



Strandline Resources Ltd (STA.ASX)

Contracts de-risk Coburn as prices strengthen

Event:

- Coburn progress; Commodity upgrades; Earnings and PT changes.

Investment Highlights:

- STA states that 65% of all operating costs are now locked in at, or below, DFS assumptions** following recent contract awards which now include port, logistics, mining services, power, gas, and fuel. We expect this provides a contingency against remaining costs – mostly labour and spares.
- Most recent contract award was logistics to Qube Bulk earlier this week.** Qube will provide a turn-key solution, operating haulage fleet, storage facilities, and coordinating port loading, with zircon concentrate and ilmenite stored berthside at Port of Geraldton, and rutile and premium zircon at Narngulu, only ca. 10km from the Port. Terms are in-line with DFS cost assumptions.
- Mining services contract awarded in October to Mine Site Construction Services (MSCS).** STA stated rates were in-line with DFS assumptions. Other milestones achieved include construction of the 270-person permanent accommodation camp and deliveries of HDPE piping. Macmahon is progressing civil bulk earthworks, while power station, dozer mining units, and process plant EPC all advancing.
- Well-funded to completion.** We estimate \$54M of capex has been spent to end September 2021, with balance being \$210M (we assume \$264M total capex). STA funds available were \$302M end September (\$71M cash plus \$231M undrawn debt). We estimate funds are sufficient to cover capex balance, plus working capital, finance costs, exploration, corporate and cost overruns.
- STA reiterated scheduled first HMC product commissioning in 4QCY22.** The project was 28% complete at end September.
- We upgrade our mineral sand price forecasts**, with revisions of +7% to +14% over FY22e-FY24e, as well as upgrading LT by 9% for zircon, 5% for rutile, and 13% for ilmenite. Producers have reported price increases across all products, most markedly for zircon, with spot premium zircon price US\$2,235/t – still above our forecasts. Increasing tile production and pigment demand coupled with tight supply are supporting prices strength.

Earnings and Valuation:

- Earnings upgrade on higher prices.** We upgrade FY23e NPAT to \$1M from -\$9M loss, and FY24e – first full year of Coburn production - by 40% to \$63M from \$45M on higher minerals sands prices.
- Risked share valuation (0.8x NPV₁₀) increases to \$0.62 from \$0.52**, on the back of higher prices. On FY24e earnings, STA is trading at 4.5x P/E and 3.4x EBITDA vs ASX Resources of 13.6x and 5.8x for FY23e, supporting our view on stock being undervalued. Meanwhile, running spot zircon yields \$0.92 share valuation.

Recommendation:

- We maintain our Buy and raise our 12-month PT to \$0.62 (prior \$0.52), in-line with our risked share valuation.**
- Catalysts for the share price include:** 1) Further Coburn progress; 2) Resource and Reserves upgrades; 3) Coburn commissioning; 4) Progress on Tanzanian assets; and 5) higher mineral sands prices.

Disclosures

The analyst owns 265,500 STA shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 2,265,500 STA shares.
Cranport Pty Ltd owns 9,790,444 STA shares.
Refer details end of report.
Foster Stockbroking acted as Co-Manager and Sub-Underwriter to the \$122M placement and entitlement offer of 593M STA shares at \$0.205 in March 2021, for which it received fees.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$ 0.62			
Previous	\$0.52			
Share price (A\$)	\$ 0.245			
ASX code	STA			
52 week low-high	\$0.165-\$0.298			
Valuation - risked (A\$/share)	\$ 0.62			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	1,120			
Market cap (A\$M)	274			
Net cash (debt) (A\$M)	71			
Performance rights (M)	8			
Options (M)	11			
Diluted EV (A\$M)	208			
Ave daily volume ('000)	2,689			
Earnings Y/e Jun A\$M	FY21a	FY22e	FY23e	FY24e
Sales	0	0	50	203
EBITDA adj	-12	-7	19	101
NPAT reported	-13	-15	1	63
NPAT adj	-13	-15	1	63
EPS adj. \$*	-0.02	-0.01	0.00	0.05
PE x	nm	nm	nm	4.5x
EV/EBITDA x	nm	nm	18.2x	3.5x

* Adj =underlying

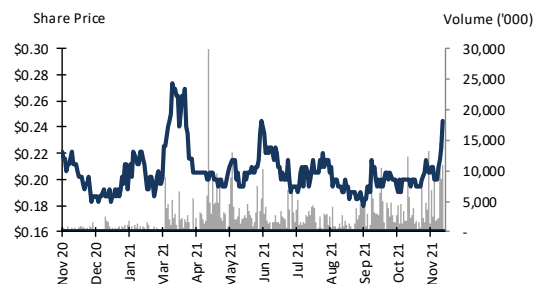
Substantial shareholders

Ndovu Capital VII BV (Tembo)	21%
Regal Funds Management Pty Ltd	5%

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
Alexandra Atkins	Non-Executive Director
Tom Eadie	Non-Executive Director

Share price graph



Analyst: Mark Fichera
mark.fichera@fostock.com.au

+612 9993 8162