

# Strandline Resources (STA)

Rating: Buy | Risk: High | Price Target: \$0.71

## Coburn site visit – excellent execution and exceptional timing

### Key Information

Current Price (\$ps)	0.33
12m Target Price (\$ps)	0.71
52 Week Range (\$ps)	0.18 - 0.41
Target Price Upside (%)	115.7%
TSR (%)	115.7%
Reporting Currency	AUD
Market Cap (\$m)	370
Sector	Materials
Avg Daily Volume (m)	2.2
ASX 200 Weight (%)	0%

### Fundamentals

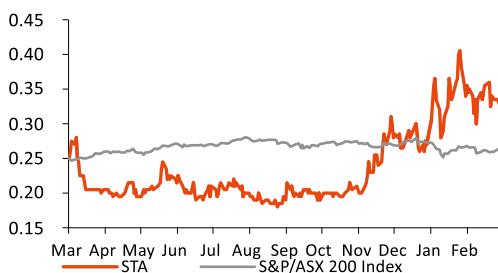
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	176	290
NPAT (\$m)	(13)	(12)	56	100
EPS (cps)	(1.7)	(1.1)	5.0	9.0
EPS Growth (%)	19.0%	34.1%	558.2%	79.3%
DPS (cps) (AUD)	0.0	0.0	0.0	1.0
Franking (%)	0%	0%	0%	0%

### Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(13.0)	(30.2)	6.6	3.7
EV/EBITDA (x)	(27.4)	(39.5)	3.2	1.9
Div Yield (%)	0.0%	0.0%	0.0%	3.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	11.1%

### Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(5.5%)	25.2%	19.6%	14.9%
Absolute (%)	(7.0%)	22.2%	17.9%	20.0%
Benchmark (%)	(1.5%)	(3.0%)	(1.7%)	5.1%



Price performance indexed to 100

Source: FactSet

### Major Shareholders

Tembo Capital	20.6%
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### Event

With the WA borders finally open we took the opportunity to visit Strandline's Coburn Mineral Sands Project. The overall impression is that Coburn is being exceptionally well managed, and the project is on track and on budget for first production in 4Q22. The mineral sands market remains very tight, and Coburn production is likely to be delivered into zircon and rutile pricing which is well above the DFS assumptions and our forecasts. Strandline remains our top pick amongst our emerging resource company coverage.

### Highlights

- Coburn is now ~63% complete, and unlike some projects in WA that do not have fixed-priced contracts, Coburn remains on-budget and on-time. In fact, we got the impression from site management that they are quietly confident that the project will reach first production ahead of expectations.
- The only part of the construction process that has been a little slow has been the McMahon bulk earthworks and road construction – but that is not on the critical path and will be completed shortly. We drove into site alongside the new 42km access road that is now largely complete.
- The critical path item is construction of the Wet Concentration Plant (WCP). Construction is now out-of-ground with steelworks and electrical cabling being installed. The spirals were pre-ordered and are on site waiting to be lifted into position. Around 30% of the pre-fabricated steel (from China) is on-site, with the rest complete and en-route to site.
- The supporting infrastructure is well advanced including roads, power and water. Power is being provided by a combination of LNG engines and solar. Water is being provided from on-site borefields.
- The Mineral Separation Plant (MSP) is also out-of-ground and although it is not on the critical path, construction is well advanced. Coburn will produce and sell Heavy Mineral Concentrate (HMC) while the MSP is being commissioned.
- The mining equipment (Dozer Mining Units) are expected to be delivered to site in June and the pre-strip will commence in June/July.
- The main village is now largely complete, with just cosmetic improvements required. Coburn has beds for around 270 people in the permanent and construction village, and there are around 250 personnel on site. We note with interest the high level of diversity with around one third female and 17% indigenous staff.
- The experience of the Strandline management team in managing construction projects and contractors is evident. CEO Luke Graham and ED Peter Watson are both ex-Sedgman, a global leader in construction of mineral processing plants now owned by CIMIC. Coburn is not experiencing the cost overruns and project delays which are impacting other projects in WA. We attribute this to the detailed work that has gone into the construction contracts prior to construction commencing, and the experience of the Strandline management team.
- With Coburn now just ~6mths away from first production, the stock is materially undervalued in a mineral sands market that continues to tighten due to lack of supply. Mineral Sands markets are relatively opaque, but we understand zircon pricing has pushed through US\$2,500/t in China and bulk rutile is selling for about US\$1,800/t. These prices are materially above the assumptions in the Coburn DFS and our forecasts. We forecast EBITDA in FY23/24 of A\$102m/\$167m. Those numbers increase to A\$128m/\$215m in FY23/24 at spot commodity prices.

### Recommendation

We retain our BUY recommendation and price target of A\$0.71ps. Coburn is a world class mineral sands development that is fully funded, under construction and mineral sands markets remain tight.

