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August 15, 2023

Strandline Resources

Three-month setback vs three decades of earnings

- STA's top-up raise was disappointing, but doesn't change the fact its equity offers substantial capital upside.
- The Coburn site visit provided comfort that STA has solved several ramp-up issues, understands those outstanding and is executing a detailed/revised ramp-up plan.
- Sep-Q production/cashflows (late October) are critical for market confidence. The settling in of new equity raised means the STA price could be bumpy in the interim.
- STA's +60% discount to our 50cps valuation (ex-Africa) looks excessive versus Coburn's targeted 37-year earnings profile. Buy with better confidence post-raise.

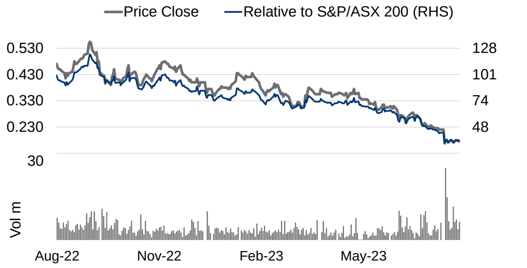
ADD (no change)

Stock code:	STA AU
Price:	A$0.175
12-month target price:	A$0.50
Previous target price:	A$0.70
Up/downside to target price:	183.8%
Dividend yield:	0.0%
12-month TSR*:	183.8%
Market cap:	A$252.1m
Average daily turnover:	A$1.02m
Index inclusion:	ALL ORDINARIES

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-28.6	-50.7	-60.2	-22.2
Rel ASX/S&P200	-28.2	-51.0	-63.7	-41.0



Source: IRESS

Financial summary

	Jun-22A	Jun-23F	Jun-24F	Jun-25F
Revenue (A$m)	0.0	60.8	191.3	214.8
EBITDA Norm (A$m)	-8.9	-7.4	65.0	103.5
Net Profit (A$m)	-9.08	-12.23	21.58	51.05
EPS Norm (A$)	-0.012	-0.009	0.015	0.035
EPS Growth Norm (%)	-62%	-24%		137%
P/E Norm (x)	NA	NA	11.68	4.94
DPS (A$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
Franking	NA	NA	NA	NA
EV/EBITDA (x)	NA	NA	5.71	2.94
Gearing (Net Debt/EBITDA)	-3.98	-21.83	1.83	0.51

Source: Company data, Morgans estimates

Related research

STA (ADD - TP A$0.70) - 03 May 2023

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

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

– Strandline Resources

$34m equity raising

- STA has completed a placement raising $33.8m at 18cps with a pending SPP. Funds: 1) support the slower-than-planned Coburn ramp-up (rectification, working capital), and; 2) progress the Tanzanian projects/approvals (land compensation and resettlement). STA will hold ~$71m in cash immediately post placement.

Coburn site visit and key takeaways

- Coburn's ramp-up hit headwinds in the Jun-Q restricting WCP throughput to ~54% of nameplate (down slightly q-o-q, target 70-75%). Key issues related to: 1) tailings deposition constraints; 2) lower equipment availability (DMUs, pumps); and 3) workforce management (planning, utilisation). Rectification costs (capex) were linked to construction of additional tailings voids/pipework, mining fleet and spares.
- The good news is that the recent site visit provided comfort that STA has solved several issues, understands those outstanding and is executing a detailed/revised ramp-up plan. STA aims to achieve nameplate WCP throughput by end-CY23, with growing final product sales. This implies a three-month delay vs original targets. Sep-Q production should show a marked improvement.
- Revised ramp-up: We model improving quarterly mining/WCP volumes (Sep-Q 70%) for FY24 total volume at 85% of nameplate. We assume HMC sales cease through the Mar-Q 2024 in favour of full ramp-up of final MSP products.
- Quarterly de-gearing: The above ramp-up shows STA steadily reducing net debt/ building cash for total FY24 net debt reduction of $25m (post raise and Tanzania payment, see page 7). This includes: 1) final Coburn rectification/ tailings' capex; 3) working capital/ inventory build for MSP ramp-up; 4) interest expensing, and 5) first debt amortisation. De-gearing materially accelerates in FY25 as one-offs roll off and full production of final products ramps up.

