company data, Morgans estimates

Related research

STA (ADD - TP A$0.70) - 21 Apr 2022
STA (ADD - TP A$0.62) - 21 Mar 2022

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Analyst(s) own shares in the following stocks mentioned in this report:
– Strandline Resources

Event

- Coburn site visit, earnings/ valuation review, change of analyst.

Coburn imminent de-risking a major catalyst

- **Coburn well on track:** Monday's site visit provided up-close confirmation of Coburn's construction/operational de-risking. Asset quality, technical/ management expertise and risk mitigation were key highlights. See P4 for detailed notes.
- **First HMC sales a major catalyst:** Successful reliability testing via WCP water commissioning suggests first ore processing is potentially only days away. STA's early ramp-up profile (full run-rates but assuming significant adjustments) supports ~10-15kt of HMC production pre-Xmas. Strong market demand suggests first revenues could also arrive pre Xmas. Recovery vs grade/spec will take time to balance, but this shapes as a major project de-risking event and price catalyst.
- **Further de-risking to follow:** MCP completion/management, finalisation of recruitment and embedding the right operations/ maintenance culture (affecting productivity) are key near term challenges. Higher inputs (energy, labour) will likely see opex above DFS forecasts, however commodity price strength and dramatic AUD weakness will likely more than offset these. We expect MCP commissioning to begin early Jan-Q, but fine tuning toward final product volumes/ specs over the following ~6 months. We'd expect clearer cost guidance at this time, marking a further material de-risking milestone.
- **Production upside:** From early in the ramp-up, STA will test upside to design WCP throughput (DMU latent capacity) and the premium zircon production split among other incremental opportunities.

Forecast and valuation updates

- We have; 1) refined ramp-up/ opex assumptions, 2) adjusted basket HMC prices; 3) significantly lowered FX (down 6-10%); and 4) changed analyst. Our DCF-based valuation/target price adjusts to 75ps (from 70cps), risking Coburn at 95% (from 85%), expansion upside at 60% and the Tanzanian projects at 60%.

Investment view

- STA is a rare investment proposition. It enjoys; 1) 100% ownership of a world-scale/ strategic asset in a tier 1 jurisdiction, 2) lenient debt terms; 3) visibility on upcoming cashflow/ de-risking; 4) proven, backable management, 5) a reputable board; and 6) clear M&A appeal while trading at a material discount.
- 2023 will be a year of operational de-risking. By mid-year investors should receive comfort in STA's ability to generate compelling long term cashflows (~$100-150m EBITDA p.a.) offering clear growth optionality. FID on the Coburn expansion (30-50% higher WCP throughput) is likely in March 2024 when debt terms allow distribution of surplus project cash to STA (+$120m forecast end FY24).

Price catalysts

- First HMC production/ shipments/ revenues (Nov-Dec).
- Volume, spec, opex de-risking via MSP ramp-up/ tuning (to mid-2023).
- Coburn expansion FID/ project cash distributions to STA (March 2024).

Risks

- Construction completion/ finalisation and close out of work packages.
- Metallurgical performance at full scale, actual opex performance.
- Demand downturn affecting basket (HMC) prices – Discussed p6.

Strandline Resources

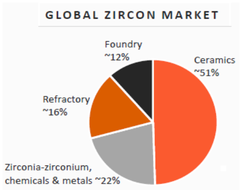
ADD | **as at October 18, 2022**

Price (A$):	0.45	12-month target price (A$):	0.75
Market cap (A$m):	562.9	Up/downside to target price (%):	66.7
Free float (%):	60.0	Dividend yield (%):	0.0
Index inclusion:	ALL ORDINARIES	12-month TSR (%):	66.7

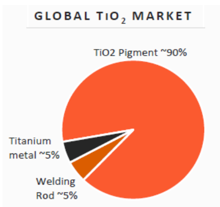
Strandline Resources Limited (STA) is a heavy mineral sands (HMS) explorer and developer, with projects in Australia and Tanzania. Its flagship asset is the Coburn Project (100%) located 250km north of the regional centre of Geraldton, Western Australia. The core asset of the Coburn Project is the Amy 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.

