



Strandline Resources Ltd (STA.ASX)

Advanced developer with low cost projects

Event:

- We initiate research coverage on Strandline Resources (STA).

Investment Highlights:

- STA's development ready assets are the Coburn and Fungoni mineral sands projects in WA and Tanzania. Both have mining and environmental permit approvals, and need completion of financing/offtake prior to FID.
- Coburn's JORC Reserves of 523Mt underpin an initial 23 year mine life at a rate of 23.4Mtpa. Capex for a mineral products case is \$257M which would generate 222kt across four products annually: Premium zircon (34kt); zircon concentrate (54kt); rutile/HiTi (24kt); and chloride grade ilmenite (110kt).
- We estimate high value products account for 76% of revenue, and contribute to a revenue to C1 cost ratio (R/C1) of 2.2x, which we determine places Coburn in the lowest quartile of TZMI's 2022 cash cost curve
- Given the 1.6bt JORC Resources, STA undertook an extension scoping study which showed a 28% increase over the DFS pre-tax NPV₈, from \$551M to \$710M, by extending LOM to 38 years.
- We expect Coburn's offtake and financing negotiations to be completed by end FY20e and FID approval to follow soon beginning FY21e. We expect commissioning of the mine in mid-FY22e.
- Fungoni is a smaller project expected to yield ca. 50ktpa of products with 6-year LOM but with low capex of \$45M and a high R/C1 of 2.9x, which would place it in the lowest quartile of the TZMI cost curve. Its high value assemblage includes zircon, rutile, and monazite which will account for 71% of revenue.
- While Fungoni has a mining licence and LOM binding offtake agreements for all its product, FID has been delayed because of uncertainty over the Tanzania Government's 16% free-carry interest. We believe this will be eventually clarified and expect FID by end FY21e at the latest. We expect Fungoni to be commissioned in FY23e after Coburn.

Earnings and Valuation:

- We forecast STA to generate losses of -\$7M and -\$8M in FY20e and FY21e, and breakeven NPAT in FY22e when Coburn is commissioned. We expect maiden NPAT of \$49M in FY23e when Coburn is fully ramped up and Fungoni comes online.
- We value STA shares at \$0.32 based on a risked NPV₁₀. Our valuation assumes debt and equity funding of \$320M split 65% debt: 35% equity (\$208M debt: \$112M equity) to fund Coburn and Fungoni capex, working capital, corporate, and exploration over FY21 and FY22e.

Recommendation:

- We initiate on STA with a Buy recommendation and 12-month PT of \$0.32/share, based on 1.0x risked NPV₁₀.
- Catalysts for the share price include: 1) Binding offtake agreements for Coburn; 2) Finalising financing and FID for Coburn; 3) Clarity surrounding free-carry interest in Fungoni; 4) Completion of financing and FID for Fungoni; 5) Higher mineral sand prices; 6) Increase in JORC Resources or Reserves.

Disclosures

The analyst does not own STA securities.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own STA securities.
Cranport Pty Ltd owns 7,341,594 STA shares.
Refer details end of report.

Recommendation	Buy			
Previous	n/a			
Risk	High			
Price Target	\$ 0.32			
Previous	n/a			
Share price (A\$)	\$ 0.120			
ASX code	STA			
52 week low-high	0.087-0.16			
Valuation (A\$/share)	\$ 0.32			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	373			
Market cap (A\$M)	45			
Net cash (debt) (A\$M)	3			
EV (A\$M)	42			
Ave daily volume ('000)	214			
Earnings Y/e Jun A\$M	FY19a	FY20e	FY21e	FY22e
Sales	0	0	0	43
EBITDA adj	-8	-8	-9	12
NPAT reported	-7	-7	-8	0
NPAT adj	-8	-7	-8	0
EPS adj. \$*	-0.03	-0.02	-0.01	0.00
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	3.7

* Adj = underlying

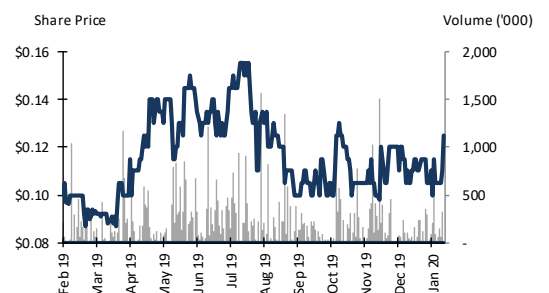
Substantial shareholders

Ndovu Capital VII BV	33%
C&H International Investment Ltd	8%

Board

Didier Murcia	Non-Executive Chairman
Luke Graham	CEO and Managing Director
Peter Watson	Executive Director
John Hodder	Non-Executive Director
Tom Eadie	Non-Executive Director

Share price graph



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