## Strandline Resources

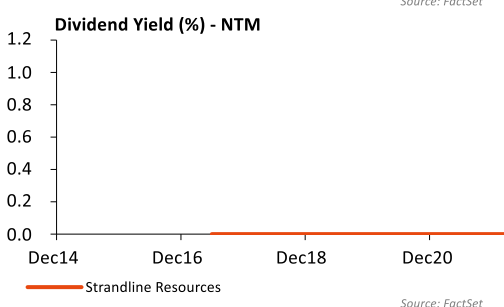
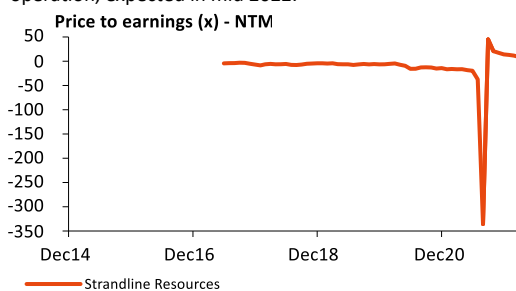
### Materials Materials

FactSet: STA-AU / Bloomberg: STA AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.33
Target Price (\$ps)	0.71
52 Week Range (\$ps)	0.18 - 0.41
Shares on Issue (m)	1,120
Market Cap (\$m)	370
Enterprise Value (\$m)	324
TSR (%)	115.7%

Valuation NPV	Data
Beta	1.30
Cost of Equity (%)	11.8%
Cost of Debt (net) (%)	4.0%
Risk Free Rate (%)	4.0%
Terminal Growth (%)	0.0%
WACC (%)	10.0%

Strandline Resources Ltd. engages in the exploration and development of mineral properties. The company is developing the Coburn mineral sands project in Western Australia and has mineral sands interests in Tanzania at Fungoni, Tajiri and exploration assets. Coburn has qualified for a A\$150m funding package from the Northern Australia Infrastructure Facility (NAIF). Strandline released an updated DFS for Coburn in June 2020 which valued the project at A\$705m. Coburn will supply about 5% of global zircon and 10% of global chloride ilmenite demand when in operation, expected in mid 2022.



## Financial Year End: 30 June

Investment Summary (AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
EPS (Reported) (cps)	(2.1)	(1.7)	(1.1)	5.0	9.0
EPS (Underlying) (cps)	(2.1)	(1.7)	(1.1)	5.0	9.0
EPS (Underlying) Growth (%)	3.9%	19.0%	34.1%	558.2%	79.3%
PE (Underlying) (x)	(12.7)	(13.0)	(30.2)	6.6	3.7
EV / EBIT (x)	(39.8)	(27.1)	(39.5)	3.9	2.4
EV / EBITDA (x)	(39.8)	(27.4)	(39.5)	3.2	1.9
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	3.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	11.1%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	0	0	0	176	290
Sales Growth (%)	(3.4%)	83.9%	(100.0%)	n/a	64.8%
Other Operating Income	0	0	0	0	0
EBITDA	(8)	(12)	(8)	102	167
EBITDA Margin (%)	nm	nm	nm	57.9%	57.5%
Depreciation & Amortisation	0	(0)	0	(18)	(30)
EBIT	(8.1)	(11.9)	(8.2)	83.7	137.3
EBIT Margin (%)	nm	nm	nm	47.5%	47.3%
Net Interest	0	(1)	(4)	(9)	(4)
Pretax Profit	(8)	(13)	(12)	75	134
Tax	0	0	0	(19)	(33)
Tax Rate (%)	0.0%	0.0%	0.0%	(25.0%)	(25.0%)
NPAT Underlying	(8)	(13)	(12)	56	100
Significant Items	0	0	0	0	0
NPAT Reported	(8)	(13)	(12)	56	100
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(8)	(12)	(8)	84	137
Payments to Suppliers	(2)	(2)	(4)	(74)	(123)
Receipts from Customers	0	1	0	176	290
Tax Paid	0	0	0	0	(19)
Net Interest	0	0	2	1	3
Change in Working Capital	0	0	(9)	(20)	(12)
Depreciation & Amortisation	0	0	0	0	0
Other	(5)	(7)	(4)	0	0
Operating Cashflow	(7)	(8)	(15)	83	140
Capex	0	0	(205)	(2)	(3)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Investing Cashflow	0	0	(205)	(2)	(3)
Equity Raised / Bought Back	6	133	0	0	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	160	0	(50)
Other	0	(6)	(6)	(10)	(7)
Financing Cashflow	6	128	154	(10)	(57)
Net Change in Cash	(1)	119	(66)	71	80
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	5	111	44	116	196
Accounts Receivable	0	7	0	14	24
Inventory	0	0	0	14	24
Other Current Assets	0	0	0	0	0
PPE	0	31	236	201	159
Total Assets	13	156	288	353	410
Accounts Payable	0	16	0	9	16
Short Term Debt	0	0	0	50	40
Long Term Debt	0	3	163	113	73
Total Liabilities	1	20	163	172	129
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(63.0%)	(17.4%)	(9.5%)	37.2%	43.9%
Gearing (%)	(70.6%)	(395.0%)	49.3%	21.0%	(42.1%)
Net Debt / EBITDA (x)	0.6	9.1	(14.5)	0.5	(0.5)

