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# Generates operating cash flow, equipment utilisation still in ramp-up process

STA.ASX | STRANDLINE RESOURCES LIMITED | MATERIALS | MINERAL SANDS

PRICE  
**A\$0.36/sh**

TARGET PRICE  
**A\$0.80/sh**  
(UNCHANGED)

RECOMMENDATION  
**SPECULATIVE BUY**  
(UNCHANGED)

ANALYST  
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## Event

STA recently reported March quarter production. The company shipped ~35.5kt of HMC concentrate (~A\$36m revenue). The HMC concentrator is still ramping up to nameplate (229ktpa, 19kt/mth). MarQ production of 29.9kt and annualised mining of 13.4mt for the quarter implies the site averaged 50%-60% of nameplate for the quarter. Net debt was \$170m (up only slightly from A\$150m at end December). Capex was A\$22.3m and is almost finished. Operating cash flow was \$6.3m, which is very good considering the low utilisation. Average selling prices were ~A\$1100/t HMC (sales 28.7kt). Costs were ~A\$800/t, which are higher than modelled given low equipment utilisation. Operating costs of ~A\$25m per/quarter close to expectations.

## Impact

The quarter shows that the STA is slightly cash flow positive at current equipment utilisation. Remaining capex is low, and utilisation should increase towards nameplate by the end of the September quarter. Obviously the company is now in the hard part of commissioning...ie moving from low utilisation (relatively easy) to very high utilisation (much harder). The positive is that STA is generating cash despite utilisation being low (this has been helped by strong selling prices and weak AUD). Consequently, the balance sheet risk that has hit most other mine developers in recent years is far less likely for STA.

## Action

We maintain our Speculative Buy through commissioning. If the plant achieves planned performance (which will be known by the September quarter), there is significant re-rating potential if we moved from NPV12 to NPV8. With an EV of ~\$630m, and assuming a fair multiple would be 7x, we estimate the market is implying HMC utilisation will only achieve ~85% and the MSP will have no value uplift. This would be a conservative assumption, and obviously disappointing to management if that scenario occurred. The point is that market expectations are for a weaker than budgeted commissioning, which alleviates some equity market risks.

## Catalyst

FY24 guidance – Sept Qtr 2023;

First final product shipments – Sep Qtr 2023;

Achieve nameplate throughput - September/October

Figure 1: Utilisation Scenarios, using March Quarter as starting point

| Simple Model     | Mar-23 |            | Scenario 1<br>Annualised | Scenario 2<br>Annualised | Scenario 3<br>Annualised | Scenario 4<br>Annualised |
|------------------|--------|------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                  | Qtr    | Annualised |                          |                          |                          |                          |
| Revenue          | 30.5   | 122        | 170                      | 202                      | 218                      | 242                      |
| Op Cash Costs    | -24    | -97        | -110                     | -113                     | -114                     | -116                     |
| Op Cash Flow     | 6.3    | 25.2       | 59                       | 90                       | 104                      | 126                      |
| - A\$ Rev/t      | 1,063  | 1,063      | 1,063                    | 1,063                    | 1,063                    | 1,063                    |
| - A\$ Cost/t     | -809   | -809       | -690                     | -592                     | -555                     | -508                     |
| HMC - sales      | 28.7   | 115        | 160                      | 190                      | 205                      | 228                      |
| HMC - production | 29.9   | 120        | 160                      | 190                      | 205                      | 228                      |
| Capacity         | 57     | 228        | 228                      | 228                      | 228                      | 228                      |
| Utilisation      | 52%    | 52%        | 70%                      | 84%                      | 90%                      | 100%                     |
| EV/OpCash        |        | 24.9x      | 10.6x                    | 7.0x                     | 6.0x                     | 5.0x                     |

Source: Euroz Hartleys

|              |      |
|--------------|------|
| Share Price  | 0.36 |
| Price Target | 0.80 |
| Valuation    | 0.48 |

