

# Strandline Resources (STA)

Rating: Buy | Risk: High | Price Target: \$0.80

## Tajiri receives Environmental Certificate. Upgrade Price Target to 80c

### Key Information

Current Price (\$ps)	0.39
12m Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.18 - 0.41
Target Price Upside (%)	105.5%
TSR (%)	105.5%
Reporting Currency	AUD
Market Cap (\$m)	437
Sector	Materials
Avg Daily Volume (m)	2.5
ASX 200 Weight (%)	0%

### Fundamentals

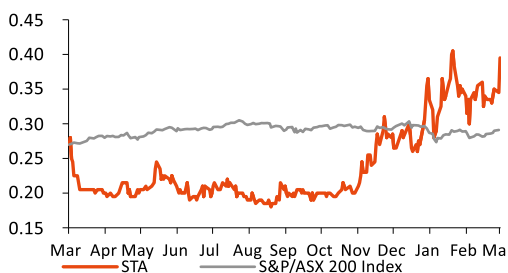
YE 30 Jun (AUD)	FY21A	FY22E	FY23E	FY24E
Sales (\$m)	0	0	142	300
NPAT (\$m)	(13)	(12)	42	116
EPS (cps)	(1.7)	(1.1)	3.8	10.4
EPS Growth (%)	19.0%	34.1%	446.8%	174.8%
DPS (cps) (AUD)	0.0	0.0	0.0	1.0
Franking (%)	0%	0%	0%	0%

### Ratios

YE 30 Jun	FY21A	FY22E	FY23E	FY24E
P/E (x)	(13.0)	(35.6)	10.3	3.7
EV/EBITDA (x)	(33.1)	(47.7)	4.8	2.1
Div Yield (%)	0.0%	0.0%	0.0%	2.6%
Payout Ratio (%)	0.0%	0.0%	0.0%	9.6%

### Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	23.8%	16.5%	50.3%	38.5%
Absolute (%)	25.4%	17.9%	49.1%	46.3%
Benchmark (%)	1.6%	1.4%	(1.2%)	7.8%



Price performance indexed to 100

Source: FactSet

### Major Shareholders

Tembo Capital	20.6%
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### Event

Strandline has announced that the Tajiri mineral sands project in Tanzania has received its Environmental Certificate which paves the way for development. We also take this opportunity to review our forecasts post our recent Coburn site visit and ongoing price strength in zircon and rutile. Our FY23 earnings forecast reduces 24% as we push development of Fungoni back into FY24, but our FY24 and FY25 forecasts lift 16%/38% due to higher zircon and rutile price assumptions. Our valuation increases from 71cps to 80cps.

### Highlights

- Mining activities in Tanzania have been in hiatus since 2016 when the government re-worked the country's mining laws to more equitably share the benefits of resource extraction. A new Tanzanian President, Samia Suluhu Hassan, was elected in March 2021 and is proving to be pro-development and rejuvenating the country's mining industry.
- In late 2021, Strandline signed a Framework Agreement with the Tanzanian government which paves the way to commercialise Strandline's Tanzanian mineral sands resources.
- The key feature of the new mining laws is a 16% free-carried interest for the Tanzanian State. Strandline and the Government of Tanzania (GNT) have formed a new joint venture called Nyati Mineral Sands Ltd (Nyati) which will be 84% owned and operated by Strandline via the company's wholly owned subsidiary Strandline Resources UK Ltd.
- Strandline has two advanced projects in Tanzania at Fungoni and Tajiri, as well as an exploration project at Bagamoyo.
- Fungoni is a relatively small US\$35m project, with a 12.3Mt reserve and 6.2yr mine life. Strandline refers to Fungoni as a 'starter' project in Tanzania, and when operational will pave the way for the larger Tajiri project.
- Strandline released an updated DFS for Fungoni in November 2018 and announced a funding facility with Nedbank CIB for US\$26m in June 2019. The project has the key mining and environmental licences in place.
- Tajiri is a much larger project than Fungoni and in late 2020 Strandline released a scoping study that outlined a US\$125m project with a mine-life of 23 years, a pre-tax NPV of US\$205m and annual EBITDA of US\$37m.
- Strandline has a range of options to commercialise the Tanzanian assets. It could proceed to development on its own, it could bring in a strategic partner, it could sell down to a strategic partner as part of an offtake agreement, or it could demerge the company into a Tanzanian and Australian business – perhaps listing the Tanzanian business on the London Stock Exchange.
- We have revised our forecasts following our site visit to Coburn last week and we factor in higher zircon and rutile prices out to CY26. Our FY23 forecast reduces as we move first production from Fungoni into FY24, but FY25 and FY26 increase due to higher price assumptions. Our valuation increases from 71cps to 80cps.

