

Sheffield Resources Limited

Sandsational returns

July 2023

Recommendation: BUY

- A globally significant project with attractive economics in a tier one location
- Construction is 90% complete with first mineral sands revenue next half
- Trading at a discount to project NPV, excluding its organic growth options

ASX: SFX

Share Price: \$0.47

Target Price: \$1.15

M/Cap.: \$185M

Valuation: \$1.15/share

Valuation: \$462M

Shares/options: 392.6

Monthly T/over: \$2M



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Petra Capital Pty Ltd

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Figure 1: Top 20 Shareholders (June 2023)

Name	Amount	%
1 Yangang (Hong Kong)	38,870,771	9.9%
2 BlackRock Investment Mgt	25,515,475	6.5%
3 Mr & Mrs Walter MG Yovich	17,375,524	4.4%
4 Mr Walter MG Yovich	14,020,611	3.6%
5 Konwave	13,413,723	3.4%
6 Thorney Investments	10,999,999	2.8%
7 Private Clients of HUB 24 Custodial Services	9,931,602	2.5%
8 Mr & Mrs Albert J Matthews	8,400,000	2.1%
9 Private Clients of FNZ Custodians	8,265,767	2.1%
10 Mr David L Archer	8,182,055	2.1%
11 Mr Bruce M McQuitty	7,991,289	2.0%
12 Mr William J Burbury	7,482,000	1.9%
13 Ms Anna M Weldon	4,737,554	1.2%
14 Mr & Mrs Gilbert M Pesenti	4,285,714	1.1%
15 Dimensional Fund Advisors	4,046,102	1.0%
16 Mr & Mrs Rees HJ Jones & Mr Walter MG Yovich	3,961,612	1.0%
17 Mr & Mrs Franklyn R Brazil	3,191,431	0.8%
18 Baumann & Cie	3,000,000	0.8%
19 Mr Allan W Tattersfield	2,942,307	0.7%
20 Kimberley Land Council Aboriginal Corp	2,836,120	0.7%
Total	199,449,656	50.8%

Source: IRESS

July 2023

Sheffield Resources Ltd (SFX)

BUY

Share Price: **A\$0.47**

Sandsational returns

Target Price: **A\$1.15**

Sheffield Resources Ltd (SFX) is on the verge of becoming a mineral sands producer at its 50% owned Thunderbird Mineral Sands Project, located in the Kimberly region of WA. Thunderbird is a large, long-life asset in 50/50 joint venture with Yansteel, where Stage 1 is fully funded, 90% complete and tracking on time and budget. A simplified flowsheet will deliver concentrate products into a robust pricing environment, with strong cash flow to assist delivery of Stage 2 from 2029. In addition, SFX's South Atlantic Project mineral sands project provides scope for further growth and diversification. SFX trades at 0.41x P/NPV, a punitive discount given the minimal remain capex and low-technical risk development plan being implemented. We see SFX re-rating upon successful commissioning and sales over the coming 6-12 months. We initiate coverage with a BUY rating and A\$1.15/sh price target (1xP/NPV₁₀).

A simple, scalable project in a tier one jurisdiction

- Construction at Thunderbird is 90% complete and fully funded, with first sales expected early in 1H CY24
- The March 2022 DFS outlined 1.0-1.8Mtpa of mineral sands concentrate at a revenue to cost ratio of 2.2x
- The study outlined average annual free cash flow of A\$162m, a A\$1.3bn NPV₈ and 27.5% IRR (100% basis)
- Construction has progressed very well, with capital costs in line with the A\$484m budget, despite recent inflation
- We forecast low risk organic growth when plant capacity at Thunderbird is doubled in 2029, post debt repayment
- The project will supply 6.5% of global zircon supply and 3.5% of titanium feedstock supply over a 35-year period

Significant upside to our A\$1.15/sh price target

- Our fully diluted A\$1.15/sh target is based on 1.0x NPV₁₀
- We see material upside to the A\$0.81/sh valuation for Stage 1 alone, and back this management team to deliver on the organic growth opportunities in the portfolio

Mineral sands markets are supply constrained

- Around 53% of Thunderbird revenue is from zircon, with commissioning well timed given prices at multi-year highs
- End demand for both titanium and zircon is relatively GDP linked and also correlated to global housing trends
- While we conservatively forecast prices to fall from spot of US\$1,950/t to US\$1,300/t longer term, we highlight that spot pricing improves our price target to A\$2.60/sh

