morgans

Stockbroking | Wealth Management | Corporate Advice

April 21, 2022

Strandline Resources

Raise reduces risk and expands revenue options

- STA has raised A$50m via a placement to fund its three key growth projects – Coburn capacity expansion, Fungoni front end engineering and financing, and Tajiri feasibility study works – along with general working capital.
- Funding allows STA to begin early study work on these projects so its development team can transfer on completion of Coburn development. This continuity of work is important for STA to maintain both its technical capabilities and “early mover” advantage in capturing mineral sands demand.
- While we maintain our view that Coburn’s development is on time and on budget, we think these new funds materially reduce cost overrun risks associated with project development in a hot WA market given management maintains discretion on their ultimate use.
- We adjust our project valuations based on our updated view on the remaining development risks for the project portfolio and our preliminary view of the impact Coburn’s production growth could have on cash flows. Our price target moves to A$0.70/share (from A$0.62) on our sum of the parts DCF model, and we retain an Add rating.

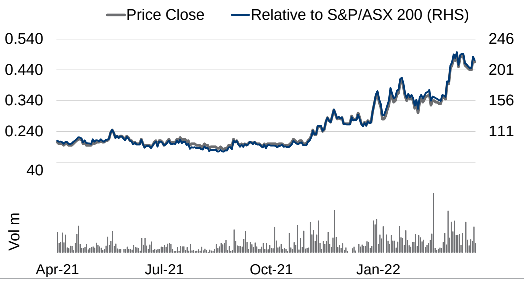
ADD (no change)

Stock code:	STA AU
Price:	A$0.45
12-month target price:	A$0.70
Previous target price:	A$0.62
Up/downside to target price:	55.6%
Dividend yield:	0.0%
12-month TSR*:	55.6%
Market cap:	A$558.1m
Average daily turnover:	A$2.62m
Index inclusion:	ALL ORDINARIES

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	28.6	26.8	119.5	309.1
Rel ASX/S&P200	24.9	23.6	112.4	288.2



Source: Bloomberg

Financial summary

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (A$m)	0.0	0.0	85.5	256.7
EBITDA Norm (A$m)	-11.9	-4.1	34.5	154.4
Net Profit (A$m)	-12.81	-4.42	16.66	99.57
EPS Norm (A$)	-0.017	-0.004	0.015	0.089
EPS Growth Norm (%)	-20%	-77%		498%
P/E Norm (x)	NA	NA	30.36	5.08
DPS (A$)	0.000	0.000	0.000	0.043
Dividend Yield (%)	0.00%	0.00%	0.00%	9.54%
EV/EBITDA (x)	NA	NA	13.11	2.51
Gearing (Net Debt/EBITDA)	9.27	9.01	-1.57	-0.76

Source: Company data, Morgans estimates

Related research

[STA (ADD - TP A$0.62) - 21 Mar 2022]
[STA (ADD - TP A$0.52) - 28 Feb 2022]

Mat COLLINGS
(61) 8 6160 8707
mat.collings@morgans.com.au

Analyst(s) own shares in the following stocks mentioned in this report:
– N/A

Event

- STA raises A$50m via a share placement at A$0.43/share to “accelerate mineral sands growth projects”.

Analysis

- Raising funds at the parent company level means STA retains full discretion on the allocation of funds. We think this is critical given the impact of a highly inflationary market at present for project construction.
- While we are confident Coburn development costs and schedule remain within management’s forecast, we see a lot of “black swans” impacting projects in Western Australia, so an additional cash buffer is prudent.
- The strategic rationale for raising these funds also makes sense to us. By maintaining a small team within STA managing these project studies, they can be progressed to a point they are “shovel ready” as the main development team completes Coburn construction and commissioning. This helps STA retain the experienced team it has built at Coburn for its next projects, but also keeps them fully engaged on completing Coburn knowing their jobs extend beyond construction completion – important in a competitive market for labour.

Forecast and valuation update

- We update our fully diluted share balance, reduce our NPV risk discounts on Coburn, Fungoni and Tajiri, retain additional cash in Coburn to pay for expansion capital, and make an allowance for the additional cash flows we estimate from Coburn expansion. More details on changes to our underlying assumptions are presented on page 4.
- Our price target moves to A$0.70/share (from A$0.62/share) using a sum of the parts DCF valuation method, and we retain an Add rating on the stock.

