May 3, 2023

Strandline Resources

Key inflection points fast approaching

- We think key Jun-Q catalysts can trigger a re-rating in STA's equity appeal.
- STA looks on track to approach WCP design capacity (volume and specification) and to possibly achieve first end-product sales (via the MSP) in the Jun-Q. Expected FY24 guidance is also a key confidence builder.
- Full ramp-up supports an acceleration in cash flows/ de-gearing from early FY24.
- STA's ~50% discount to our valuation looks disconnected from strong fundamentals including robust TiO2 feedstock markets/pricing.
- We think that Coburn's de-risking and cash flow ramp-up will catapult STA onto the radars of a far broader investor set in coming months. Add.

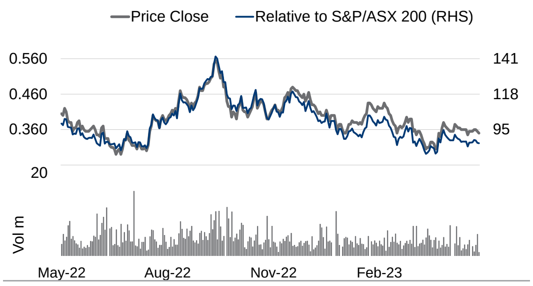
ADD (no change)

Stock code:	STA AU
Price:	A$0.35
12-month target price:	A$0.70
Previous target price:	A$0.75
Up/downside to target price:	99.2%
Dividend yield:	0.0%
12-month TSR*:	99.2%
Market cap:	A$438.5m
Average daily turnover:	A$1.15m
Index inclusion:	ALL ORDINARIES

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-7.9	-17.7	-14.6	180
Rel ASX/S&P200	-9.1	-14.4	-13.5	141.5



Source: Bloomberg

Financial summary

	Jun-22A	Jun-23F	Jun-24F	Jun-25F
Revenue (A$m)	0.0	76.9	226.5	214.8
EBITDA Norm (A$m)	-8.9	11.4	114.5	99.6
Net Profit (A$m)	-9.08	1.99	58.13	47.06
EPS Norm (A$)	-0.012	0.002	0.046	0.038
EPS Growth Norm (%)	-62%		2847%	-19%
P/E Norm (x)	NA	222.4	7.5	9.3
DPS (A$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
EV/EBITDA (x)	NA	49.38	4.39	4.42
Gearing (Net Debt/EBITDA)	-3.98	10.98	0.56	0.02

Source: Company data, Morgans estimates

Related research

STA (ADD - TP A$0.75) - 18 Oct 2022
STA (ADD - TP A$0.70) - 21 Apr 2022

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

Positive 3Q operating cash impresses

- Positive 3Q operating cash of ~$6m (+$30m revenue, three HMC shipments) augers well for Coburn's economics. This impressed given: 1) the WCP was in ramp-up at ~35% below design (sales/ nameplate HMC), 2) internal inventory build (float, MSP commissioning), and 3) higher completion/ ramp-up/ commissioning costs.

Jun-Q should deliver further milestones

- **Front-end volume:** Mining (DMUs) and the WCP are proven at above-design rates for shorter periods (at design spec) but consistency is yet to be proven. Constraints to WCP utilisation are minor but cumulative, mostly around labour availability, maintenance practices and operations.
- **Ongoing improvements:** Higher cost labour can improve utilisation but won't necessarily fully solve productivity. STA is incrementally improving maintenance (planning, response, utilisation) alongside operations (DMU utilisation) with some mining constraints also to abate (pit flexibility, tailings management). STA expects to be maintaining nameplate WCP throughput on a more consistent basis by end Jun-Q.
- **MSP commissioning progressing:** We conservatively assume only HMC sales in the Jun-Q but see potential for first end-product sales via the MSP in the near term, unlocking a revenue step-up (premium Zircon +A$3000/t).
- **FY24 guidance by end June.** This speaks to STA's confidence in ironing out cumulative teething issues. We conservatively model ~85% of design WCP throughput in FY24. Guidance is a confidence-building catalyst for investors.
- **De-gearing:** Financials look comfortable with Coburn capex largely complete (cash ~$50m, net debt ~$210m). Interest will start expensing from July (latest) but project cash flows support an acceleration in de-gearing from early FY24.