Key Dates Ahead

- March Q'24 – First revenue from Thunderbird
- Dec Q'24 – Thunderbird hits nameplate capacity
- July 2024 – South Atlantic Project investment decision

Company Data

Shares – ordinary (M)	392.6
Market capitalisation (\$M)	185
12 month low/high (\$)	0.4/ 0.68
Average monthly turnover (\$M)	2
GICS Industry	Metals & Mining

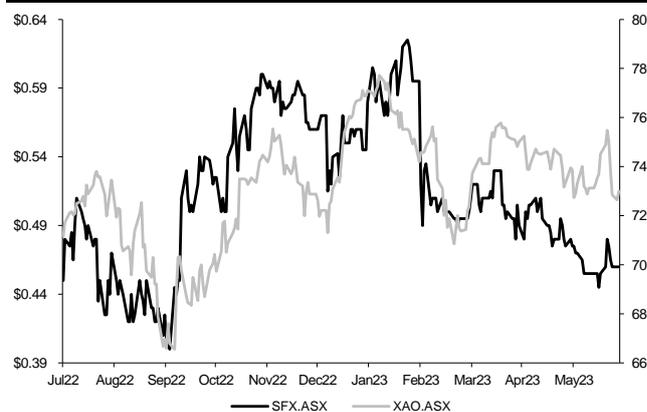
Financial Summary (attributable to SFX's 50% share)

Year end June	2024F	2025F	2026F	2027F	2028F
Revenue (\$M)	37.4	168.7	177.0	172.3	170.7
Costs (\$M)	(42.5)	(102.8)	(112.2)	(116.2)	(117.4)
EBITDA (\$M)	(5.1)	65.8	64.9	56.1	53.3
NPAT (\$M)	(29.9)	21.0	24.2	17.8	4.5
EPS (¢ps)	(7.6)	5.4	6.2	4.5	1.2
EPS growth (%)	n.m.	n.m.	0	(0)	(1)
PER (x)	(6)	9	8	10	41
Op. Cashflow (\$M)	(16.5)	45.4	44.7	37.6	28.7
OCFPS (¢ps)	(4.2)	11.6	11.4	9.6	7.3
POCFPS (x)	n.m.	9.9	10.1	12.0	15.8
EV (\$M)	111	58	95	156	103
EV / EBITDA (x)	n.m.	n.m.	n.m.	n.m.	n.m.
Payout ratio (%)	-	-	-	-	-
Dividends (¢ps)	-	-	-	-	-
Yield (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-

Board

Director	Position	Executive
Bruce Griffin	Chair	Yes
Ian Macliver	Director	No
John Richards	Lead Independent Director	No
Vanessa Kickett	Director	No
Gordon Cowe	Director	No

