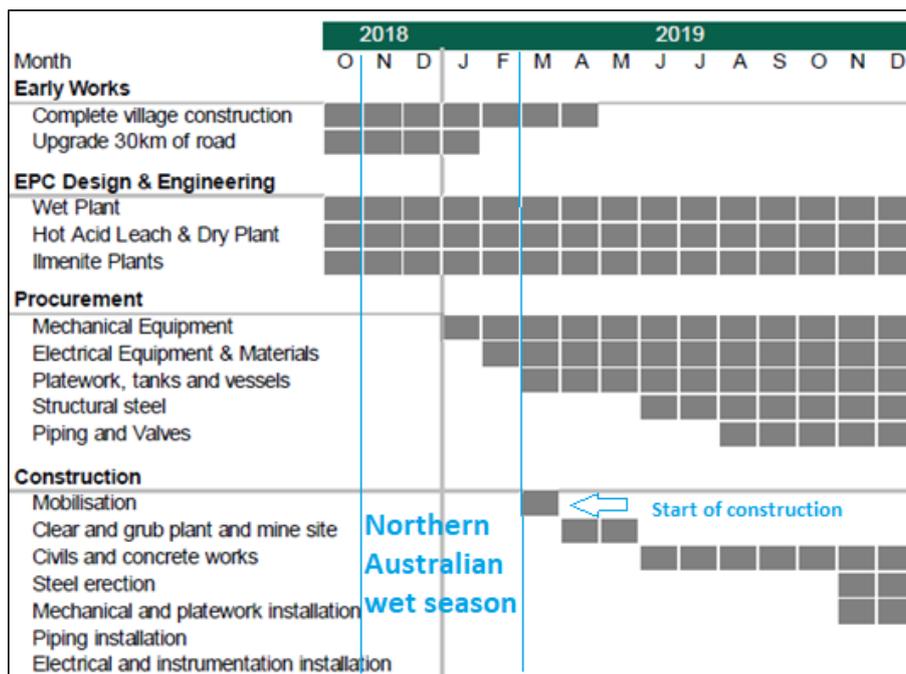




## SHEFFIELD RESOURCES LTD (SFX AU, \$0.67)

### Sheffield now looking for a partner to assist with the funding of Thunderbird

- SFX has announced an interim capital raise to allow the company time to evaluate the introduction of a strategic party to the Thunderbird project. Around A\$16m has been raised, which, with an SPP of \$3m (both at 65c), will take the company's end of year cash position to around A\$23-25m.
- This will also allow SFX to proceed with the following aspects of Thunderbird pre-development and fund corporate G&A:
  - Engineering and design activities (GR Engineering Services, GRES), around \$6m.
  - Early construction work (mine accommodation village, access road), around \$7m.
- This strategy is not unexpected, and it should do little to delay the project's schedule. Equity funding is not yet on the critical path. Mobilisation by GRES is not scheduled to occur until the end of the wet season (March 2019).



- With the dramatic fall in SFX's share price, not helped by volatile resources markets, we have been forced back to look at our valuation. Our base case valuation now assumes that 25% of the Thunderbird project will be sold to a third party at a discount to our appraised NPV with a \$70-80m equity raise to fully fund its share of the construction of the mine.
- Our base case valuation is now A\$1.64/share. We have undertaken a number of 'what if' scenarios which deliver what we consider to be a realistic spread in NPV/share of \$1.36 to \$1.74/share.
- Thunderbird remains a Tier 1 mineral sands project and is the next major source of zircon to fill an emerging global supply gap.