Forecast and valuation update

- We have: 1) refined ramp-up/ opex assumptions, 2) adjusted basket prices slightly higher; 3) FX lower; and 4) applied 3Q actuals. Our DCF-based valuation/target price adjusts to 70ps (from 75cps), now risking Coburn at 100% (from 95%), expansion upside at 75% and the Tanzanian projects at 50%.

Investment view

- STA enjoys: 1) 100% ownership of a world-scale/ strategic asset in a tier 1 jurisdiction, 2) accelerating/ long life project cash flows; 3) expansion optionality/ upside; 3) lenient debt terms; 4) proven/backable management and board, 5) clear value/ upside, and 6) clear M&A appeal.

Price catalysts

- FY24 production guidance – by end June.
- Comfort in sustainable WCP throughput/ HMC volumes – 2HCY23.
- Confirmation of MSP throughput at design specs – late 2023 (estimate).
- Coburn expansion FID/ project cash distributions to STA – March 2024.

Risks

- Industry constraints affecting achievable productivity/ opex.
- Metallurgical performance at full scale.
- Macro/ recession concerns affecting basket TiO2 prices and/or sentiment.

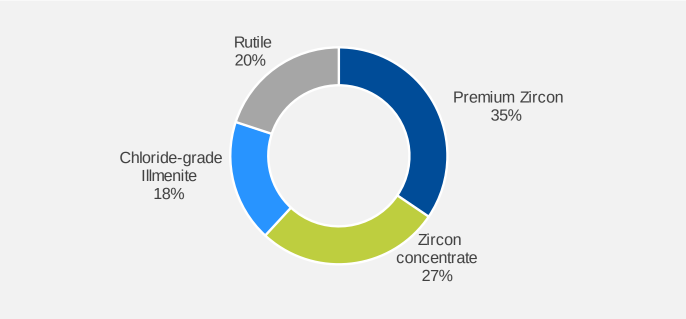
Strandline Resources

ADD — **as at May 3, 2023**

Price (A$):	0.35	12-month target price (A$):	0.70
Market cap (A$m):	438.5	Up/downside to target price (%):	99.2
Free float (%):	70.0	Dividend yield (%):	0.0
Index inclusion:	ALL ORDINARIES	12-month TSR (%):	99.2

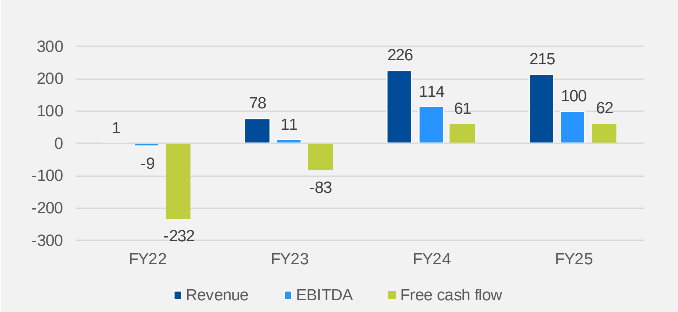
Strandline Resources (STA) is a heavy mineral sands producer-developer with projects in Australia and Tanzania. Its flagship asset Coburn (100%) is located 250km north of the regional centre of Geraldton, WA. At full production, Coburn looks capable of generating A$100-150m p.a.of EBITDA at +50% margins from +220ktpa of sales of Zircon, Rutile and Ilmenite products. Coburn cashflows comfortably support debt amortisation, and growth options including Coburn expansion (likely 2024), potential development of the Tanzanian projects and/or external M&A.