Forecast and valuation update

- We apply: 1) 4Q actuals; 2) cap raising details/equity dilution; 3) delayed ramp-up/ opex assumptions; 4) further rectification/tailings capex (ramping down); and 5) adjusted basket prices and forex.
- Our DCF/SOTP valuation adjusts to 60cps (from 70cps) including risking of the Coburn extension/expansion (75%/50%) and Tanzania (now 40%). We set our target at 50cps which excludes value for the Tanzanian projects on our belief that the market will do the same until a strategy to unlock its value emerges.

Investment view

- We thought Jun-Q performance and the need to top-up wasn't nearly as dramatic as recent share price weakness implied. STA's equity still offers substantial capital upside (nearly 3x to our target) but it must deliver on rectification works and the revised ramp-up. STA (still) enjoys: 1) 100% ownership of a world-scale/strategic asset in a tier 1 jurisdiction; 2) long life project cash flows; 3) expansion optionality/ upside; 3) lenient debt terms; 4) backable management and board; 5) compelling value/upside; and 6) longer-term M&A appeal. We rate STA an ADD with a DCF/SOTP-based risk-adjusted target price of A$0.50.

Price catalysts

- First final product sales. Illmenite (Sep-Q), Zircon and Rutile (Dec-Q).
- Confirmation of Coburn ramp-up/cashflows, Sep-Q Report – late October.

Risks

- Ramp-up issues inhibiting volumes/ quality/ cashflow; MSP Metallurgical recovery/ spec at full scale; Macro concerns affecting basket TiO2 prices and/or sentiment.

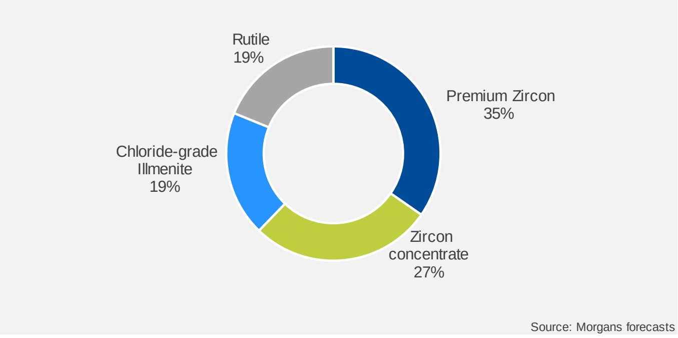
Strandline Resources

ADD — **as at August 15, 2023**

Price (A$):	0.175	12-month target price (A$):	0.497
Market cap (A$m):	252.1	Up/downside to target price (%):	183.8
Free float (%):	70.0	Dividend yield (%):	0.0
Index inclusion:	ALL ORDINARIES	12-month TSR (%):	183.8

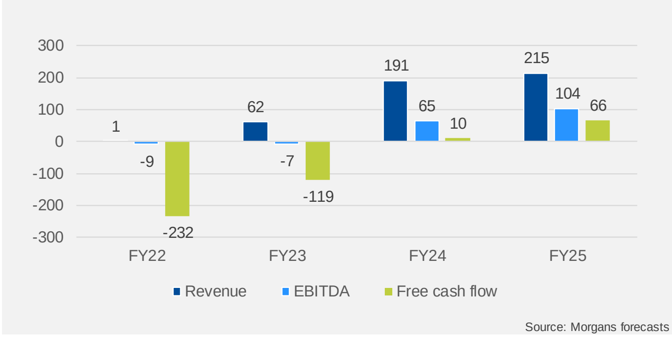
Strandline Resources (STA) is a heavy mineral sands producer-developer with projects in Australia and Tanzania. Its flagship asset Coburn (100%) is located 250km north of the regional centre of Geraldton, WA. At full production, Coburn looks capable of generating A$100-150m p.a.of EBITDA at +50% margins 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 - FY25