## Overview

- We had expected a larger capital raising from SFX, but volatile markets appear to have discouraged this strategy. The collapse in the share price from around \$1.20 as recently as mid-October, to the placement price of 65c (against a 10 day VWAP of 78c) precluded a larger raising without significant dilution to existing shareholders.
- SFX's announcement on 10 December 2018 refers to "a provision of approximately 30% of the estimated capital expenditure to cover working capital requirements, corporate overheads and other customer lender requirements during the 2 year construction period (including cost over-run provision, financing fees, interest on drawn debt and debt service reserve account funding)". 30% on Stage 1 capex of A\$463m is ca. \$139m.
- SFX is unwilling to provide detail regarding the makeup of the 30%, but we have heard from market sources that there could be as much as 10% of the total capex bill, or \$45-50m, which needs to go into a capital cost over-run facility. This strikes us as excessive as GR Engineering have provided a fixed price contract for the Thunderbird plant.
- We could imagine working capital to be around \$40m, funding the ramp up of the project and the pipeline fill as material gets to market, capitalised interest of perhaps \$20m and a similar amount for capitalised G&A. The balance will relate to fees and the debt service account.
- Together with the unfunded capital requirement of the project (ca. \$128m), the theoretical equity component could total as much as A\$257m (on a 100% basis).

## Valuation

- The fall in the share price and disclosure of the possible equity requirements has forced us back to the drawing board regarding our SFX valuation.
- At 65c, the cost of SFX equity capital is roughly twice what it might have been just 2 months ago. Looking forward, to avoid excessive dilution, SFX will now formally evaluate the involvement of another party, at either project or corporate level.
- Our base case now involves a 25% investment from another party at project level in Thunderbird. Now that the project is fully permitted, "shovel ready" together with high quality debt providers, and a signed-up EPC contractor, we are of the view that an incoming party could pay up to 60% (or perhaps more) of NPV for this world class project. Our after tax NPV<sub>10</sub> of Thunderbird (unchanged) is A\$619m, assuming a US\$1550/t (FOB) long term zircon price and A\$/US\$ of 75c. The sell-down of 25% of the project could provide \$90m in equity to SFX.
- It is also possible that the incoming party is able to provide some balance sheet support which could do away with the \$50m over-run provision. Under this scenario, SFX's equity requirement for a 75% stake in Thunderbird could drop to ca. \$70-80m, a much more manageable bite.
- We assume in our valuation, summarised below, that future equity is raised at 65c, which will see the number of shares increase from 229m (pre the recent raise) to ca. 349m.
- On this basis our NAV10 for Sheffield is A\$1.64/share, still a healthy premium to the prevailing share price.

### SFX valuation

Thunderbird (NPV10), post tax	A\$m	\$	614.9	
Add back capex	A\$m	\$	463.0	
Thunderbird (NPV10)	A\$m	\$	1,077.9	Unfunded NPV, pre capex
Mine site exploration	A\$m	\$	40.0	Notional
Equity NPV	A\$m	\$	1,117.9	
Project debt	A\$m	-\$	335.0	72% debt/capex
NPV less debt	A\$m	\$	782.9	
Ownership by SFX	A\$m		75%	Assumed sell-down
Implied SFX equity	A\$m	\$	587.2	
Cash	A\$m	\$	24.0	Post recent raise + SPP
PV of corporate costs	A\$m	-\$	100.0	Estimate
Other exploration	A\$m	\$	-	
Corporate NAV	A\$m	\$	511.2	
Number of shares, current	m		256.1	Post recent raise + SPP
New equity required	A\$m	\$	60.0	Estimate
Number of new shares	m		92.3	Raised at \$0.65/share
Total number of shares	m		348.5	Post final raise
NAV adding new cash	A\$m	\$	571.2	
NAV/share	A\$	\$	1.64	