Forecast Revenue by commodity - FY24



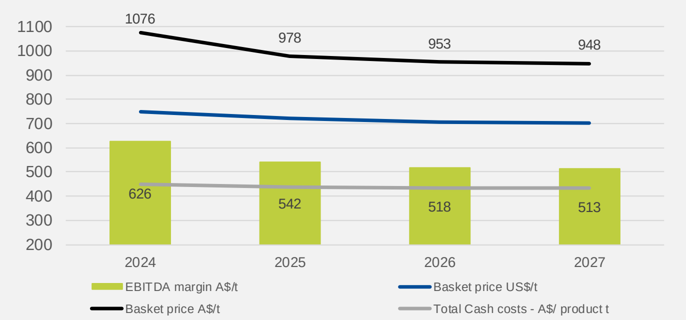
Source: Morgans forecasts

Forecast Revenue and EBITDA (A$m)



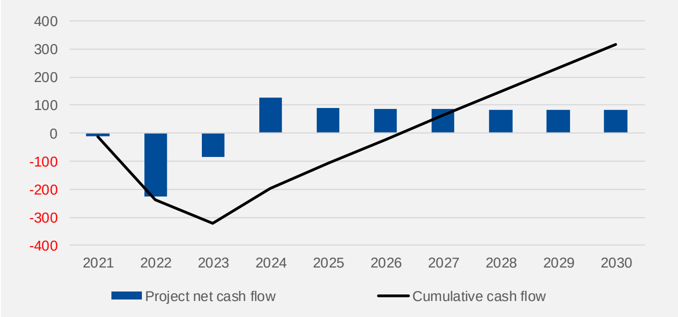
Source: Morgans forecasts

Forecast Coburn cash margins



Source: Morgans forecasts

Cobrun project free cash flows (after-tax, A$m)



Source: Morgans forecasts

Bull points

Strategic asset: Coburn is a world-scale, long life minerals asset, in a tier 1 jurisdiction, likely of interest to larger producers/ customers when de-risked.

Expandable: Substantial Resources support clear extension/ expansion upside.

Manageable funding: Debt terms via the Nordic Bonds + NAIF loans are favourably priced and on relatively accommodating amortisation terms.

Proven management: Highly regarded with well-proven execution ability.

Pricing outlook: Supply-side under-investment in titanium feedstocks supports a strong basket pricing outlook.

Bear points

Commissioning risks: Coburn will take +6 months to fully commission to design specifications/ volumes. Similar start-ups have proven challenging.

Remote operations: The remote operating location may pose challenges re labour costs and retention.

Macro/ Housing exposure: Global housing markets face near term economic risks which may weigh on sentiment.

Tanzanian discount? ASX-listed mining companies tend to see a market discount applied to their African assets.

Environmental, Social and Governance

ESG

Exposure

Management

Exposure

A preliminary materiality assessment to prioritise STA's sustainability focus was performed by internal stakeholders including Board members, senior leadership and employees. Top material issues include **Health & Safety, Environmental Stewardship, Community relations/ impact, People & Culture, Sustainable value and Governance**.

Management

Performance targets against key issues apply from July 2022 with progress to be published annually via sustainability reporting. KPIs are linked to STA's Key Management Personnel and employee at-risk short term incentives per STA's remuneration framework. This commercial alignment positively reinforces the right behaviours/ performance. In future, STA aims to broaden the assessment to involve community representatives, First Nations People, customers, industry associations, suppliers and investors/financiers.