SFX – performance over one year



Analysis

Sheffield Resources (SFX)						SHARE PRICE VS INDEX							
Year end 30 June													
Recommendation						Buy							
Price	\$					0.47							
Target Price (12-month)	\$					1.15							
Upside / (Downside)	%					145%							
52 week high / low	\$					0.625 - 0.4							
Market capitalisation	\$m					185							
Shares on issue	m					393							
Options/Rights outstanding	m					8							
Shares raised*	m					0							
Shares on issue (diluted)	m					400							
PROFIT & LOSS (attributable)						ASSUMPTIONS							
		2024E	2025E	2026E	2027E	2028E		2024E	2025E	2026E	2027E	2028E	
Revenue	\$M	37	169	177	172	171	A\$/US\$ exchange rate	A\$/US\$	0.69	0.73	0.75	0.75	
Operating Costs	\$M	(42)	(101)	(110)	(114)	(115)	Zircon reference price	US\$/t	1,800	1,525	1,375	1,300	
Exploration	\$M	(1)	(2)	(2)	(2)	(2)	Thunderbird Zircon conc.	US\$/t	885	749	676	639	
Other	\$M	-	-	-	-	-	Ilmenite mag conc.	US\$/t	130	130	130	130	
EBITDA	\$M	(5)	66	65	56	53	RESERVES AND RESOURCES						
Dep. & Amort.	\$M	(12)	(22)	(18)	(18)	(22)		Mt	HM (%)	Z (%)	HiTi (%)	Leu (%)	Ilm (%)
EBIT	\$M	(17)	43	46	38	31	Reserve	754	11%	0.8%	0.3%	0.3%	3.1%
Net Interest	\$M	(12)	(13)	(12)	(13)	(25)	Resource	1,050	12%	0.9%	0.3%	0.3%	3.3%
Pre-Tax Profit	\$M	(30)	30	35	25	6	THUNDER BIRD PRODUCTION (100%)						
Tax	\$M	-	(9)	(10)	(8)	(2)		2024E	2025E	2026E	2027E	2028E	
Net Profit	\$M	(30)	21	24	18	5	Zircon in Zircon Conc	14	95	112	113	113	
Abnormal	\$M	-	-	-	-	-	Zircon Conc	27	189	223	224	225	
Reported Profit	\$M	(30)	21	24	18	5	Mag Con	208	712	798	800	780	
CASH FLOW (attributable)						THUNDERBIRD REVENUE (100%)							
		2024E	2025E	2026E	2027E	2028E							
Operating Cashflow	\$M	(17)	45	45	38	29	Revenue to cost ratio						
Capex	\$M	(47)	(2)	(2)	(18)	(24)		1.1	2.0	1.9	1.8	1.7	
Exploration	\$M	(1)	(2)	(2)	(2)	(2)	THUNDERBIRD REVENUE TO COST RATIO						
Other	\$M	-	-	-	-	-							
Investing Cashflow	\$M	(48)	(4)	(4)	(20)	(76)	Revenue (A\$m)						
Equity Issues	\$M	-	-	-	-	-	Op Costs (A\$m)						
Borrowings / Prepayments	\$M	69	11	-	-	-	Ratio (LHS)						
Financing Cashflow	\$M	69	11	(78)	(79)	100							
Free Cashflow	\$M	(64)	42	41	17	(48)							
Surplus Cash Flow	\$M	4	52	(37)	(62)	52							
BALANCE SHEET (attributable)						VALUATION - Fully Diluted, 10% Discount Rate							
		2024E	2025E	2026E	2027E	2028E		A\$m	A\$/Sh				
Cash	\$M	74	126	89	28	80	Thunderbird Project (50% ownership)	537	1.34				
Other Current	\$M	1	1	1	1	1	South Atlantic Project (20% ownership)	20	0.05				
Total Current	\$M	75	127	90	29	81	Exploration	10	0.02				
PP&E	\$M	218	197	180	180	233	Attributable Net Debt	(73)	(0.18)				
Other	\$M	116	116	116	116	116	Corporate	(32)	(0.08)				
Total NC Assets	\$M	333	312	295	296	348	Group Valuation	462	1.15				
Total Assets	\$M	408	439	386	325	429							
Current Liab	\$M	12	12	12	12	12							
Non Current Liab	\$M	152	163	85	6	106							
Total Liabilities	\$M	164	175	97	18	118							
Net Assets	\$M	244	265	289	307	311							
Equity	\$M	244	265	289	307	311							
Total Debt	\$M	146	157	79	0	100							
Net Debt / (Cash)	\$M	73	31	(10)	(28)	20							
RATIO ANALYSIS													
EPS	¢	(7.6)	5.4	6.2	4.5	1.2							
PER	x	(6.2)	8.8x	7.6x	10.4x	40.8x							
EPS Growth	%	n.m.	n.m.	15%	(27%)	(75%)							
EV/EBITDA	x	(50.7)	3.3x	2.7x	2.8x	3.8x							
EV/OCF	x	-	-	-	-	-							
FCFPS	¢	(16.2)	11.2	11.0	4.9	(11.7)							
FCF Yield	%	n.m.	24%	23%	10%	n.m.							
Payout Ratio	%	0%	0%	0%	0%	0%							
DPS	¢	-	-	-	-	-							
Yield	%	-	-	-	-	-							
Franking	%	0%	0%	0%	0%	0%							
Gearing ND/E	%	30%	12%	(4%)	(9%)	6%							
Interest Cover	x	(1.4)	3.2	3.9	3.0	1.3							
EBITDA Margin	%	(14%)	39%	37%	33%	31%							
EBIT Margin	%	(47%)	26%	26%	22%	18%							
Return On Assets	%	(7%)	7%	9%	8%	2%							
Return On Equity	%	(12%)	8%	8%	6%	1%							
Eff Tax rate	%	30%	30%	30%	30%	30%							