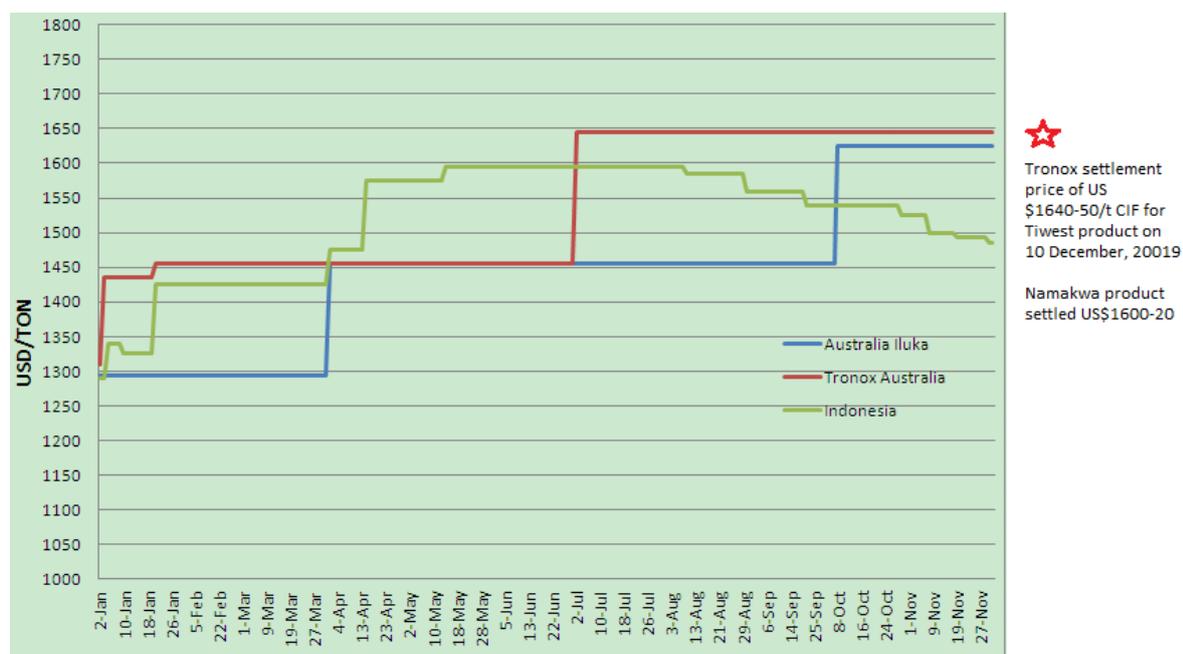
The following table presents sensitivities to the valuation, based on the percentage of the project to be sold and the discount at which it will be sold. Realistic ranges in valuation are between \$1.36/share and \$1.75. Note that the case where 50% of the project is sold at a 25% discount to project NPV theoretically delivers a significant capital return to SFX. We think this is an unlikely scenario.

Valuation per SFX share		Sale price, discount to project NPV(10)		
		25%	40%	50%
SFX final equity in Thunderbird =	75%	\$1.74	\$1.64	\$1.56
SFX final equity in Thunderbird =	60%	\$1.64	\$1.59	\$1.49
SFX final equity in Thunderbird =	50%	\$2.36	\$1.56	\$1.36

## Update on zircon prices

Despite a slowing of Asian economies, Tronox announced on 10 December that zircon prices will remain unchanged for the next 6 monthly pricing period. Iluka and RBM are contracted out until the end of the March quarter 2019.

Zircon pricing, January-December 2018. (Note units expressed are US\$/tonne, CIF)



Source: Ferroalloy.net.com

What's also of interest is that Indonesian swing production is coming under some pricing pressure. Indonesian product is known for variable quality issues and is not always acceptable to all end-users.

We see no reason to change our long term US\$1550/t (FOB) price forecasts, and remain of the view that prices need to remain at this level to incentivise new production to fill an emerging supply gap.

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Dr Chris Baker, an authorised representative of BCP, certifies that the advice in this report reflects his honest view of the company. He has 29 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a part time basis. He may own securities in companies he recommends, but will declare this when providing advice. He currently owns shares and options in SFX. He is not paid a fee by BSCP for providing this report. BSCP are Corporate Advisors to SFX and have received fees from SFX for services provided. BSCP was co-lead manager in the recent \$16m capital raise, and received fees for that.