Source: STA, Morgans

Figure 1: Financial summary

Year to 30 Jun (A$m)					
Income statement	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**
Revenue	0	0	77	226	215
Other Income	0	1	1	0	0
Operating Costs	0	0	-49	-93	-95
Other Costs	-8	-9	-18	-19	-20
EBITDA	**-8**	**-9**	**11**	**114**	**100**
D&A	0	0	-5	-16	-18
EBIT	**-8**	**-9**	**7**	**99**	**82**
Net interest	0	0	0	-16	-14
Pre-tax profit	**-8**	**-9**	**7**	**83**	**67**
Tax expense	0	0	-5	-25	-20
Underlying NPAT	**-8**	**-9**	**2**	**58**	**47**
Abnormals - post-tax	0	0	0	0	0
Reported NPAT	**-8**	**-9**	**2**	**58**	**47**

Cash flow statement	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**
EBITDA	-8	-9	11	114	100
Change in WC	0	3	7	0	0
Net Interest	-2	0	0	-16	-14
Tax	0	0	3	-35	-20
Operating cash flow	**-10**	**-6**	**21**	**64**	**65**
Capex	-12	-227	-104	-3	-3
Free cash flow	***-23***	***-232***	***-83***	***61***	***62***
Acquisitions	0	0	0	0	0
Investing cash flow	**-12**	**-227**	**-104**	**-3**	**-3**
Change in Equity	140	48	2	0	0
Change in Debt	0	193	61	-9	-17
Dividends paid	0	0	0	0	0
Other financing	-12	0	0	0	0
Financing Cash flow	**128**	**241**	**62**	**-9**	**-17**
Inc/(decr) cash	**105**	**9**	**-21**	**52**	**45**

Balance sheet	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**
Cash & deposits	111	128	99	151	197
Receivables	7	4	9	9	9
Inventories	0	0	4	4	4
Fixed assets	37	243	324	321	306
Total Assets	**156**	**379**	**472**	**521**	**551**
Payables	16	34	31	31	31
Interest bearing debt	3	163	224	216	199
Total Liabilities	**22**	**204**	**291**	**283**	**266**
Share capital	216	265	269	269	269
Other reserves	5	5	5	5	5
Retained earnings	-86	-95	-93	-35	12
Minority interest	0	0	0	0	0
Total Equity	**135**	**175**	**181**	**239**	**286**

	Unrisked	**Unrisked**	**Risked**	**Risked**
Valuation summary	**A$m**	**A$ps**	**A$m**	**A$ps**
Coburn base case (100%)	628	0.49	628	0.49
Coburn extension (75%)	79	0.06	59	0.05
Coburn expansion (65%)	287	0.23	187	0.15
Fungoni (50%)	70	0.05	35	0.03
Tajiri (50%)	293	0.23	147	0.11
Exploration	10	0.01	0	0.00
Total operations	**1367**	**1.07**	**1055**	**0.83**
Investments	2	0.00	0	0.00
Corporate	-41	-0.03	-41	-0.03
Net debt (FY22)	-125	-0.10	-125	-0.10
Total valuation	**1203**	**0.94**	**889**	**0.70**
WACC				0%
Price target (A$)				**0.70**

Production & Costs	**2022A**	**2023F**	**2024F**	**2025F**
Zircon (Premium) - kt		0	29	34
Zircon (Conc) - kt		0	46	53
Ilmenite - kt		0	95	109
Rutile - kt		0	21	24
Total Product sales - kt		75	212	220
C1 Cost - A$/ product t			381	372
Total Cash costs - A$/ product t			450	436

Assumed Benchmark pricing	**2022A**	**2023F**	**2024F**	**2025F**
Premium Zircon - US$/t FOB		1977	1688	1630
Rutile / HiTi - US$/t FOB		1802	1488	1350
Ilmenite - US$/t FOB		275	275	275
AUD		0.67	0.70	0.74

Per share data	**2022A**	**2023F**	**2024F**	**2025F**
No. shares	1270	1253	1253	1253
EPS (normalised, cps)	-0.01	0.00	0.05	0.04
DPS (cps)	0.00	0.00	0.00	0.00
Dividend yield (%)	0%	0%	0%	0%

Operating performance	**2022A**	**2023F**	**2024F**	**2025F**
EBITDA margin (%)	**NA**	**15%**	**51%**	**46%**
EBIT margin (%)	NA	9%	44%	38%
EV/ EBITDA	**-54**	**50**	**4**	**4**
Free cashflow yield		-14%	10%	10%
Net debt / (cash) (A$m)	**35**	**125**	**64**	**2**
Gearing (ND/E, %)	20%	69%	27%	1%
EBIT Interest cover (x)	NA	NA	6	6
ROIC (%)	-22%	2%	20%	17%

Source: Morgans estimates, company data

We have: 1) refined our ramp-up/ opex assumptions, 2) adjusted basket HMC prices slightly higher; and 3) applied 3Q actuals.