Investment view

- Coburn is a world class, long life mineral sands project which will provide 5% of the global zircon market and 10% of the chloride ilmenite market once fully commissioned, before any expansion is contemplated.
- The new funds will allow STA to maintain the “first mover advantage” it has built through the Coburn development. With demand for mineral sands products forecast to remain high, we think STA is well positioned to meet the rising demands of its offtake partners through its proposed growth projects.

Price catalysts

- Continued project updates at Coburn towards first production by late CY22.
- Clarity on the updated economics of Tanzanian projects plus Coburn expansion.

Risks

- Covid disruption or delays either at Coburn or at STA’s suppliers.
- Performance of STA’s Coburn construction contractors and close out of work packages.

Strandline Resources

as at April 21, 2022

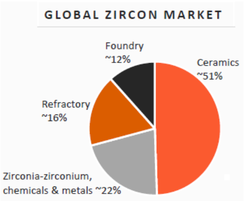
Rating	**ADD**	Price (A$):	0.45
Market cap (A$m):	558.1	12-month target price (A$):	0.70
Shares outstanding (m):	1,240	Up/downside to target price (%):	55.6
Free float (%):	60.0	Dividend yield (%):	2.8

Company description

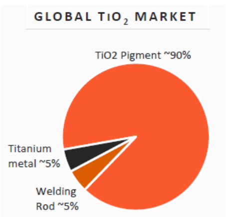
Strandline Resources Limited (STA) is a heavy mineral sands (HMS) explorer and developer, with projects in Australia and Tanzania. Its flagship asset is the Coburn Project (100%) located 250km north of the regional centre of Geraldton, Western Australia. The core asset of the Coburn Project is the Amy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

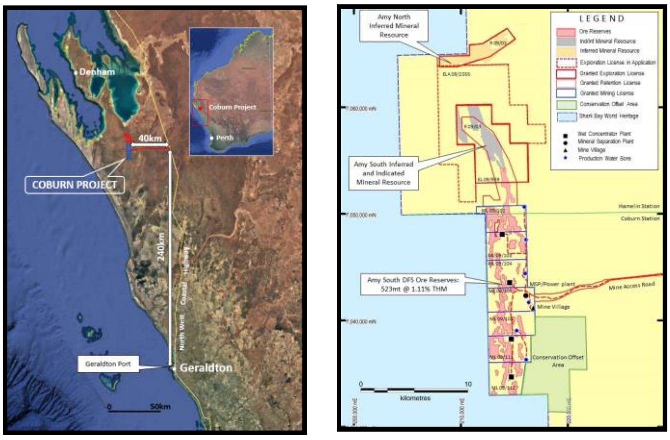


Titanium (Ti / TiO2):
- STA to produce a high Ti rutile & chloride grade ilmenite
- TiO2 a white/opaque pigment, is UV resistant & inert
- 7mtpa global TiO2 market
- Chloride pigment demand/consumption increasing
- Chinese chloride pigment demand driven by increasing environmental standards



Source: Strandline

Map of STA Coburn Project



Source: Strandline

Revenue to Cost Ratio

Mineral sands are notoriously difficult to compare

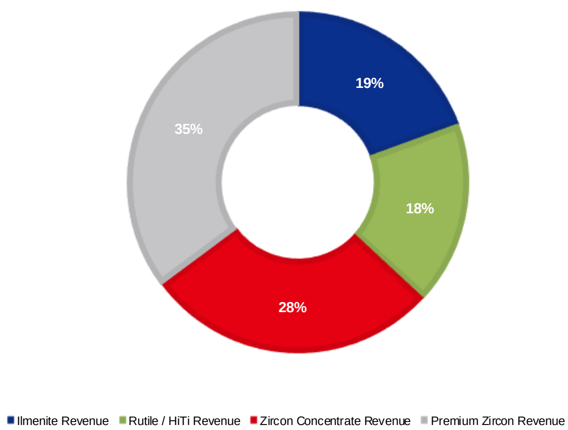
- Head grade and commodity make up of each project vary significantly
- Final product also varies (mixed concentrate, partial segregation or final products)
- Market cap or EV to grade ratios difficult to compare between projects as a result