Revisions	2022f			2023f			2024f			2025f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Revenue (A\$m)	0	0	n/a	142	176	-19%	300	290	3%	308	261	18%
EBITDA (A\$m)	-8	-8	0%	82	102	-19%	189	167	13%	190	145	31%
EBIT (A\$m)	-8	-8	0%	64	84	-24%	159	137	16%	160	116	39%
NPAT (A\$m)	-12	-12	0%	42	56	-24%	116	100	16%	122	88	38%

### Recommendation

We retain our BUY recommendation and lift our price target to A\$0.80ps. Coburn is a world class mineral sands development that is fully funded, under construction and mineral sands markets remain tight.

## Strandline Resources

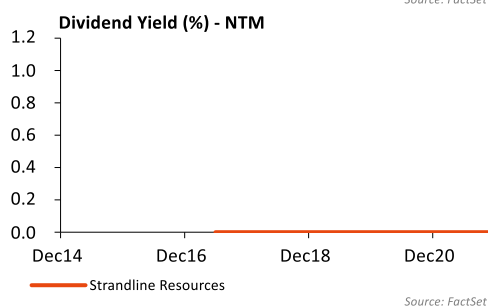
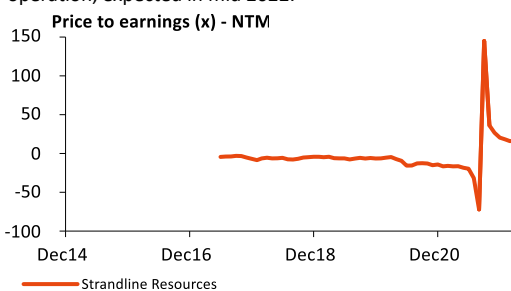
### Materials

FactSet: STA-AU / Bloomberg: STA AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.39
Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.18 - 0.41
Shares on Issue (m)	1,120
Market Cap (\$m)	437
Enterprise Value (\$m)	391
TSR (%)	105.5%

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%
Valuation per share (cps) (AUD)	0.80
Valuation (\$m)	894.43

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 Funconi, 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)	3.8	10.4
EPS (Underlying) (cps)	(2.1)	(1.7)	(1.1)	3.8	10.4
EPS (Underlying) Growth (%)	3.9%	19.0%	34.1%	446.8%	174.8%
PE (Underlying) (x)	(12.7)	(13.0)	(35.6)	10.3	3.7
EV / EBIT (x)	(48.1)	(32.7)	(47.7)	6.1	2.5
EV / EBITDA (x)	(48.1)	(33.1)	(47.7)	4.8	2.1
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	2.6%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	9.6%
Profit and Loss (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	0	0	0	142	300
Sales Growth (%)	(3.4%)	83.9%	(100.0%)	n/a	110.8%
Other Operating Income	0	0	0	0	0
EBITDA	(8)	(12)	(8)	82	189
EBITDA Margin (%)	nm	nm	nm	57.8%	62.9%
Depreciation & Amortisation	0	(0)	0	(18)	(30)
EBIT	(8.1)	(11.9)	(8.2)	63.9	159.1
EBIT Margin (%)	nm	nm	nm	44.8%	53.0%
Net Interest	0	(1)	(4)	(7)	(4)
Pretax Profit	(8)	(13)	(12)	56	155
Tax	0	0	0	(14)	(39)
Tax Rate (%)	0.0%	0.0%	0.0%	(25.0%)	(25.0%)
NPAT Underlying	(8)	(13)	(12)	42	116
Significant Items	0	0	0	0	0
NPAT Reported	(8)	(13)	(12)	42	116
Cashflow (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBIT	(8)	(12)	(8)	64	159
Payments to Suppliers	(2)	(2)	(4)	(60)	(111)
Receipts from Customers	0	1	0	142	300
Tax Paid	0	0	0	0	(14)
Net Interest	0	0	2	3	3
Change in Working Capital	0	0	(9)	(16)	(19)
Depreciation & Amortisation	0	0	0	0	0
Other	(5)	(7)	(4)	0	0
Operating Cashflow	(7)	(8)	(15)	69	159
Capex	0	0	(150)	(57)	(3)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Investing Cashflow	0	0	(150)	(57)	(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	(11)	2	99
Balance Sheet (AUD) (m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	5	111	99	101	200
Accounts Receivable	0	7	0	12	25
Inventory	0	0	0	12	25
Other Current Assets	0	0	0	0	0
PPE	0	31	181	205	154
Total Assets	13	156	288	337	411
Accounts Payable	0	16	0	7	14
Short Term Debt	0	0	0	50	40
Long Term Debt	0	3	163	113	73
Total Liabilities	1	20	163	170	127
Ratios	FY20A	FY21A	FY22E	FY23E	FY24E
ROE (%)	(63.0%)	(17.4%)	(9.5%)	29.5%	52.2%
Gearing (%)	(70.6%)	(395.0%)	34.3%	27.3%	(44.8%)
Net Debt / EBITDA (x)	0.6	9.1	(7.8)	0.8	(0.5)