Our DCF-based valuation/target price adjusts to 70ps (from 75cps), now risking Coburn at 100% (from 95%), expansion upside at 65% (from 60%) and the Tanzanian projects at only 50%.

Our risked valuation of the Coburn project only, excluding any value for the African projects, is 56cps.

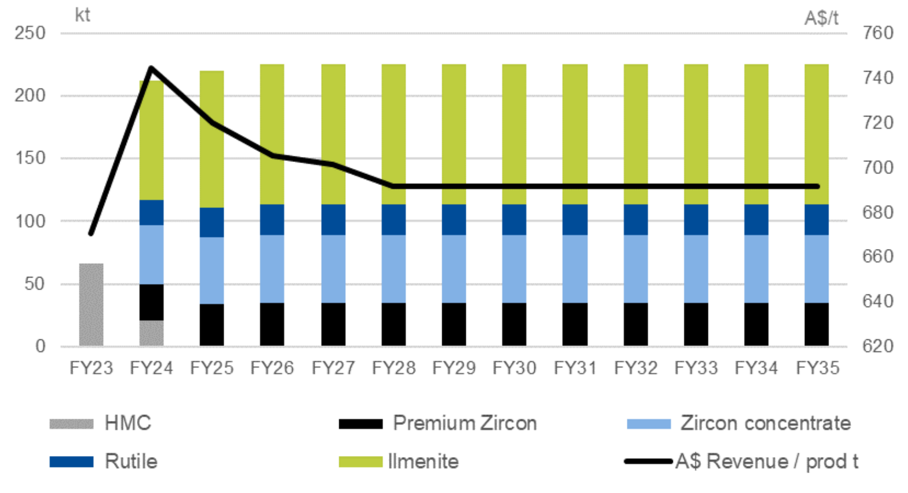
Figure 2: Changes to key forecasts (All A$m unless otherwise stated)

.	2023F	2024F	2025F
Product sales kt – pre	79	222	222
Product sales kt – post	75	212	220
Change (%)	**-5%**	**-5%**	**-1%**
Avg. Basket pricing US$/t – pre	814	681	674
Avg. Basket pricing US$/t – post	688	749	720
Change (%)	**-15%**	**10%**	**7%**
AUD – pre	0.67	0.71	0.74
AUD – post	0.67	0.70	0.74
Change (%)	**0%**	**-2%**	**-1%**
Total Cash Costs A$/t – pre		405	410
Total Cash Costs A$/t – post		450	436
Change (%)		**11%**	**6%**
Revenue – pre	84	223	227
Revenue – post	78	226	215
Change (%)	**-7%**	**1%**	**-6%**
EBITDA – pre	33	123	127
EBITDA – post	11	114	100
Change (%)	**-65%**	**-7%**	**-21%**
Net Op Cash flow – pre	8	73	73
Net Op Cash flow – post	21	64	65
Change (%)	**174%**	**-13%**	**-11%**

Source: Morgans forecasts

We assume STA reaches ~85-90% of design capacity for WCP input volume in FY24, with 90% of HMC converted into final products via the MSP.

Figure 3: Coburn production (lhs) and achieved average price assumptions (rhs)



Source: Morgans forecasts

Both recent achieved prices and consensus forecast prices sit comfortably above pricing assumed in the Coburn DFS (~15% for Rutile and ~40% for Premium Zircon). This is important in offsetting achieved production costs, which we also expect to exceed DFS assumptions.