Strandline Products and Markets

Zircon:
- STA to produce a premium and mixed zircon concentrate
- Water, chemical, heat and abrasion resistant
- 1mtpa global zircon market
- Ceramics market represents 51% of the zircon market
- China dominates zircon consumption (47%)
- Iluka the most influential in establishing benchmark price

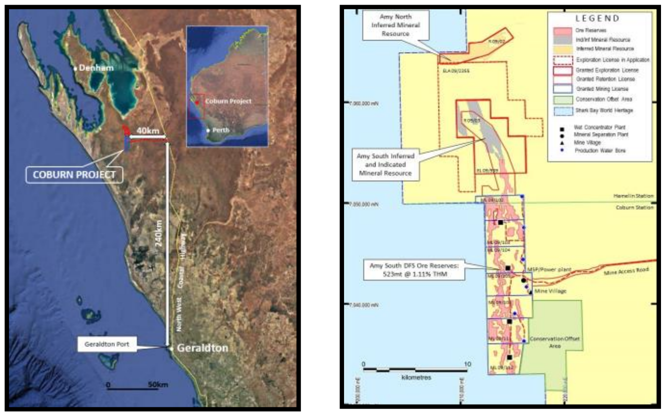


Titanium (Ti / TiO2):
- STA to produce a high Ti rutile & chloride grade ilmenite
- TiO2 a white/opaque pigment, is UV resistant & inert
- 7mtpa global TiO2 market
- Chloride pigment demand/consumption increasing
- Chinese chloride pigment demand driven by increasing environmental standards



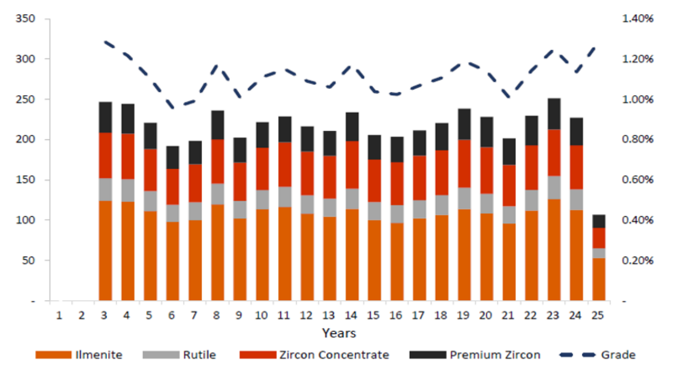
Source: Strandline

Map of STA Coburn Project



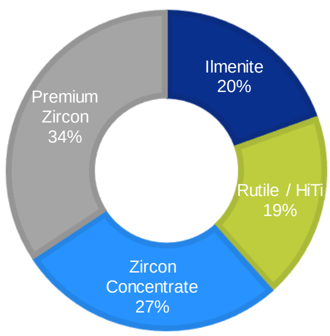
Source: Strandline

Coburn forecast production (lhs, kt) & grade profile (rhs, %)



Source: STA

Coburn Life of Mine Revenue Split



Source: Morgans

Minerals Sands comparisons

Mineral sands are notoriously difficult to compare

- Head grade and commodity make up of each project vary significantly
- Final product also varies (mixed concentrate, partial segregation or final products)
- Market cap or EV to grade ratios difficult to compare between projects as a result

Mineral sands producers use Revenue:Cost ratio

- Revenue:Cost ratio (R:C) provides insight into project strength through market cycles
- Market is routinely surveyed and analysed by specialist industry consultants
- Estimated producer average R:C is 1.8x (range 1-3x)
- Strandline ratio is 2.3x (on Morgans assumptions)
- Coburn is a first quartile project able to ride pricing cycles ahead of its peers

Source: Morgans

Key risks & drivers

Key Risks

Production volume disruption as a large proportion of costs are relatively fixed
Commodity price volatility
Project comissioning to DFS metrics
Operating cost control in a challenging market for labour and logistics

Upcoming Catalysts

Coburn project comissioning/ de-risking
Sales/ cashflow ramp-up
Coburn expansion study progress
Tanzanian project progress updates

Industry Divers

Product demand is largely consumer/construction driven (pigments and ceramics) linked to global economic growth.
Under-investment and depletion has resulted in an ongoign structural shortage of high quality feedstocks

Source: Morgans

Figure 1: Financial summary

Income statement (A$M)	Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E
Revenue	-	-	83.8	223.2	227.4
Operating Costs	-	-	(46.9)	(96.6)	(96.8)
Other Income/Costs	(8.9)	(4.1)	(4.0)	(4.0)	(4.0)
EBITDA	**(8.9)**	**(4.1)**	**32.8**	**122.5**	**126.6**
Depreciation & Amortisation	(0.2)	(0.1)	(10.4)	(20.7)	(20.7)
EBIT	**(9.1)**	**(4.2)**	**22.5**	**101.8**	**105.9**
Other Income & Expenses	-	(0.2)	(7.4)	(14.9)	(13.7)
Profit before Income Tax	**(9.1)**	**(4.4)**	**15.1**	**86.9**	**92.2**
Income Tax Expense	-	-	-	(9.2)	(24.1)
NPAT - Reported	**(9.1)**	**(4.4)**	**15.1**	**77.8**	**68.0**

