

Sheffield's Thunderbird displays nice plumage

WHAT'S not to like about Sheffield Resources and its Thunderbird project in Western Australia, promoted as "the emerging force in mineral sands"?

- Michael Quinn
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Large ore reserve and resources underpinning multi-decade operation. Tick.

Potential to be globally significant supplier of zircon and ilmenite. Tick.

Location in low risk mining destination. Tick.

Owned 100% by one owner (Sheffield). Tick.

Environmental approval recommended by authorities. Tick.

Native title approval. Tick ... albeit with an asterisk given there is an appeal underway after previous Federal Court endorsement of a Native Title approval granted mid-year.

Then there are the third party endorsements.

Two binding offtake agreements already signed. Tick.

And with both being firms from India, the non-Chinese aspect is likely viewed positively by potential European and US firms.

A strategy tick then too.

Meanwhile financing is also now underway with the well-known Taurus Funds Management mandated to provide a US\$200 million debt finance facility (for a \$260-270 million development).

Another tick.

The debt announcement last week points to all being on track for Sheffield developing the project in its own right.

However when the feasibility was released in March, the company also suggested stated that “ultimately it may pursue other value realisation strategies such as a partial sale and joint venture that would reduce Sheffield’s proportionate ownership ... and consequently lessen the funding burden for existing shareholders”.

It is understood an equity funding currently being undertaken will allow early stage development activities to begin as well as allowing any discussions with third parties – such as potential joint venturers – to take place without a rapidly dwindling corporate treasury acting as an unwanted pressure point.

Is Thunderbird an attractive beast?

Historically there has been some dismissive murmurings in the mineral sands market as to its quality.

But it would appear detailed feasibility work has given all the right signals, with offtake deals and Taurus’ involvement further attesting to this.

Supporters of Sheffield and Thunderbird would also point to the project’s estimated revenue to cash cost ratio being only just outside the industry first quartile as evidence of its relative quality.

So here's a project with not insignificant annual output in the offing, the optionality provided by resources in the hundreds of millions of tonnes, and located in a first world jurisdiction.

Typically the completion of feasibility and permitting activities is the time third parties of note sharpen their attentions.

Globally the three biggest mineral sands producers are Rio Tinto, Tronox and Iluka, with the latter the world's leading zircon producer.

Rio actually held the ground on which Thunderbird was found – and had some zircon exploration success – with its dropping of the tenure occurring around the time of the GFC and the big ticket Alcan acquisition.

Rio does have a beachhead in the general region given its salt venture at Dampier, however the major's main focus in the mineral sands sphere appears to be southern Africa.

Tronox and Iluka both have significant mineral sands interests in WA.

Iluka has been keen to show producer discipline in the zircon space to protect pricing, and Tronox has been quoted in recent years as viewing itself as “consolidator” in the mineral sands space.

Earlier this year Tronox acquired Cristal TiO₂ while Iluka with a new MD at the helm completed the Sierra Rutile acquisition on the cusp of 2017.

And then there's the Chinese and, given offtake deals to date, maybe even an Indian firm or two.

Sheffield has a current enterprise value around the \$140 million mark, not including the raising currently underway – which could be in the circa \$20 million range.

A few years ago the former MD of Sheffield noted the takeover of ASX-listed mineral sands junior Basin Minerals early last decade for \$130 million, a price that was just below the NPV of \$140 million for Basin's pre-development Douglas asset.

For what it's worth the NPV of Thunderbird is posited north of \$600 million.

For the uber-bullish, numbers to flare the nostrils.

For those in the real world though ...?

Disclosure: The reporter holds shares in Iluka