Figure 4: Premium Zircon prices vs Morgans/ Consensus/ STA DFS (US$/t FOB)

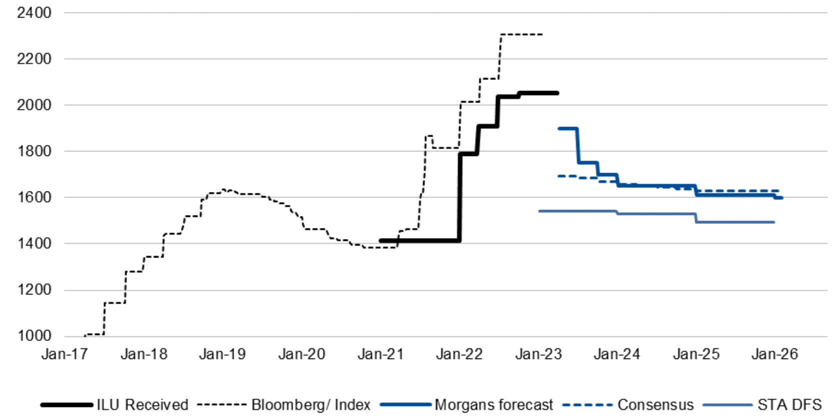
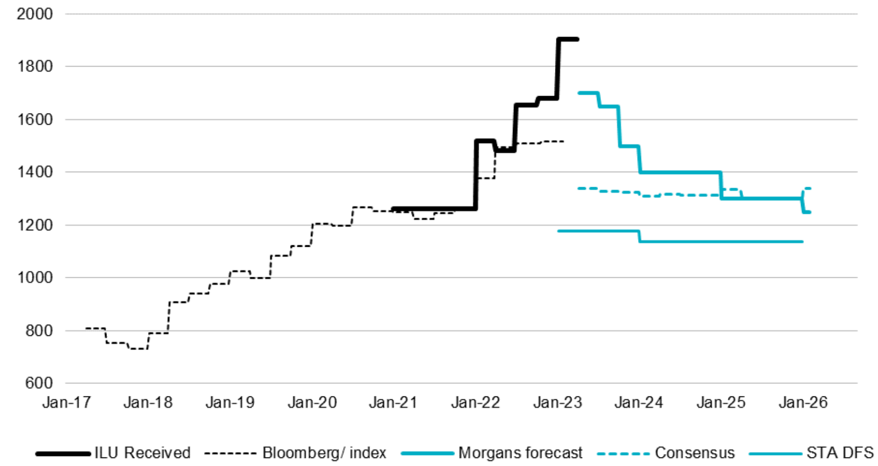


Figure 5: Rutile prices vs Morgans/ Consensus/ STA DFS (US$/t FOB)



Source: STA, Morgans, ILU, Bloomberg

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Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
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Brisbane: Tynan Partners	+61 7 3152 0600	Sydney: Reynolds Securities	+61 2 9373 4452	Domain	+61 3 9066 3200
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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
Kedron	+61 7 3350 9000	Chatswood	+61 2 8116 1700	Warrnambool	+61 3 5559 1500
Mackay	+61 7 4957 3033	Coffs Harbour	+61 2 6651 5700		
Milton	+61 7 3114 8600	Cronulla	+61 2 8215 5079	**Western Australia**	
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Noosa	+61 7 5449 9511	Merimbula	+61 2 6495 2869	Stockbroking, Corporate Advice, Wealth Management	
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Rockhampton	+61 7 4922 5855	Neutral Bay	+61 2 8969 7500		
Springfield-Ipswich	+61 7 3202 3995	Newcastle	+61 2 4926 4044	**South Australia**	
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Sunshine Coast	+61 7 5479 2757	Port Macquarie	+61 2 6583 1735	Stockbroking, Corporate Advice, Wealth Management	
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