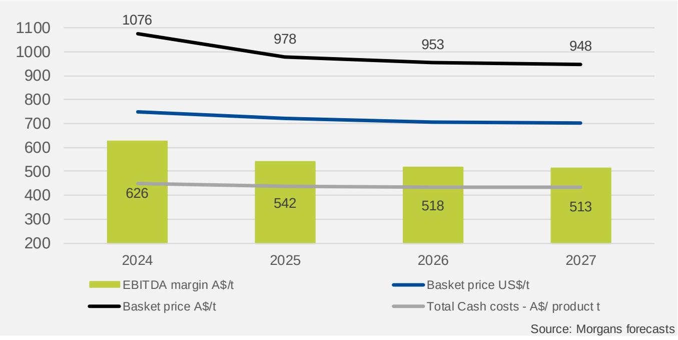
Source: Morgans forecasts

Forecast Revenue and EBITDA (A$m)



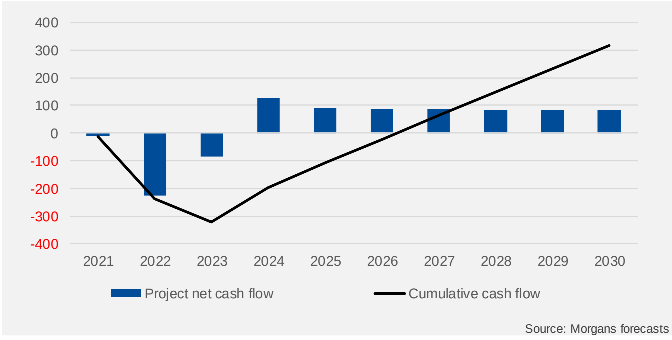
Source: Morgans forecasts

Forecast Coburn cash margins



Source: Morgans forecasts

Coburn 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, likley of interest to larger producers/ customers when de-risked.

Expandable: Substantial Resources support clear extenstion/ expansion upside.

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

Comissioning risks: Coburn will take +9 months to fully comission 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, Environemntal Stewardship, Community relations/ impact, People & Culture, Sustainable value and Governance**.

Management
Performance targets against key issues apply from 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	61	191	215
Other Income	0	1	1	0	0
Operating Costs	0	0	-51	-126	-95
Other Costs	-8	-9	-18	0	-16
EBITDA	**-8**	**-9**	**-7**	**65**	**104**
D&A	0	0	-6	-16	-18
EBIT	**-8**	**-9**	**-14**	**49**	**86**
Net interest	0	0	0	-19	-13
Pre-tax profit	**-8**	**-9**	**-14**	**31**	**73**
Tax expense	0	0	1	-9	-22
Underlying NPAT	**-8**	**-9**	**-12**	**22**	**51**
Abnormals - post-tax	0	0	0	0	0
Reported NPAT	**-8**	**-9**	**-12**	**22**	**51**

Cash flow statement	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**
EBITDA	-8	-9	-7	65	104
Change in WC	0	3	7	-10	0
Net Interest	-2	0	0	-19	-13
Tax	0	0	3	1	-22
Operating cash flow	**-10**	**-6**	**2**	**37**	**69**
Capex	-12	-227	-121	-27	-3
Free cash flow	***-23***	***-232***	***-119***	***10***	***66***
Acquisitions	0	0	0	0	0
Investing cash flow	**-12**	**-227**	**-121**	**-27**	**-3**
Change in Equity	140	48	2	32	0
Change in Debt	0	193	38	-28	-17
Dividends paid	0	0	0	0	0
Other financing	-12	0	0	0	0
Financing Cash flow	**128**	**241**	**39**	**5**	**-17**
Inc/(decr) cash	**105**	**9**	**-80**	**15**	**49**