Revenue by Product (A$M)	Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E
Premium Zircon	-	-	32.0	82.3	79.8
Zircon Concentrate	-	-	25.4	65.4	63.3
Rutile / HiTi	-	-	13.0	37.1	40.6
Ilmenite	-	-	13.1	37.4	41.7
Sales Revenue	**-**	**-**	**83.4**	**222.2**	**225.4**

Annual Production (kt)	Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E
Premium Zircon	-	-	10.2	30.2	34.0
Zircon Concentrate	-	-	16.2	47.9	54.0
Rutile / HiTi	-	-	7.2	21.3	24.0
Ilmenite	-	-	33.0	97.6	110.0
Total Production	**-**	**-**	**66.6**	**197.0**	**222.0**

Cashflow Statement (A$M)	Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E
Operating EBITDA	(8.9)	(4.0)	32.8	122.5	126.6
Net Finance Income	(2.0)	0.1	(7.4)	(14.9)	(13.7)
Income Tax Paid	-	-	-	(9.2)	(24.1)
Other	0.6	(1.9)	(9.9)	(9.3)	0.0
Net operating Cashflow	**(10.3)**	**(5.9)**	**15.5**	**89.2**	**88.8**
Capex (Development, PP&E, other)	(12.3)	(226.7)	(56.0)	-	-
Net Proceeds from Sales/Acquisitions	-	-	-	-	-
Payment for Exploration / Tenements	-	-	-	-	-
Other Investing Cashflows	0.3	-	-	-	-
Net Cash from Investing Activities	**(12.0)**	**(226.7)**	**(56.0)**	**-**	**-**
Net Proceeds from Debt	-	193.1	61.6	-	(12.0)
Dividends Paid	-	-	-	-	-
Proceeds from Issues of Shares	140.1	48.1	-	-	-
Other Financing Cashflows	(12.4)	-	-	-	-
Net Cash from Financing Activities	**127.7**	**241.2**	**61.6**	**-**	**(12.0)**
Net Inc/Dec in Cash and Cash Equivalents	**105.4**	**9.0**	**21.1**	**89.2**	**76.8**

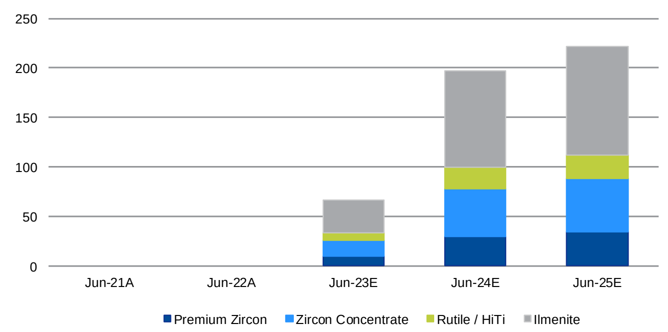
Key Metrics	Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E
AUD:US	0.70	0.75	0.67	0.71	0.74
EPS	-0.01	0.00	0.01	0.07	0.06
DPS	0.00	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA Margin	0%	0%	39%	55%	56%
P/E	-55.3	-114.6	33.6	6.5	7.4
EV/EBITDA	-43.9	-91.8	14.2	3.1	2.4
Free Cashflow Yield	-3.6%	-1.0%	2.6%	15.3%	15.2%

Balance Sheet (A$M)	Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E
Cash & Cash Equivalents	**110.6**	**127.6**	**38.2**	**127.4**	**204.2**
Other Current Assets	7.1	4.2	10.0	20.0	20.0
Total Current Assets	**117.7**	**131.8**	**105.3**	**204.5**	**281.3**
Development Assets	31.4	237.9	16.1	15.0	14.0
Property, Plant & Equipment	0.2	0.7	310.7	291.0	271.3
Exploration and Evaluation Expenditure	5.4	5.3	5.0	5.0	5.0
Other Non-Current Assets	1.6	3.1	3.1	3.1	3.1
Total Non-Current Assets	**38.5**	**247.0**	**334.8**	**314.1**	**293.4**
Total Assets	**156.3**	**378.8**	**440.2**	**518.7**	**574.7**
Trade & Other Payables	16.3	33.8	24.7	25.4	25.4
Provisions & Other Current Liabilities	0.5	1.2	1.0	1.0	1.0
Total Current Liabilities	**16.8**	**34.9**	**25.7**	**26.4**	**26.4**
Senior Debt	2.8	164.6	263.1	263.1	251.2
Provisions & Other Non-Current Liabilities	1.9	4.5	4.8	4.8	4.8
Total Non-Current Liabilities	**4.8**	**169.1**	**268.0**	**268.0**	**256.0**
Total Liabilities	**21.6**	**204.1**	**293.6**	**294.4**	**282.4**
Total Equity	**134.7**	**174.8**	**146.5**	**224.3**	**292.3**