**Figure 1: Wet Concentration Plant under construction**



Source: Shaw and Partners

**Figure 2: Mineral Separation Plant under construction**



Source: Shaw and Partners

**Figure 3: Solar plant**



Source: Shaw and Partners

**Figure 4: Coburn project site entrance**



Source: Shaw and Partners

### Key risks

- Strandline Resources is not currently in production and there are design, construction and start-up risks with the Coburn and Fungoni projects. These projects may cost more and may not operate as expected.
- Forecasting future commodity prices and operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic on both. If mineral sands prices are weaker than forecast and/or Strandline Resources' costs are higher than we expect then our cash flow forecasts will be too high.

### Core drivers and catalyst

- Zircon and rutile markets remain tight, and the pipeline of new projects to supply steady demand growth is limited. We expect prices to remain elevated whilst the market is in an incentive pricing environment.
- Coburn is a world class project with a reserve of 523Mt at 1.11% Total Heavy Mineral grade. It will produce approximately 230kt of Heavy Mineral Concentrate (HMC) per annum with an initial mine life of 22.5 years.
- Strandline also has a smaller, development ready project in Tanzania at Fungoni. Once developed, Fungoni should pave the way for the larger Tajiri project.
- We value the Coburn project at A\$540m (post-tax DCF at 10%). We note Strandline values the project at A\$705m (pre-tax DCF at 8%) for the first 22.5 years of the project, with potential to extend the mine-life by 15 years.

## Rating Classification

<b>Buy</b>	Expected to outperform the overall market
<b>Hold</b>	Expected to perform in line with the overall market
<b>Sell</b>	Expected to underperform the overall market
<b>Not Rated</b>	Shaw has issued a factual note on the company but does not have a recommendation

## Risk Rating

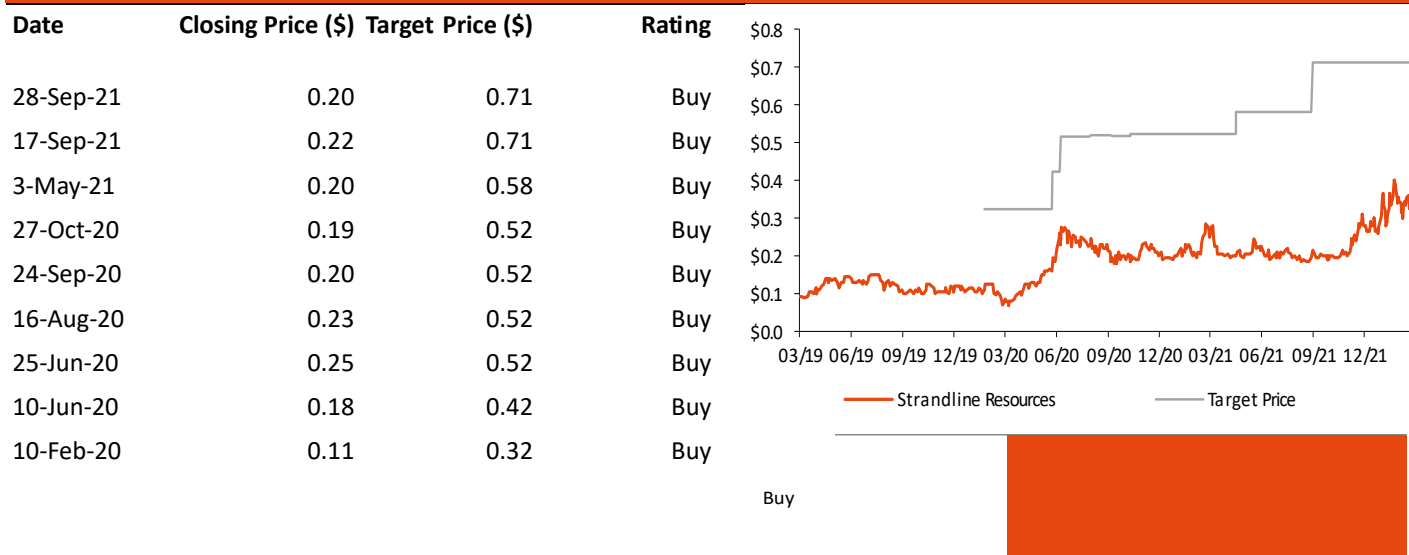
<b>High</b>	Higher risk than the overall market – investors should be aware this stock may be speculative
<b>Medium</b>	Risk broadly in line with the overall market
<b>Low</b>	Lower risk than the overall market

**RISK STATEMENT:** Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

### Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	99	85%
Hold	16	14%
Sell	2	2%

### History of Investment Rating and Target Price - Strandline Resources



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