Balance sheet	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**
Cash & deposits	111	128	40	54	104
Receivables	7	4	9	9	9
Inventories	0	0	4	14	14
Fixed assets	37	243	346	347	332
Total Assets	**156**	**379**	**434**	**460**	**494**
Payables	16	34	31	31	31
Interest bearing debt	3	163	201	173	156
Total Liabilities	**22**	**204**	**268**	**240**	**223**
Share capital	216	265	269	301	301
Other reserves	5	5	5	5	5
Retained earnings	-86	-95	-107	-86	-35
Minority interest	0	0	0	0	0
Total Equity	**135**	**175**	**167**	**220**	**271**

	Unrisked	**Unrisked**	**Risked**	**Risked**
Valuation summary	**A$m**	**A$ps**	**A$m**	**A$ps**
Coburn base case (100%)	767	0.52	767	0.52
Coburn extension (75%)	87	0.06	65	0.04
Coburn expansion (50%)	184	0.13	92	0.06
Fungoni (40%)	70	0.05	28	0.02
Tajiri (40%)	293	0.20	117	0.08
Exploration	10	0.01	0	0.00
Total operations	**1411**	**0.96**	**1069**	**0.73**
Investments	2	0.00	0	0.00
Corporate	-67	-0.05	-67	-0.05
Net debt (FY22)	-129	-0.09	-129	-0.09
Total valuation	**1216**	**0.83**	**873**	**0.60**
WACC				0%
Price target (A$)				**0.50**

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		0	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	1441	1441	1441
EPS (normalised, cps)	-0.01	-0.01	0.01	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**	**-12%**	**34%**	**48%**
EBIT margin (%)	NA	-22%	26%	40%
EV/ EBITDA	**-29**	**-56**	**6**	**3**
Free cashflow yield		-17%	1%	10%
Net debt / (cash) (A$m)	**35**	**161**	**119**	**53**
Gearing (ND/E, %)	20%	97%	54%	19%
EBIT Interest cover (x)	NA	NA	3	7
ROIC (%)	-22%	-4%	10%	16%

Source: Morgans estimates, company data

Coburn site visit takeaways

STA hosted investors and analysts at its Coburn minerals sands project, WA, on August 4. Two Morgans representatives attended.

Overview: The site visit provided comfort that STA has solved several issues, understands those outstanding and is executing a detailed/ revised ramp-up plan. STA aim to achieve nameplate WCP throughput by end-CY23, with growing final product sales. This implies a ~3-month delay vs original targets. Sep-Q production should show a marked improvement based on what we saw on the visit.

Equipment availability: The DMU's have undergone rectification works (screen mods, exciter beams replaced) with improved availability already evident (70-75% nameplate just prior to our visit). Beam cracking was thought to be caused by over-tight bearings, with adjustments having been made. STA appears to understand other lesser issues (pump seals & outages) and we're confident in delivery of the revised ramp-up schedule. Additional spares are now on site in the event of any further issues. The WCP and MSP do not like stop-start operations so getting constant feed from DMUs is key to the successful ramp-up and commissioning of MSP. **Either fixed or largely in-hand.**

Figure 2: Dozer mining units (DMU's) in operation in the pit. Operating at ~75% nameplate just prior to our visit

Figure 3: Tailings management an ongoing issue, but at reducing cost for another ~6 months

Figure 4: Pipework from the mining area into the Wet Concentrate Plant

Source: Morgans

Figure 5: Receipt of ore slurry into the WCP

Source: Morgans

Tailings management: Water drainage from deposited sand tailings has been far slower than estimated/design. This has required STA to at times suspend mining until additional voids (out-of-pit) were constructed to make space for sufficient tailings deposition and drainage. These constraints are easing as more mining void is created in-pit (space/ flexibility) but civil earthworks and pipework incurred an unplanned $6.6m in the Jun-Q. STA expect another couple of quarters of related expenditure albeit at far lower levels. Most of the additional piping infrastructure has been purchased, but some ongoing earthworks will continue this quarter to a lesser extent. We think of this as essentially supplementary construction capex. **Expect ~2 further quarters of reducing impact/ cost.**