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

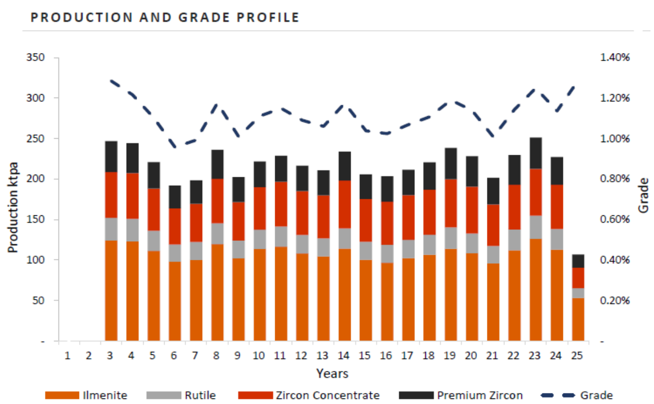
Source: Morgans

Coburn Life of Mine Revenue Breakdown



Source: Morgans

STA future production



Source: Strandline

Key risks & drivers

Key Risks

- Commodity prices - as a large proportion of costs are relatively fixed
- Project Development and ramp up in a challenging marktet for labour and logistics

Upcoming Catalysts

- Coburn project construction
- First sales
- Tanzania updates

Industry Divers

- AUD:USD Exchange Rate
- Product demand is largely consumer/construction driven (pigments and ceramics) linked to global economic growth

Source: Morgans

Figure 1: Financial summary

STA — Mining and Metals

Income statement (A$M)	Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Revenue	-	-	85.5	256.7	298.2
Operating Costs	-	-	(47.0)	(98.3)	(100.4)
Other Income/Costs	(11.9)	(4.1)	(4.0)	(4.0)	(4.0)
EBITDA	**(11.9)**	**(4.1)**	**34.5**	**154.4**	**193.8**
Depreciation & Amortisation	(0.1)	(0.1)	(10.4)	(20.7)	(20.7)
EBIT	**(12.0)**	**(4.2)**	**24.1**	**133.7**	**173.1**
Other Income & Expenses	(0.8)	(0.2)	(7.4)	(14.9)	(14.2)
Profit before Income Tax	**(12.8)**	**(4.4)**	**16.7**	**118.8**	**159.0**
Income Tax Expense	-	-	-	(19.2)	(44.3)
NPAT - Reported	**(12.8)**	**(4.4)**	**16.7**	**99.6**	**114.6**

Revenue by Product (A$M)	Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Premium Zircon	-	-	33.4	100.1	115.3
Zircon Concentrate	-	-	26.5	79.5	91.6
Rutile / HiTi	-	-	13.3	40.1	47.1
Ilmenite	-	-	11.8	36.0	42.7
Sales Revenue	**-**	**-**	**85.1**	**255.8**	**296.7**

Annual Production (kt)	Jun-21A	Jun-22E	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-22E	Jun-23E	Jun-24E	Jun-25E
Operating EBITDA	(11.9)	(4.0)	34.5	154.4	193.8
Net Finance Income	(2.0)	0.0	(7.4)	(14.9)	(14.2)
Income Tax Paid	-	2.7	-	(19.2)	(44.3)
Other	3.6	(10.5)	(9.9)	(8.5)	0.2
Net operating Cashflow	**(10.3)**	**(11.8)**	**17.1**	**111.8**	**135.6**
Capex (Development, PP&E, other)	(12.3)	(236.9)	(61.6)	-	-
Net Proceeds from Sales/Acquisitions	-	-	-	-	-
Payment for Exploration / Tenements	-	-	-	-	-
Other Investing Cashflows	0.3	-	-	-	-
Net Cash from Investing Activities	**(12.0)**	**(236.9)**	**(61.6)**	**-**	**-**
Net Proceeds from Debt	-	161.0	61.6	-	(11.5)
Dividends Paid	-	-	-	(48.2)	(84.8)
Proceeds from Issues of Shares	140.1	0.6	-	-	-
Other Financing Cashflows	(12.4)	5.8	-	-	-
Net Cash from Financing Activities	**127.7**	**167.4**	**61.6**	**(48.2)**	**(96.3)**
Net Inc/Dec in Cash and Cash Equivalents	**105.4**	**(81.4)**	**17.1**	**63.5**	**39.3**

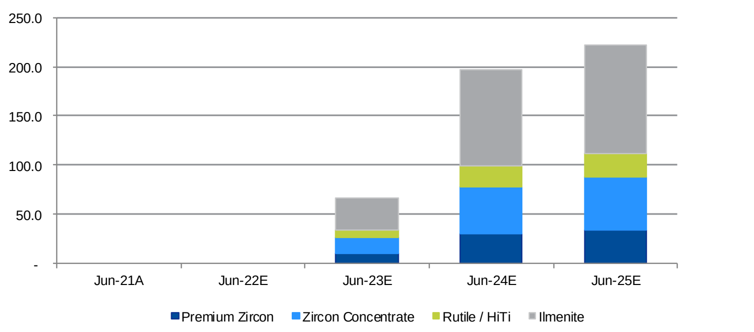
Key Metrics	Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E
AUD:US	0.70	0.75	0.74	0.74	0.74
EPS	-0.01	0.00	0.01	0.09	0.10
DPS	0.00	0.00	0.00	0.04	0.08
Yield	0.0%	0.0%	0.0%	9.6%	17.0%
EBITDA Margin	0%	0%	40%	60%	65%
P/E	-40.53	-118.37	31.38	5.25	4.56
EV/EBITDA	-34.24	-117.88	13.60	2.62	1.89
Free Cashflow Yield	-3.6%	-4.3%	1.9%	19.8%	24.0%