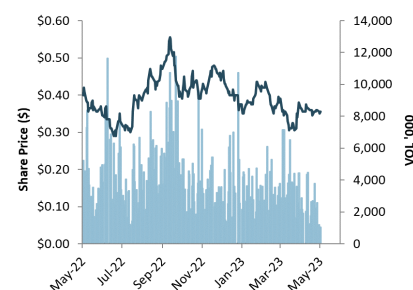
|                       |       |
|-----------------------|-------|
| Shares on issue       | 1278  |
| Market Capitalisation | 460   |
| Enterprise Value      | 629   |
| Debt (31 Mar 23a)     | 219   |
| Cash (31 Mar 23a)     | 51    |
| Largest Shareholder   | Tembo |

| Production F'cast | 2024F | 2024F |
|-------------------|-------|-------|
| Zircon            | 31    | 32    |
| Rutile / HiTi     | 19    | 20    |
| Ilmenite          | 101   | 105   |
| Zircon Conc.      | 51    | 53    |

| Assumptions       | 2023F | 2023F |
|-------------------|-------|-------|
| Chloride Ilmenite | 285   | 285   |
| Zircon            | 1600  | 1600  |
| Rutile            | 1350  | 1350  |
| AUDUSD            | 0.71  | 0.73  |

| Key Financials  | 2023F | 2023F | 2023F |
|-----------------|-------|-------|-------|
| Revenue (A\$m)  | 79    | 201   | 203   |
| EBITDA (A\$m)   | 9     | 84    | 90    |
| NPAT (A\$m)     | -7    | 66    | 50    |
| Cashflow (A\$m) | -2    | 67    | 68    |
| CFPS (Ac)       | 0     | 5     | 7     |

## Performance



Source: Euroz Hartleys



Figure 2: Summary Model

| MARKET STATISTICS        |                 |                     |           |  |
|--------------------------|-----------------|---------------------|-----------|--|
| Share Price              | \$ 0.360 A\$/sh | Didier Murcia       | Directors |  |
| Issued Capital           | 1252.9 m        | Luke Graham         | NE Chair  |  |
| Options                  | 25.3 m          | Peter Watson        | MD        |  |
| Fully diluted            | 1278.2 m        | John Hodder         | ED        |  |
| Fully diluted & financed | 1278.2 m        | Mark Hancock        | NE, Tembo |  |
|                          |                 | Alexandra Atkins    | NE        |  |
| Mkt Capita'n (dil.)      | 460.1 \$m       | James Chialo        | NE (alt)  |  |
| Enterprise Value         | 628.6 \$m       | <b>Shareholders</b> |           |  |
| Debt                     | 219.0 \$m       | Tembo               | 18.5%     |  |
| Cash                     | 50.5 \$m        |                     |           |  |

| Valuation                   | \$m        | /shr        |
|-----------------------------|------------|-------------|
| Coburn (NPV12)              | 528        | 0.41        |
| Fungoni (discount to NPV12) | 107        | 0.08        |
| Tajiri (discount to NPV12)  | 275        | 0.22        |
| Other Assets/Exploration    | 5          | 0.00        |
| Forwards                    | 0          | 0.00        |
| Corporate Overheads         | -36        | -0.03       |
| Net Cash (Debt)             | -169       | -0.13       |
| Tax (NPV future liability)  | -105       | -0.08       |
| Options & Other Equity      | 2          | 0.00        |
| <b>Total</b>                | <b>608</b> | <b>0.48</b> |
| Spot                        |            | 1.18        |

| Coburn Production Summary  |        | Jun 22a | Jun 23e | Jun 24e | Jun 25e |
|----------------------------|--------|---------|---------|---------|---------|
| Mining Inventory           | Mt     | 824.9   | 801.5   | 778.1   | 824.9   |
| Grade                      | %      | 1.1%    | 1.1%    | 1.1%    | 1.1%    |
| Mill Throughput            | Mt     | 0.0     | 8.4     | 22.6    | 23.4    |
| HM grade                   | %      | -       | 1.1%    | 1.1%    | 1.1%    |
| Zr production              | kt     |         |         | 31.3    | 32.4    |
| Rutile / Hi-Ti production  | kt     |         |         | 18.9    | 19.6    |
| Chlor. Ilmenite production | kt     |         |         | 101.2   | 105.0   |
| Zr conc                    | kt     |         |         | 51.3    | 53.3    |
| Ilmenite                   | % rev. |         | 9.0%    | 19.3%   | 19.3%   |
| Zircon                     | % rev. |         | 17.6%   | 34.2%   | 34.2%   |
| Zircon conc.               | % rev. |         | 66.1%   | 30.9%   | 30.9%   |
| Rutile / Hi-Ti production  | % rev. |         | 7.4%    | 15.6%   | 15.6%   |

