

# Strandline Resources (STA)

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

27 April 2023

## Positive operating cash flow in the March quarter – onwards and upwards

### Key Information

Current Price (\$ps)	0.36
12m Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.29 - 0.56
Target Price Upside (%)	123.4%
TSR (%)	123.4%
Reporting Currency	AUD
Market Cap (\$m)	451
Sector	Materials
Avg Daily Volume (m)	1.0
ASX 200 Weight (%)	0%

### Fundamentals

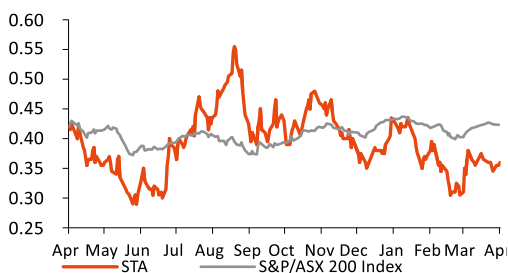
YE 30 Jun (AUD)	FY22A	FY23E	FY24E	FY25E
Sales (\$m)	0	87	249	321
NPAT (\$m)	(9)	11	90	122
EPS (cps)	(0.8)	0.9	7.3	9.8
EPS Growth (%)	53.6%	212.7%	739.6%	34.4%
DPS (cps) (AUD)	0.0	0.0	1.0	2.0
Franking (%)	0%	0%	0%	0%

### Ratios

YE 30 Jun	FY22A	FY23E	FY24E	FY25E
P/E (x)	(42.8)	41.4	4.9	3.7
EV/EBITDA (x)	(45.4)	12.2	2.7	2.1
Div Yield (%)	0.0%	0.0%	2.8%	5.6%
Payout Ratio (%)	0.0%	0.0%	13.7%	20.4%

### Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	11.0%	(6.6%)	(13.9%)	(15.1%)
Absolute (%)	16.1%	(5.3%)	(16.3%)	(14.3%)
Benchmark (%)	5.1%	1.3%	(2.4%)	0.8%



Price performance indexed to 100

Source: FactSet

### Major Shareholders

Tembo Capital	20.6%
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### Event

Strandline has released its March 2023 quarterly activities report. It is a milestone quarter for Strandline with the company reporting its maiden positive operating cash flow (\$6.3m) as the Coburn project commences sales of Heavy Mineral Concentrate (HMC). The Mineral Separation Plant (MSP) was commissioned during the quarter and first sales of final products (zircon, rutile, ilmenite) are expected in coming weeks.

### Highlights

- Strandline shipped 28.725kt of HMC in the March quarter at an average price of A\$1,061/t to generate A\$30.5m in revenue. Total costs of A\$24.1m resulted in net operating cash flow of positive A\$6.3m – Strandline’s maiden positive result.
- Strandline has finished the quarter with A\$50.5m of cash which is down from A\$66.7m on 31-Dec-22 post the final capital payments of A\$22.3m for project construction. Cash flow is expected to continue to grow each quarter through CY23 as the Coburn project ramps up to full capacity.
- Post quarter-end, Strandline shipped another 10.55Mt at a higher price of A\$1,100/t to generate A\$11.7m in revenue. The improving price shows that the mineral sands market is holding up well and, as commented in Iluka’s recent result, market conditions are tight with inventories of zircon and rutile low. Iluka pushed through another US\$50/t increase in the zircon price this quarter. Strandline has provided similar optimistic commentary on the market outlook.
- The Wet Concentration Plant (WCP) is approaching name plate capacity and is performing well. Recovery of zircon is running at 97% and titanium minerals at 81%. The HMC grade of +94% is in line with the design parameters of the MSP.
- The MSP was commissioned in the March quarter and Strandline has begun feeding HMC into the MSP. The MSP will produce four products - premium zircon, rutile, ilmenite and a concentrate. First shipments of final products are expected in the June quarter.
- Coburn will produce approximately 230kt of Heavy Mineral Concentrate (HMC) per annum with a mine life of 22.5 years, with extension potential for a further 18 years. Strandline is assessing options to expand the project to meet strong market demand. Any expansion would be funded from Coburn cash flow once the project is in full production. Our modelling suggests that an expansion could lift annual EBITDA by around 40% (to ~\$250m in FY25) and could add 15-20c to our 80c valuation.
- We have reviewed our forecasts and note that our cost assumptions were too low on the early costs as Coburn ramps up. We have adjusted our FY23 forecasts but FY24+ forecasts are unchanged. Strandline is expecting to provide FY24 production guidance before the start of FY24.