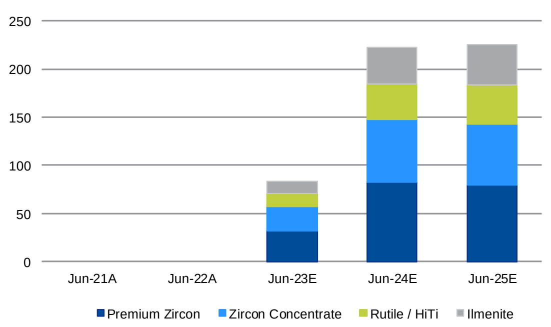
Valuation	A$M	A$/sh
Discount Rate (%)	8.0%	
Coburn Equity NPV (risked 0.95x)	$602	$0.47
Fungoni Project NPV (risked 0.6x)	$25	$0.02
Tajiri Project NPV (risked 0.6x)	$149	$0.12
Corporate Overhead NPV LOM	-$44	-$0.03
Total Current NPV (A$M)	**$733**	**$0.58**
Exploration / Expansion Upside (A$M)	$174	$0.14
Cash & Cash Equivalents (A$M)*	$43	$0.03
Listed Investments	$1	$0.00
Other Assets / Upside (A$M)	**$218**	**$0.17**
Fully Diluted Shares On Issue (million)	1,268	
Target Price (A$/Share)	**$0.75**	

* Only cash not allocated for Coburn development included.

Coburn forecast production (kt)



Forecast Revenues (A$m)



Source: Morgans estimates, company data

Coburn Site visit

STA hosted investors and analysts at its Coburn minerals sands project, WA, on October 17.

In key focus was wet concentrate plant (WCP) commissioning and magnetic separation plant (MSP) construction. We also took away a far better understanding of production timelines, critical infrastructure (including the planned airstrip) and growth strategy.

Summary view: It was hard not to be impressed with the on-budget delivery of the $260m Coburn project in a challenging location logistically, and in the context of chronic WA challenges (COVID, labour shortages, cost pressures). It's clear that STA hasn't compromised on the quality of the build, using all tier 1 branded processing components used by mineral sands majors and consistent with those used in the DFS lab test-work. Full commissioning will no doubt pose challenges along the way, but STA's proven management and technical teams look well placed to deal with them as they arise.

Within ~6-8 months, investors should have a much clearer picture on Coburn's ability to deliver final products (premium zircon, rutile, ilmenite, zircon concentrate) to DFS design specs, on an updated opex outlook and therefore the ability for Coburn to deliver material cash flows over its +40-year mine life.

Figure 2: Key areas of interest/ observations/ improvement

Asset quality: Both, WCP and MSP designed to a high-quality specs by Mineral Technology, with inputs from STA's technical team and implementation by EPC contractors, Primero. WCP in final testing phase. The plant has processing capability of 3000 tph to produce ~94% heavy minerals concentrate (HMC).

WCP and MSP thoughtfully designed and constructed to maximise ore recoveries at the WCP and deliver final products (premium zircon, rutile, ilmenite, zircon concentrate) via MSP.

HMC Production: First HMC production looks imminent, with transition from project development to production pre-Xmas. While each HMC shipment will deliver ~$10m in Revenue (10kt, spot price), STA's final products will attract materially higher sales value. Note the bulk of Coburn's revenue de-risking occurs via deliver of the WCP (HMC attracts 85% of basket value), but diversification away from 100% HMC market reliance is key.

Pushing toward MSP completion: MSP 65% complete, detailed piping and electrical work pending. STA assisting and night shifts being utilised. Positive tension toward completion/ finalisation. Anticipated completion of MSP by Dec22-Jan 23 (our view), post construction, a 6-month ramp to deliver on optimised (DFS spec) product by Sep-Q 23 (Morgans estimate).

Contact Negotiations (claims/variations): With near completion of plant, expecting some contractor claims/ variations with potential to distract. (EPC contract ~$130m).