| Fungoni Production Summary |        | Yr2   | Yr3   | Yr4   | Yr5   |
|----------------------------|--------|-------|-------|-------|-------|
| Mining Inventory           | Mt     | 12.5  | 10.5  | 8.5   | 12.5  |
| Grade                      | %      | 3.6%  | 3.3%  | 2.9%  | 3.6%  |
| Mill Throughput            | Mt     | 2.0   | 2.0   | 2.0   | 2.0   |
| HM grade                   | %      | 5.3%  | 5.5%  | 4.2%  | 5.3%  |
| Zr production              | kt     | 15.6  | 18.5  | 16.6  | 15.6  |
| Rutile / Hi-Ti production  | kt     | 3.5   | 4.2   | 3.7   | 3.5   |
| Chlor. Ilmenite production | kt     | 35.4  | 41.8  | 37.5  | 35.4  |
| Ilmenite                   | % rev. | 21.9% | 22.0% | 22.0% | 21.9% |
| Zircon                     | % rev. | 60.5% | 58.3% | 58.3% | 60.5% |
| Rutile / Hi-Ti production  | % rev. | 10.9% | 12.1% | 12.1% | 10.9% |
| Monazite                   | % rev. | 6.7%  | 7.6%  | 7.6%  | 6.7%  |

| Price Assumptions (at Geraldton Port) |         | Jun 22e | Jun 23e | Jun 24e | Jun 25e |
|---------------------------------------|---------|---------|---------|---------|---------|
| AUDUSD                                | USD/AUD | 0.73    | 0.66    | 0.71    | 0.73    |
| Chloride Ilmenite                     | US\$/t  | 249     | 255     | 250     | 250     |
| Zircon                                | US\$/t  | 1715    | 1765    | 1565    | 1565    |
| Rutile                                | US\$/t  | 1465    | 1365    | 1315    | 1315    |
| Leucoxene                             | US\$/t  | 1090    | 1015    | 978     | 978     |
| Monazite                              | US\$/t  | 1965    | 1965    | 1965    | 1965    |

| P&L                | Jun 23e | Jun 24e | Jun 25e |
|--------------------|---------|---------|---------|
| Net Revenue        | 79.2    | 201.3   | 203.2   |
| Total Costs        | -70.5   | -117.3  | -113.3  |
| EBITDA             | 8.7     | 84.0    | 89.9    |
| - margin           | 11%     | 42%     | 44%     |
| Depreciation/Amort | -15.7   | -17.7   | -17.9   |
| EBIT               | -7.0    | 66.3    | 72.0    |
| Net Interest       | 0.0     | 0.0     | 0.0     |
| Pre-Tax Profit     | -7.0    | 66.3    | 72.0    |
| Tax Expense        | 0.0     | 0.0     | -21.6   |
| Normalised NPAT    | -7.0    | 66.3    | 50.4    |
| Abnormal Items     | 0.0     | 0.0     | 0.0     |
| Reported Profit    | -7.0    | 66.3    | 50.4    |
| Minority           | 0.0     | 0.0     | 0.0     |
| Profit Attrib      | -7.0    | 66.3    | 50.4    |

| Balance Sheet            | Jun 23e | Jun 24e | Jun 25e |
|--------------------------|---------|---------|---------|
| Cash                     | 65.6    | 128.9   | 198.1   |
| Other Current Assets     | 14.1    | 35.9    | 36.2    |
| Total Current Assets     | 79.7    | 164.8   | 234.3   |
| Property, Plant & Equip. | 293.4   | 275.7   | 257.8   |
| Exploration              | 13.4    | 17.4    | 21.4    |
| Investments/other        | 1.6     | 1.6     | 1.6     |
| Tot Non-Curr. Assets     | 308.4   | 294.7   | 280.8   |
| Total Assets             | 388.1   | 459.5   | 515.1   |
| Short Term Borrowings    | 0.3     | 0.3     | 0.3     |
| Other                    | 8.0     | 13.1    | 12.7    |
| Total Curr. Liabilities  | 8.3     | 13.4    | 13.0    |
| Long Term Borrowings     | 210.8   | 210.8   | 216.5   |
| Other                    | 1.9     | 1.9     | 1.9     |
| Total Non-Curr. Liabil.  | 212.8   | 212.8   | 218.4   |
| Total Liabilities        | 221.1   | 226.2   | 231.4   |
| Net Assets               | 167.0   | 233.3   | 283.7   |
| Net Debt                 | 145.6   | 82.2    | 18.6    |