Workforce management/ Utilisation: Essentially these issues look resolved via engagement with STA's lead contractors. These issues largely related to improving crewing (higher utilisation), improving operator training & supervision and improving maintenance planning procedures. All help to reduce instances of unplanned outages due to "Idle - Wait for operator", operator error or reactive maintenance (vs preventative). **Resolved with contractors.**

STA is progressing the **airstrip construction** with urgency which will materially improve the ability to attract and retain skilled operators. NAIF have offered to fund the ~$4 million CAPEX (approvals pending). The airstrip allows for direct Perth flights, avoiding the 3 hour drive from Geraldton. This should help contain overall labour costs (productivity, turnover).

Figure 6: WCP – Spirals circuits – targeting 94% HMC grade

Figure 7: WCP – Tier 1 processing components used by majors

Figure 8: Heavy Mineral Concentrate product stockpiles at the WCP

Figure 9: 11MW Solar farm + 4MW battery. BOO model

Source: Morgans

Source: Morgans

MSP Commissioning: The MSP ramp-up should improve with better volume from the Sep-Q. STA will withhold HMC shipments to build inventory for more orderly MSP commissioning, which it now has the working capital to do so via the raise. We saw that STA has solved or is solving MSP issues around dust extraction (fixed), dryer-heater controls and conditioning of HMC (both improving), all of which impact mineral separation efficiencies. We saw a high grade zircon product with specifications closing in on those required to garner the +US$2000/t price. STA aims to approach site design capacity (WCP/MSP) producing all final products at or close to spec by end 2023.

New CEO Josef Patarica – Brings extensive operational/ exec level experience in commissioning, including in mineral sands (Grande Cote Ops for MDL in Senegal). Josef was on the visit, has a good rapport with board/management and should bring new perspective/ ideas around operations.

Unlocking Tanzania: The (unexpected) Tanzanian payment was a major frustration and the portfolio likely drives a discount in STA's equity value. We believe development of the Tanzanian portfolio will be STA's second priority in the short term given the compelling investment case for expansion at Coburn. Given the Tanzanian assets are development-ready, STA may look at strategic investment partners (including options for JV and off-take partners) which would help provide the market with a see-through value on the portfolio.

Focus on FY24 cash flows and de-gearing

We model improving quarterly mining volumes through FY24 as shown below, achieving ~85% of nameplate capacity for the full year. We assume that HMC sales end in early 2024 in favour of full ramp-up in final products.

This ramp-up shows STA steadily reducing net debt/ building cash for total FY24 net debt reduction of ~$25m (post raise and Tanzania payment). This includes; 1) final Coburn rectification/ tailings' capex; 3) working capital/ inventory build for MSP ramp-up; 4) interest expensing, and 5) first debt amortisation.

De-gearing materially accelerates in FY25 as one-offs roll off, and full production of final products ramp-up.

Figure 10: FY24 Forecast quarterly cash flows

		Jun-Q C23Q2	Sep-Q C23Q3	Dec-Q C23Q4	Mar-Q C24Q1	Jun-Q C24Q2
Ore mined	Mt		4.1	4.8	5.4	5.7
WCP % Nameplate	**%**		**70%**	**82%**	**92%**	**97%**
EBITDA	$m		10.5	14.4	18.9	21.3
Cash flows						
Gross Op Cash flow	$m		5.5	11.4	15.9	20.3
Change in Equity	$m		32.1	0.0	0.0	0.0
Change in Debt	$m		0.0	0.0	-6.2	-6.2
Interest & Tax	$m		-4.7	-4.7	-4.7	-4.6
Capex - Coburn	$m		-4.0	-3.7	-2.7	-1.7
Capex - Tanzania	$m		-15.0	0.0	0.0	0.0
Change in cash	**$m**		**13.9**	**3.0**	**2.3**	**7.8**
Balance sheet						
Gross Debt (inc leases)	$m	236	236	236	229	223
Cash	**$m**	**41**	**55**	**58**	**60**	**68**
Net debt (inc leases)	**$m**	**194**	**180**	**177**	**169**	**155**