## Mineral Sands Price Revisions

Mineral Sands markets remain tight, with reports that premium zircon prices are now above US\$2,500/t in China and bulk rutile selling for US\$1,700-1,800/t. We do not have access to the latest TZMI price forecasts, but we understand that TZMI is now forecasting that premium zircon prices remain at ~US\$2,600/t out to 2026.

We have reviewed our forecasts and make significant increases to our price assumptions for the next three years. The Coburn project is expected to commence production in late 2022 and is likely to be delivering into a very strong price environment.

We have not, at this stage, made any significant revisions to our long term price assumptions.

Figure 1: Mineral Sands Price Assumptions

Shaw assumptions (CY)	2018	2019	2020	2021	2022f	2023f	2024f	2025f	Long term
Zircon (US\$/t)	1059	1450	1580	1580	1750	2361	2500	2500	1476
Rutile (US\$/t)	791	964	1142	1079	1255	1700	1700	1700	1253
Ilmenite (US\$/t)	148	178	211	178	240	260	283	274	252

Previous assumptions (CY)	2018	2019	2020	2021	2022f	2023f	2024f	2025f	Long term
Zircon (US\$/t)	1059	1450	1580	1580	1500	1900	2000	1900	1472
Rutile (US\$/t)	791	964	1142	1079	1255	1375	1375	1350	1196
Ilmenite (US\$/t)	148	178	211	178	240	260	283	274	252

Changes	2018	2019	2020	2021	2022f	2023f	2024f	2025f	Long term
Zircon (US\$/t)	0	0	0	0	250	461	500	600	4
Rutile (US\$/t)	0	0	0	0	0	325	325	350	56
Ilmenite (US\$/t)	0	0	0	0	0	0	0	0	0

Source: Shaw and Partners analysis

### Key risks

- Strandline Resources is not currently in production and there are design, construction and start-up risks with the Coburn, Fungoni and Tajiri 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 larger projects in Tanzania, including the Tajiri project.
- We value the Coburn project at A\$681m (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.
- We include a development of Fungoni in our forecasts (starting in FY24), but only include Tajiri at 50% of the PFS valuation

## 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

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### 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

Date	Closing Price (\$)	Target Price (\$)	Rating
22-Mar-22	0.40	0.80	Buy
28-Sep-21	0.20	0.71	Buy
17-Sep-21	0.22	0.71	Buy
3-May-21	0.20	0.58	Buy
27-Oct-20	0.19	0.52	Buy
24-Sep-20	0.20	0.52	Buy
16-Aug-20	0.23	0.52	Buy
25-Jun-20	0.25	0.52	Buy
10-Jun-20	0.18	0.42	Buy
10-Feb-20	0.11	0.32	Buy

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