



## Strandline Resources Ltd (STA.ASX)

*Finish line tantalisingly close*

### Event:

- December 2020 quarterly report; PT change.

### Investment Highlights:

- Commercial debt still under negotiations.** The key highlight of the quarterly was always going to be any update on the finalisation of commercial debt – the major outstanding piece prior to Coburn FID. STA stated that discussions were still continuing with specialist mining funds, investment banks, and secured bond issuers, reiterating its expectation of a facility up to A\$100M with 5-7 year tenor. Together with the \$130M NAIF facility, STA expects this collective debt to fund the majority of the \$260M project capex.
- All major contracts awarded.** The company highlighted recent awards of various contracts, the last covering key areas such as port access, power, fuel, EPC, and FEED, and added to the previous bulk earthworks and mining contracts.
- Tanzania framework progressing.** The company is progressing resolving the government's proposed 16% interest in Fungoni via the previously announced Framework Agreement. While incurring delays due to COVID and the recent national elections, progress has resumed.
- Cash buffer sound.** STA ended the quarter with \$17.3M cash and nil debt after net free cash outflows of -\$2.9M. Key expenditure included FEED, earthworks, and production control drilling. Given immaterial expenditures in near term prior to FID, we expect cash should adequately cover STA's commitments for a number of quarters, during which we expect commercial debt and Coburn FID to be finalised.
- Tajiri scoping study highlights third advanced project.** Key attractive results from STA's October 2020 scoping study on Tajiri were NPV<sub>10</sub> pre-tax of US\$205M, IRR 36%, 23.4 year LOM, and revenue to C1 cost ratio of 2.4x. Tajiri now adds to Coburn and Fungoni as a third key advanced project for STA.

### Earnings and Valuation:

- We roll back our earnings forecasts by nine months due to the Coburn FID taking longer than expected.** We now forecast loss of -\$17M in FY22 (prior - \$34M) and -\$2M in FY23 (prior \$47M). We assume FID, financing, and construction start mid-CY2021, with commissioning at beginning CY23e.
- Risked share valuation rises to \$0.54 (0.75x NPV<sub>10</sub>) from \$0.53.** Our STA valuation is up to \$0.54 from \$0.53 with increase in Tanzania value due to accounting for the Tajiri scoping study, more than offsetting our assumed dilutive impact of future equity raising at \$0.25/share (\$0.29 previously), rollback of Coburn earnings, and higher long-term A\$ (US\$0.75 vs US\$0.73). Our unrisks STA share valuation (1.0x NPV<sub>10</sub>) has increased \$0.70 from \$0.66.

### Recommendation:

- We maintain our Buy and 12-month PT of \$0.54 (prior \$0.53), in-line with our risked share valuation.**
- Catalysts for the share price include:** 1) Remaining Coburn offtake agreements; 2) Commercial debt financing for Coburn; 3) Coburn FID; 4) Commencement of Coburn construction; 5) Coburn commissioning; and 6) Progress on Fungoni.

### Disclosures

The analyst owns 156,000 STA shares.  
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 156,000 STA shares.  
Cranport Pty Ltd owns 8,451,675 STA shares.  
Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
<b>Price Target</b>	<b>\$ 0.54</b>
Previous	\$0.53
<b>Share price (A\$)</b>	<b>\$ 0.23</b>
ASX code	STA
52 week low-high	\$0.067-\$0.29
<b>Valuation - risked (A\$/share)</b>	<b>\$ 0.54</b>
Methodology	risked NPV
Capital structure	
Shares on Issue (M)	523
Market cap (A\$M)	120
Net cash (debt) (A\$M)	17
Performance rights (M)	14
Options (M)	11
Diluted EV (A\$M)	109
Ave daily volume ('000)	880

Earnings Y/e Jun A\$M	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	44
EBITDA adj	-8	-9	-10	11
NPAT reported	-8	-9	-17	-2
<b>NPAT adj</b>	<b>-8</b>	<b>-9</b>	<b>-17</b>	<b>-2</b>
<b>EPS adj. \$*</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.02</b>	<b>0.00</b>
PE x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	nm

\* Adj =underlying

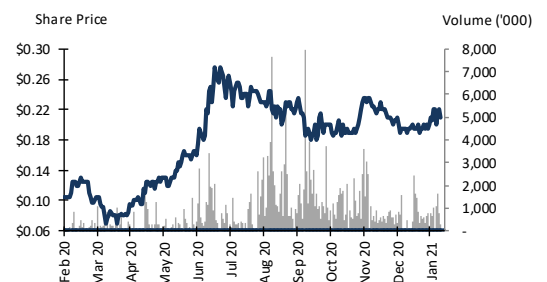
### Substantial shareholders

Ndovu Capital VII BV & Tembo Capital Mining Fund IILP	31%
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
Mark Hancock	Non-Executive Director
Tom Eadie	Non-Executive Director

### Share price graph



Analyst: Mark Fichera  
[mark.fichera@fostock.com.au](mailto:mark.fichera@fostock.com.au)

+612 9993 8162