Source: Morgans forecasts

Recent achieved 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 11: Premium Zircon prices vs Morgans/ Consensus/ STA DFS (US$/t FOB)

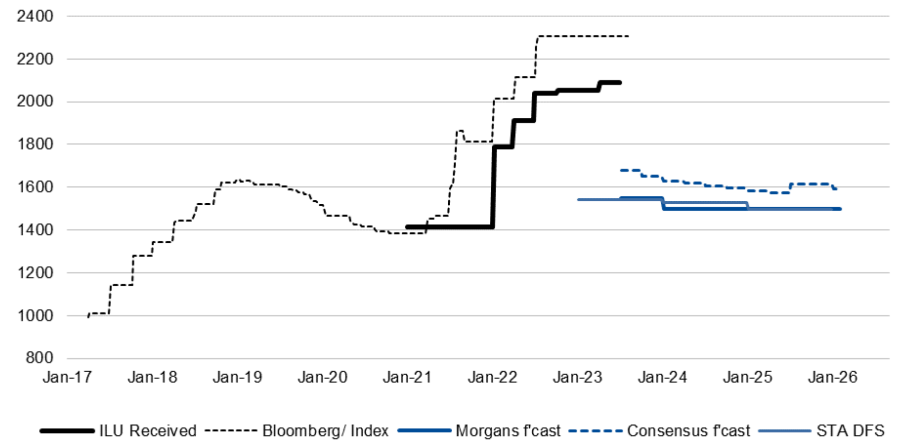
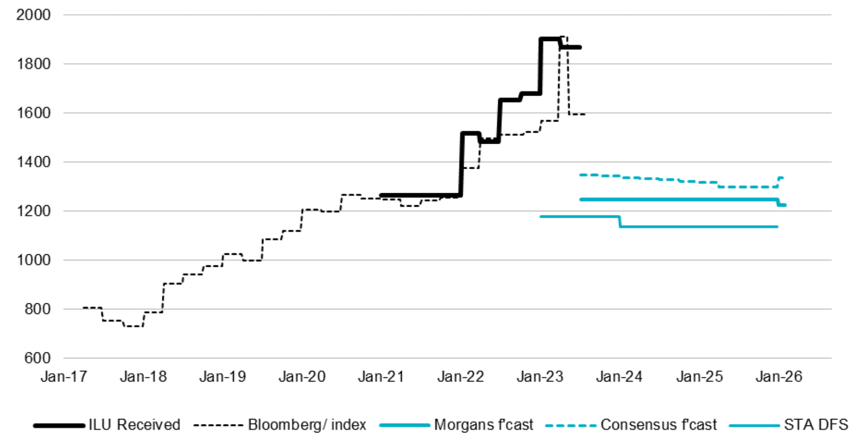


Figure 12: Rutile prices vs Morgans/ Consensus/ STA DFS (US$/t FOB)



Source: STA, Morgans, ILU, Bloomberg

Acronyms:

- DMUs – Dozer Mining Units (Front end mining equipment).
- HMC – Heavy Mineral Concentrate (Stage 1 co-mingled product containing all product minerals).
- WCP – Wet Concentrate Plant (Stage 1 wet processing to HMC).
- MSP – Mineral Separation Plant (Stage 2 dry processing to final products).

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Townsville	+61 7 4725 5787	Wollongong	+61 2 4227 3022	Norwood	+61 8 8461 2800
West End	+61 7 3151 8300			Unley	+61 8 8155 4300
Northern Territory		Australian Capital Territory		Tasmania	
Darwin	+61 8 8981 9555	Canberra	+61 2 6232 4999	Hobart	+61 3 6236 9000

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