Infrastructure: Infrastructure development has progressed at a rapid pace, with completion of 12MW solar farm, LNG plant and critical water infrastructure to support operational requirements.

Management well proven: Timely completion/progress of the plant demonstrates management's ability to deliver on timelines, against a very challenging backdrop. Technical team has significant experience in comparable sands operations/ commissioning with some upside to WCP utilisation vs DFS assumptions.

Upside to design throughput: Built redundancy in Dozer Mining units (DMU's), with ample critical spares to mitigate disruption (mainly pumping capacity). DMU's contain latent capacity with scope to push WCP throughput to 3,500tph (from 3,000) which STA will test early on. Current WCP/MSP Plant specs are scalable (plenty of room at the MSP), to deliver operational efficiency and throughput upside. STA will also look to maximise split to Premium Zircon stream post MSP ramp-up.

Labour looks challenging/ Airstrip: STA is drawing 35% of current workforce from the region with the balance FIFO, incurring lower productive hours and therefore higher cost. Likely to refurbish existing pastoral airstrip ($5-10m, NAIF debt potential) to allow direct Perth flights, mitigating this risk but the strip is not in our numbers. Approvals are pending.

Operating costs: Anticipated higher operating cost in early commissioning phase (lower volumes) and we expect higher costs vs DFS due to higher diesel, LNG, labour and other costs. Higher A$ revenues are a significant offset but opex certainty (mid-23) is a critical milestone.

Mining units: Unfortunately couldn't inspect DMU's but significant pre-stripping has proven productivity (track slippage, sand flow characteristics). Mining is contracted per tonne but achieving design volumes via competent skilled operators is key.

Source: Morgans

Figure 3: Wet Concentrate Plant – Approaching ore commissioning.

Figure 4: WCP mixing tanks, undergoing water commissioning

Figure 5: WCP spirals circuits – targeting 94% HMC grade

Figure 6: All tier 1 brand processing components used by minerals sands majors and consistent with those used in the DFS lab test-work

Figure 7: MSP at 65% complete

Figure 8: MSP - 30kV Coronastat Electro-static separators

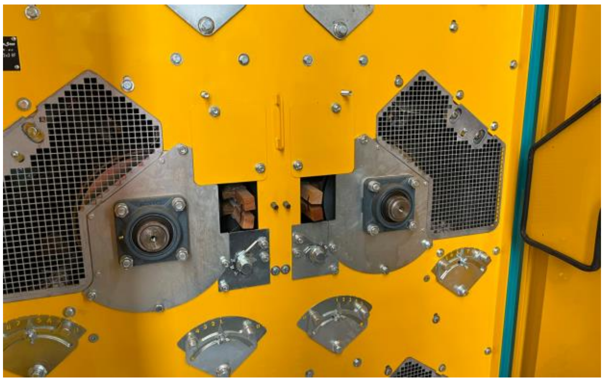


Figure 9: 11MW Solar farm + 4MW battery, designed to take full site power load under sunny conditions. BOO model via Pacific Energy.

Figure 10: LNG fired power station, for nights + top-up

Source: Morgans

Source: Morgans

Quick macro/ market comment

Downstream global suppliers into the pigment/ Ti02 markets have recently noted evidence of softening demand (particularly in Europe and Asia) linked to macro-economic forces and uncertainty in housing and construction markets. Higher global energy pricing and inflationary forces pose risks to both end-product demand, and also the profitability of minerals sands feedstock buyers affecting margins and their buying power.

These dynamics place some uncertainty into the resilience of HMC basket prices at their current elevated levels, with weakness having already unfolded in other industrial metals including copper. Even if HMC basket prices remain resilient in the face of macro headwinds, HMC linked equities may not.

However market feedback from suppliers is that Ti02 feedstock markets remain tight, and HMC markets into China particularly so. Market volatility, if it did unfold, doesn't solve for the ongoing structural supply deficit in these markets, and in turn may place further pressure on supply, amplifying upside pressure on price for when conditions normalise. We think compelling price dynamics can persist into the medium term.

It's also important to note that prolonged AUD/USD weakness (Morgans FY23-24F avg. $0.69) also offers upside earnings/ valuation risk which could become an important buffer should metals prices soften on global events. STA suits investors with an assertive risk profile.

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Cairns	+61 7 4222 0555	Ballina	+61 2 6686 4144	South Yarra	+61 3 9006 9955
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Redcliffe	+61 7 3897 3999	Neutral Bay	+61 2 8969 7500		
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