Balance Sheet (A$M)	Jun-21A	Jun-22E	Jun-23E	Jun-24E	Jun-25E
Cash & Cash Equivalents	**110.6**	**37.1**	**54.2**	**117.8**	**157.1**
Other Current Assets	7.1	0.1	10.0	20.0	20.0
Total Current Assets	**117.7**	**94.4**	**121.4**	**194.9**	**234.2**
Development Assets	31.4	267.9	21.6	20.6	19.5
Property, Plant & Equipment	0.2	13.2	310.7	291.0	271.3
Exploration and Evaluation Expenditure	5.4	5.0	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**	**289.2**	**340.4**	**319.7**	**299.0**
Total Assets	**156.3**	**383.5**	**461.8**	**514.6**	**533.2**
Trade & Other Payables	16.3	24.7	24.7	26.2	26.4
Provisions & Other Current Liabilities	0.5	1.0	1.0	1.0	1.0
Total Current Liabilities	**16.8**	**25.7**	**25.7**	**27.2**	**27.4**
Senior Debt	2.8	221.6	283.1	283.1	271.6
Provisions & Other Non-Current Liabilities	1.9	4.8	4.8	4.8	4.8
Total Non-Current Liabilities	**4.8**	**226.4**	**288.0**	**288.0**	**276.5**
Total Liabilities	**21.6**	**252.1**	**313.6**	**315.1**	**303.9**
Total Equity	**134.7**	**131.5**	**148.1**	**199.5**	**229.3**

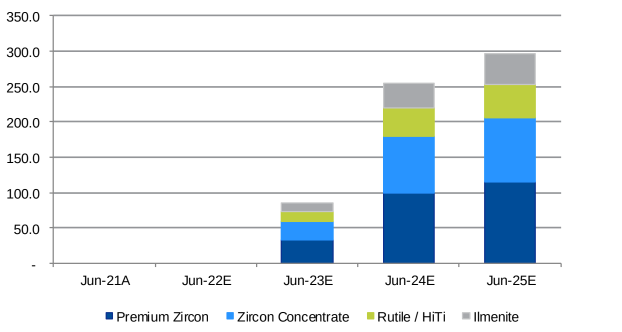
Valuation	A$M	A$/sh
Discount Rate (%)	8.0%	
Coburn Equity NPV (risked 0.85x)	$557	$0.44
Fungoni Project NPV (risked 0.6x)	$25	$0.02
Tajiri Project NPV (risked 0.6x)	$141	$0.11
Corporate Overhead NPV LOM	-$44	-$0.03
Total Current NPV (A$M)	**$679**	**$0.54**
Exploration / Expansion Upside (A$M)	$159	$0.12
Cash & Cash Equivalents (A$M)*	$50	$0.04
Listed Investments	$1	$0.00
Other Assets / Upside (A$M)	**$209**	**$0.16**
Fully Diluted Shares On Issue (million)	1,268	
Target Price (A$/Share)	**$0.70**	

* Only cash not allocated for Coburn development included.

Coburn Project Annual Production (kt)



Annual Revenue (A$M)



Source: Morgans estimates, company data

Changes to forecasts

While our underlying commodity price and production forecasts for Coburn remain unchanged, we have made several changes to account for how we see the broader business operating in the near term to progress its growth projects based on the recently announced study plans. While it is too early to begin putting growth capital or expanded production into our assumptions, the key changes are:

- Updated the balance of shares on issue and our fully diluted shares assumption with the latest reported figures from STA.
- Retain more cash within STA (reduced dividend assumptions, and increased minimum cash target) to fund project development portfolio.
- Reduced our risk discount on Coburn's NPV from 20% to 15%, reflecting our view that an additional capital raising is now unlikely, though commissioning risks remain.
- Reduced our risk discount on STA's Tanzanian assets from 60% to 40% of NPV reflecting a funded path to development. Our NPV estimates remain unchanged, and therefore likely conservative, using STA's historical published figures.
- Added our estimate of the Coburn expansion NPV. We have used a conservative 30% capacity expansion (noting management is investigating up to a 50% expansion). NPV is discounted by 50% to reflect the high level of uncertainty as the project studies commence.