Revisions	2023f			2024f			2025f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Revenue (A\$m)	87	98	-11%	249	249	0%	321	321	0%
EBITDA (A\$m)	33	52	-36%	150	150	0%	192	192	0%
EBIT (A\$m)	21	40	-47%	126	126	0%	163	163	0%
NPAT (A\$m)	11	25	-57%	90	91	0%	122	122	0%
EPS (Acps)	1	2	-57%	7	7	0%	10	10	0%

### Recommendation

We retain our BUY recommendation and price target of A\$0.80ps. Coburn is a world class mineral sands development that is fully funded and ramping up production and mineral sands prices remain elevated.

## Strandline Resources

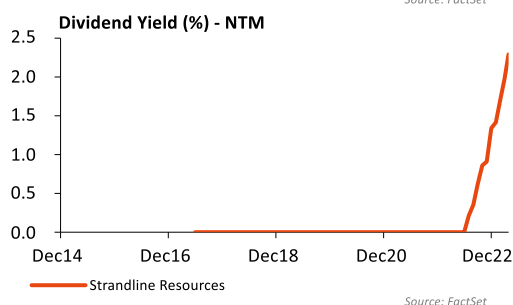
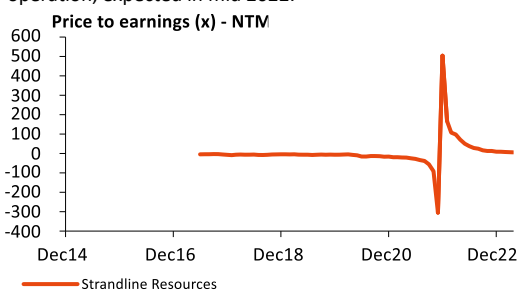
### Materials Materials

FactSet: STA-AU / Bloomberg: STA AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.36
Target Price (\$ps)	0.80
52 Week Range (\$ps)	0.29 - 0.56
Shares on Issue (m)	1,253
Market Cap (\$m)	451
Enterprise Value (\$m)	405
TSR (%)	123.4%

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)	997.37

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)	FY21A	FY22A	FY23E	FY24E	FY25E
EPS (Reported) (cps)	(1.7)	(0.8)	0.9	7.3	9.8
EPS (Underlying) (cps)	(1.7)	(0.8)	0.9	7.3	9.8
EPS (Underlying) Growth (%)	19.0%	53.6%	212.7%	739.6%	34.4%
PE (Underlying) (x)	(13.0)	(42.8)	41.4	4.9	3.7
EV / EBIT (x)	(33.9)	(44.6)	19.0	3.2	2.5
EV / EBITDA (x)	(34.2)	(45.4)	12.2	2.7	2.1
DPS (cps) (AUD)	0.0	0.0	0.0	1.0	2.0
Dividend Yield (%)	0.0%	0.0%	0.0%	2.8%	5.6%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	13.7%	20.4%
Profit and Loss (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	0	0	87	249	321
Sales Growth (%)	83.9%	(45.6%)	155,556.0%	185.1%	29.1%
Other Operating Income	0	0	0	0	1
EBITDA	(12)	(9)	33	150	192
EBITDA Margin (%)	nm	nm	38.2%	60.2%	60.0%
Depreciation & Amortisation	(0)	(0)	(12)	(23)	(30)
EBIT	(11.9)	(9.1)	21.3	126.2	162.7
EBIT Margin (%)	nm	nm	24.4%	50.8%	50.7%
Net Interest	(1)	0	(7)	(6)	(1)
Pretax Profit	(13)	(9)	14	121	162
Tax	0	0	(4)	(30)	(41)
Tax Rate (%)	0.0%	0.0%	(25.0%)	(25.0%)	(25.0%)
NPAT Underlying	(13)	(9)	11	90	122
Significant Items	0	0	0	0	0
NPAT Reported	(13)	(9)	11	90	122
Cashflow (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
EBIT	(12)	(9)	21	126	163
Payments to Suppliers	(2)	(5)	(54)	(99)	(128)
Receipts from Customers	1	0	87	249	321
Tax Paid	0	0	0	(4)	(30)
Net Interest	0	0	4	2	4
Change in Working Capital	0	0	(38)	(20)	(8)
Depreciation & Amortisation	0	0	0	0	0
Other	(7)	(1)	0	0	0
Operating Cashflow	(8)	(6)	(1)	127	158
Capex	0	(0)	0	0	0
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Investing Cashflow	0	(0)	0	0	0
Equity Raised / Bought Back	133	48	0	0	0
Dividends Paid	0	0	0	0	(25)
Change in Debt	0	193	0	(50)	(40)
Other	(6)	0	(11)	(7)	(4)
Financing Cashflow	128	241	(11)	(57)	(69)
Net Change in Cash	119	235	(11)	70	89
Balance Sheet (AUD) (m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	111	120	52	119	206
Accounts Receivable	7	4	7	20	26
Inventory	0	0	7	20	26
Other Current Assets	0	8	8	8	8
PPE	31	239	283	262	235
Total Assets	156	379	366	439	510
Accounts Payable	16	34	6	12	16
Short Term Debt	0	1	50	40	40
Long Term Debt	3	165	115	75	35
Total Liabilities	20	200	172	128	92
Ratios	FY21A	FY22A	FY23E	FY24E	FY25E
ROE (%)	(17.4%)	(5.9%)	6.0%	39.2%	37.5%
Gearing (%)	(395.0%)	20.7%	37.9%	(1.5%)	(53.7%)
Net Debt / EBITDA (x)	9.1	(5.1)	3.4	(0.0)	(0.7)