Source: Petra Capital

Executive Summary

Entering production this half in a tier one jurisdiction

Sheffield Resources (SFX) is an ASX-listed mineral sands developer through its 50% owned Thunderbird Mineral Sands Project, located in the Kimberley region of Western Australia. Construction at Thunderbird is 90% complete, with first production expected this half and first sales in the March quarter 2024. Thunderbird's March 2022 DFS outlined a staged project capable of producing up to 1.8Mtpa of mineral sands concentrate at a revenue to cost ratio of 2.2x. These attractive margins delivered a study post-tax IRR of 28% and an NPV₈ of A\$1.3bn (100%). It has a 700Mt Reserve and 35 year mine life, capable of producing 6.5% of the world's zircon needs and 3.5% of titanium feedstock requirements. Thunderbird is a globally significant project with attractive economics in a tier one location.

Successful commissioning likely to drive a re-rating

Construction and commissioning is a time of heightened operational and balance sheet risk for mining projects, with equities often trading at a discount until these risks are overcome. We note Thunderbird capital costs are in line with the original A\$484m total funding requirement, with first production due for delivery in the March Q 2024. SFX trades at 0.41x P/NPV and we believe the discount is overly punitive given risk of capital overrun has been largely mitigated. With first production expected within 6 months, we don't believe investors will be waiting long for the stock price to re-rate. We also note the relatively simple development and operating approach the joint venture has taken, with conventional dozer-trap mining feeding a wet concentrate plant (WCP) producing three concentrate products for sale. There is no Mineral Separation Plant (MSP) to produce final zircon and/or titanium product streams.

Organic growth options via expansion and a second project

SFX is fully funded to 1Mtpa of production of mineral sands concentrate at Thunderbird, which we value at A\$0.81/sh, representing 50% upside from the current share price. We expect the cashflows from Stage 1 will pay down debt by 2027, after which we anticipate the joint-venture to approve the doubling of plant capacity. Doubling plant capacity is expected to cost A\$258m in capital for an incremental A\$394m NPV₁₀ on our price forecasts, equating to an additional A\$0.53/sh in NPV.

In addition to Thunderbird, SFX secured an option over the South Atlantic Mineral Sands Project in Brazil in January 2023. The project has a large exploration target of 500-720Mt at 3.2-4.0% HM with a Zr-dominant assemblage. SFX can pay US\$12.5m for a 20% stake up to July-24. In the interim, the US\$2.5m option payment is funding a Resource and DFS, upon which to base an investment decision.

A\$1.15 price target on Petra forecasts, A\$2.60/sh at spot prices

Our A\$1.15/sh price target is based on 1.0x NPV₁₀ and an average price of US\$1,314/t and 0.75 AUD. We expect zircon prices to decline from the spot price of US\$1,950/t as more supply enters the market and Chinese demand softens due to a slowing property market. Should spot currency and commodity prices continue, SFX has material leverage and upside (Figure 2).

Figure 2: Valuation sensitivity to price & FX forecasts, Petra NPV & spot valuation ranges

	Zircon USD	1,100	1,200	1,300	1,400	1,500	1,600	1,700	1,800	1,900
AUD										
0.90		0.33	0.45	0.57	0.68	0.80	0.91	1.03	1.14	1.25
0.85		0.48	0.61	0.73	0.85	0.97	1.10	1.21	1.34	1.46
0.80		0.65	0.78	0.91	1.04	1.17	1.30	1.43	1.56	1.69
0.75		0.84	0.98	1.12	1.26	1.40	1.54	1.68	1.82	1.96
0.70		1.06	1.21	1.36	1.51	1.66	1.81	1.96	2.11	2.26
0.65		1.31	1.47	1.63	1.79	1.96	2.12	2.28	2.44	2.60
0.60		1.61	1.78	1.96	2.13	2.31	2.48	2.66	2.83	3.01

Source: Petra NPV shaded grey based on LT forecasts of US\$1,300/oz & 0.70 FX; spot valuation in blue



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