It is worth noting that our "Coburn Equity NPV" has reduced, in Figure 1, compared to our previous note. This is a function of cash being retained within the business to fund expansion rather than distributed, with the value of expansion (discounted 50%) captured within "exploration/expansion upside". Combined, our Coburn NPV has increased circa A$50m on our conservative first estimate.

Given the way we have structured these changes, without yet fully allocating capital or production growth, there is no material impact on our forecast revenues or profitability. As studies are progressed and the company provides more details on costs, timelines, and production outlook, we will integrate these into our forecasts.

Queensland		New South Wales		Victoria	
Brisbane	+61 7 3334 4888	Sydney	+61 2 9043 7900	Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677	Sydney: Grosvenor Place	+61 2 8215 5000	Brighton	+61 3 9519 3555
Brisbane: Tynan Partners	+61 7 3152 0600	Sydney: Reynolds Securities	+61 2 9373 4452	Domain	+61 3 9066 3200
Brisbane: North Quay	+61 7 3245 5466	Sydney: Currency House	+61 2 8216 5111	Geelong	+61 3 5222 5128
Bundaberg	+61 7 4153 1050	Armidale	+61 2 6770 3300	Hawthorn	+61 3 9900 4350
Cairns	+61 7 4222 0555	Ballina	+61 2 6686 4144	South Yarra	+61 3 9006 9955
Gladstone	+61 7 4972 8000	Balmain	+61 2 8755 3333	Southbank	+61 3 9037 9444
Gold Coast	+61 7 5581 5777	Bowral	+61 2 4851 5555	Traralgon	+61 3 5176 6055
Holland Park	+61 7 3151 8300	Chatswood	+61 2 8116 1700	Warrnambool	+61 3 5559 1500
Kedron	+61 7 3350 9000	Coffs Harbour	+61 2 6651 5700		
Mackay	+61 7 4957 3033	Gosford	+61 2 4325 0884	**Western Australia**	
Milton	+61 7 3114 8600	Hurstville	+61 2 8215 5079	West Perth	+61 8 6160 8700
Newstead	+61 7 3151 4151	Merimbula	+61 2 6495 2869	Stockbroking, Corporate Advice, Wealth Management	
Noosa	+61 7 5449 9511	Mona Vale	+61 2 9998 4200	Perth	+61 8 6462 1999
Redcliffe	+61 7 3897 3999	Neutral Bay	+61 2 8969 7500		
Rockhampton	+61 7 4922 5855	Newcastle	+61 2 4926 4044	**South Australia**	
Springfield-Ipswich	+61 7 3202 3995	Orange	+61 2 6361 9166	Adelaide	+61 8 8464 5000
Spring Hill	+61 7 3833 9333	Port Macquarie	+61 2 6583 1735	Stockbroking, Corporate Advice, Wealth Management	
Sunshine Coast	+61 7 5479 2757	Scone	+61 2 6544 3144	Exchange Place	+61 8 7325 9200
Toowoomba Chalk Capital	+61 7 4639 1277	Wollongong	+61 2 4227 3022	Norwood	+61 8 8461 2800
Townsville	+61 7 4725 5787			Unley	+61 8 8155 4300
Northern Territory		**Australian Capital Territory**		**Tasmania**	
Darwin	+61 8 8981 9555	Canberra	+61 2 6232 4999	Hobart	+61 3 6236 9000

Disclaimer

The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Disclosure of interest

Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

Regulatory disclosures

Analyst owns shares in the following mentioned company(ies): N/A

Morgans Corporate Limited is Joint Lead Manager to the Placement of shares in Strandline Resources Limited in April 2022 and may receive fees in this regard.

Recommendation structure

For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

Research team

For analyst qualifications and experience, refer to our website at morgans.com.au/research-and-markets/our-research-team

Research coverage policy

For an overview on the stock selection process, refer to our website at morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy

Research independence statement

morgans.com.au/Research-Independence-Statement

Stocks under coverage

For a full list of stocks under coverage, refer to our website at morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage and
morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage

If you no longer wish to receive Morgans publications please contact your local Morgans branch or write to GPO Box 202 Brisbane QLD 4001 and include your account details.

morgans.com.au