Figure 1: Coburn Financials

Coburn (A\$m)	2020	2021	2022	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Zircon	0	0	0	5	30	30	30	35	30	32	32
Zircon concentrate	0	0	0	67	64	64	55	63	55	58	58
Rutile	0	0	0	0	20	20	19	22	19	20	20
Ilmenite	0	0	0	12	110	110	104	119	104	110	110
Total Sales (kt)	0	0	0	84	224	224	208	238	208	220	220
Revenue	0	0	0	87	249	249	195	228	204	220	225
Expenses	0	0	0	45	90	90	83	97	87	93	95
EBITDA	0	0	0	42	159	159	112	131	117	127	130
D&A	0	0	0	12	23	23	23	23	23	23	23
EBIT	0	0	0	30	135	135	88	107	94	103	106
Net Operating Assets	0	85	235	279	259	238	217	197	176	156	140
Capex	0	85	150	56	3	3	3	3	3	3	8
EBITDA Margin (%)	0%	0%	0%	48%	64%	64%	57%	57%	57%	58%	58%
EBIT / Assets (%)	0%	0%	0%	11%	52%	57%	41%	54%	53%	66%	76%
Premium zircon (US\$/t)	1,580	1,615	2,011	2,200	2,100	2,000	1,800	1,841	1,882	1,924	1,968
Rutile (US\$/t)	1,167	1,112	1,380	1,638	1,700	1,650	1,400	1,432	1,464	1,497	1,530
Ilmenite (US\$/t)	190	215	250	272	279	277	281	288	294	301	307
Revenue (A\$/t)	0	0	0	1,032	1,109	1,111	936	957	979	1,001	1,023
Expenses (A\$/t)	0	0	0	532	401	402	400	408	416	425	433
EBITDA (A\$/t)	0	0	0	500	708	709	536	549	563	576	590
D&A (A\$/t)	0	0	0	142	104	104	112	98	112	106	106
EBIT (A\$/t)	0	0	0	358	603	605	424	451	450	470	484
Nominal Tax @ 30%	0	0	0	-9	-41	-41	-26	-32	-28	-31	-32
Cash Flow	0	-85	-150	-23	115	115	82	95	86	93	90

Source: Shaw and Partners analysis

### Key risks

- Coburn is not currently at full 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\$757m (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

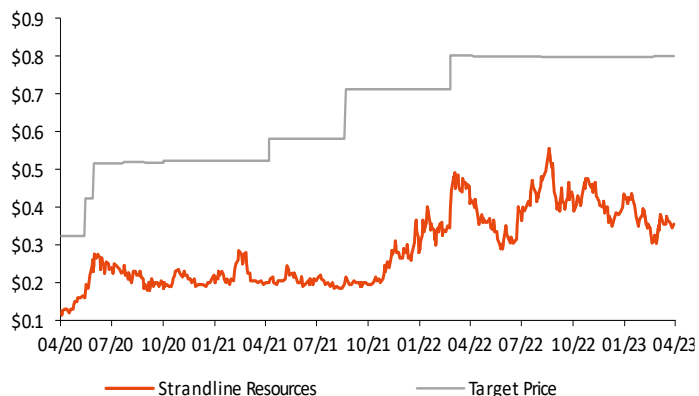
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### Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	100	90%
Hold	10	9%
Sell	1	1%

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

Date	Closing Price (\$)	Target Price (\$)	Rating
27-Apr-23	0.36	0.80	Buy
20-Mar-23	0.31	0.80	Buy
1-Sep-22	0.47	0.80	Buy
2-May-22	0.41	0.80	Buy
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



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