| Cashflow                 | Jun 23e | Jun 24e | Jun 25e |
|--------------------------|---------|---------|---------|
| Operating Cashflow       | -2.5    | 67.4    | 89.2    |
| Income Tax Paid          | 0.0     | 0.0     | -21.6   |
| Interest & Other         | 0.0     | 0.0     | 0.0     |
| Operating Activities     | -2.5    | 67.4    | 67.6    |
| Property, Plant & Equip. | -61.0   | 0.0     | 0.0     |
| Exploration and Devel.   | -4.0    | -4.0    | -4.0    |
| Other                    | 0.0     | 0.0     | 0.0     |
| Investment Activities    | -65.0   | -4.0    | -4.0    |
| Borrowings               | 0.0     | 0.0     | 5.6     |
| Equity or "tbc capital"  | 0.0     | 0.0     | 0.0     |
| Dividends Paid           | 0.0     | 0.0     | 0.0     |
| Financing Activities     | 0.0     | 0.0     | 5.6     |
| Net Cashflow             | -67.5   | 63.4    | 69.2    |

| Shares                  | Jun 23e | Jun 24e | Jun 25e |
|-------------------------|---------|---------|---------|
| Ordinary Shares - End   | 1243    | 1243    | 1257.8  |
| Ordinary Shares - W'ted | 1238    | 1243    | 1250.4  |
| Diluted Shares - W'ted  | 1258    | 1258    | 1257.8  |

Source: Euroz Hartleys

Figure 3: DFS production estimates at steady state

|                             | Per Annum | Per Mth |
|-----------------------------|-----------|---------|
| Stead State Production (Mt) | 23.4      | 2.0     |
| - HM Grade                  | 1.11%     | 1.11%   |
| HMC (kt)                    | 229       | 19.1    |
| Premium Zircon (kt)         | 34        | 2.8     |
| Rutile (kt)                 | 24        | 2.0     |
| Ilmenite (kt)               | 110       | 9.2     |
| Zir Con (kt)                | 54        | 4.5     |

Source: STA

Figure 4: DFS cost estimates

| Operating Cost Item                  | DFS Final Products Case<br>(A\$/Saleable t) Jun-20 |
|--------------------------------------|--|
| Mining                               | 143.19   |
| Processing                           | 149.37   |
| Administration & General             | 37.63  |
| Transportation to Ship               | 30.98  |
| <b>C1 Cash Costs</b>                 | <b>361.17</b>                                      |
| Government Royalty                   | 43.85  |
| Sustaining Capital                   | 13.11  |
| <b>All in Sustaining Cost (ASIC)</b> | <b>418.13</b>                                      |
| <b>Product Basket Price</b>          | <b>877.00</b>                                      |
| <b>Operating C1 Cost Margin</b>      | <b>515.83</b>                                      |
| <b>AISC Margin</b>                   | <b>458.87</b>                                      |

Note:

<sup>1</sup> Mining includes tailings and slimes handling, mine backfill, DMU-EMU and rehabilitation activities.  
Other key cost assumptions: Foreign exchange of AUD:USD 0.72; Cost of fuel per litre A\$0.90/ltr (net of rebate); cost of electrical power A\$17 cents/kWh; WCP relocations to occur in years 8, 10, 18 and 19; WCP relocations to each incur 14 days of production downtime. The downtime has been averaged over the life of mine and included in the overall downtime schedule

Source: Euroz Hartleys

## Price Target

Our price target is unchanged at \$0.80.

Figure 5: Price Target

| Price Target Methodology                          | Weighting | Spot          | 12 mth out |
|---|-----------|---------------|------------|
| NPV <sub>12</sub> consensus prices                | 45%       | \$0.48        | \$0.55     |
| NPV <sub>12</sub> at spot commodity and fx prices | 9%        | \$1.18        | \$1.41     |
| NPV <sub>8</sub> consensus prices                 | 36%       | \$0.72        | \$0.78     |
| NPV <sub>8</sub> at spot commodity and fx prices  | 8%        | \$1.73        | \$1.87     |
| Net cash backing                                  | 3%        | \$0.00        | \$0.00     |
| <b>Risk weighted composite</b>                    |           | <b>\$0.71</b> |            |
| <b>12 Months Price Target</b>                     |           | <b>\$0.80</b> |            |
| Shareprice - Last                                 |           | \$0.360       |            |
| <b>12 mth total return</b>                        |           | <b>121%</b>   |            |

Source: Euroz Hartleys

## Company disclosures

The companies and securities mentioned in this report, include:

Strandline Resources Limited (STA.ASX) | Price A\$0.36 | Target price A\$0.80 | Recommendation Speculative Buy;

*Price, target price and rating as at 04 May 2023 (\* not covered)*

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