



BRIDGE STREET
CAPITAL PARTNERS

SHEFFIELD RESOURCES LTD (SFX AU, \$0.535. Market cap A\$210m)

First major shipment of zircon concentrate

Investment view

This has been an impressive start for what is likely to become one of the world's largest and lowest cost sources of zircon and Ti feedstock. Our short term cashflow estimates have increased modestly reflecting an earlier than expected start to shipments, but we see no reason to change our medium-term forecasts. We are encouraged that Thunderbird's commissioning and ramp-up appears to be proceeding without any major issues. SFX trades at what we consider to be an unjustifiably large discount to our \$1.95/share valuation. We see the likely rerating of the SFX share price as commissioning/production/sales risks dissipate.

We have seen an encouraging series of reports recently released by SFX over past weeks. Key points include:

- The Thunderbird mine and process plant are ramping up, with only minor technical issues during commissioning.
- Full throughput rates are expected during the March quarter, a remarkably rapid ramp-up schedule, in our view. We forecast the project achieving full production rates in the June quarter.
- Total ore mined for the December quarter was around 740kt at an HM grade of 13.3% (in line with our expectations).
- Total saleable concentrate production for the quarter was 34.3kt, including ca. 27kt of magnetic concentrate (Ti feedstock), and 7kt tonnes of non-magnetic concentrate (zircon rich). In our modelling, we had no production expected for the December quarter (note these are reported on a 100% basis).
- First shipments of a zircon rich concentrate ("Non-Mags") occurred in early January (ca. 300t), with revenues due in the current quarter. On 31 January, SFX announced completion of a further shipment of 5,100 tonnes of bagged zircon concentrate.
- Disappointingly, final permitting by the Kimberley Port Authority for bulk exports from the Port of Broome has been delayed with the following comment: *"Final state regulatory clearances, to be obtained by the Kimberley Port Authority, enabling bulk shipments to take place via the Port of Broome are well advanced, with bulk shipments of magnetic concentrate scheduled to commence during the March quarter."* This appears to have been an issue outside SFX's control.
- We are impressed that the project had put in place contingency arrangements to allow bagging of the high value zircon concentrate as an interim solution. A good "belt and braces" approach.
- Regarding the Thunderbird orebody itself, SFX reports ore grade and mineral assemblage has reconciled well with Ore Reserve assumptions, and there are no issues with slimes.
- Tailing deposition is performing well with no issues emerging regarding storage capacity (this was an early problem at Strandline's Coburn operation).
- KMS (SFX 50%) had ca. \$75m in working capital at the start of the quarter (\$35m cash, balance an overrun facility). With costs we estimate running at around A\$15m per quarter (100% basis), and with revenues starting this quarter, we see no reason for concern during the ramp up period.
- A minor issue has emerged with the Traditional Owners and a previously unknown item of heritage importance. The small, 25m² area has been temporarily excised from the heritage clearance until the issue is resolved. SFX states that this will not impact mine planning.
- Separately SFX's cash balance is \$23.2m.

We present our revised earnings and valuation estimates for SFX on the following page. Little has changed from our earlier model, with minor revisions to the ramp-up profile. As we note, these forecasts are based on a 50% equity share of Kimberley Mineral Sands (KMS) which owns 100% of the Thunderbird project. The data displayed represents 50% of all components of the production, P&L, cashflow and balance sheet. Accounting standards will require SFX to equity account its interest in KMS, which will therefore report dividend and interest income and overhead costs only. This standard provides limited transparency and so we have decided to proceed with this more visible reporting method. Note as well that our valuation now comprises 50% of KMS, adjusted for net debt, and further adjustments for SFX G&A, cash and other assets.

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FINANCIAL SUMMARY

Sheffield Resources Limited (SFX.AX)

Share Price	A\$/sh	0.535
Shares on Issue	m	393
Market Cap (A\$m)	A\$m	210
Net Debt / (Cash) (A\$m)	A\$m	(23)
Enterprise Value (A\$m)	A\$m	187

Target Price	-
Upside / (Downside)	-
Dividend Yield	0%
Total Return Forecast	-

Our SFX forecasts are based on a 50% equity share of KMS which owns 100% of the Thunderbird project. The data displayed represents 50% of all components of the production, P&L, cashflow and balance sheet (adding assets as at December 2021). Accounting standards will require SFX to equity account its interest in KMS, which will therefore report dividend and interest income and overhead costs only. This standard provides limited transparency and so we have decided to proceed with this more visible reporting method.

Per Share Data	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Shares Out (m)	393	393	393	393	393
EPS (¢)	0.2¢	9.6¢	13.8¢	15.9¢	16.7¢
Dividend (¢)	-	-	-	-	-
Payout Ratio (%)	0%	0%	0%	0%	0%
Book Value (A\$/share)	0.31	0.38	0.51	0.67	0.82
Operating Cash Flow (A\$/share)	(0.00)	0.10	0.16	0.20	0.18
Free Cash Flow (A\$/share)	(0.13)	0.08	0.14	0.20	0.17
EBITDA (A\$/share)	0.06	0.20	0.25	0.26	0.26

Profit & Loss	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Sales and Other Income	A\$m	53	153	173	179	179
Expenses	A\$m	(30)	(73)	(76)	(76)	(76)
EBITDA	A\$m	23	79	97	103	103
D&A	A\$m	(9)	(13)	(13)	(13)	(13)
EBIT	A\$m	14	67	85	91	91
Financing Costs	A\$m	(12)	(13)	(8)	(1)	3
Tax	A\$m	(0)	(16)	(23)	(27)	(28)
NPAT	A\$m	1	38	54	63	66

Valuation Metrics	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
P/E (x)	238.5x	5.6x	3.9x	3.4x	3.2x
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV / Sales	3.5x	1.2x	1.1x	1.0x	1.0x
EV / EBITDA	8.1x	2.4x	1.9x	1.8x	1.8x
EV / EBIT	13.7x	2.8x	2.2x	2.1x	2.1x
FCF Yield (%)	-24.4%	14.7%	25.8%	36.8%	32.7%

Cashflow	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Cash From Operations	A\$m	23	79	97	103	103
Interest	A\$m	(12)	(13)	(8)	(1)	3
Tax	A\$m	(5)	(20)	(25)	(27)	(27)
Working Capital	A\$m	(6)	(6)	(2)	3	(8)
Net Cash From Operations	A\$m	(1)	40	63	78	71
Capex	A\$m	(50)	(9)	(8)	(1)	(2)
Exploration & Other	A\$m	-	-	-	-	-
Free Cash Flow	A\$m	(51)	31	54	77	69
Borrowings	A\$m	28	(42)	(54)	(46)	-
Equity	A\$m	-	-	-	-	-
Dividend	A\$m	-	-	-	-	-
Net Increase / (Decrease) in Cash	A\$m	(24)	(11)	(0)	32	69

Operating Metrics (%)	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
EBITDA Margin	43%	52%	56%	58%	58%
EBIT Margin	25%	44%	49%	51%	51%
Net Profit Margin	2%	25%	31%	35%	37%
ROIC	6%	28%	36%	41%	43%
Return on Assets	0%	11%	16%	18%	16%
Return on Equity	1%	25%	27%	24%	20%
Effective Tax Rate	30%	30%	30%	30%	30%

Balance Sheet	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Cash	A\$m	24	13	13	44	113
Receivables	A\$m	4	13	14	15	15
Inventory	A\$m	3	8	9	9	9
PP&E	A\$m	248	244	240	228	217
Other	A\$m	61	61	61	61	61
Assets	A\$m	339	338	336	356	415
Creditors	A\$m	7	19	21	22	22
Borrowings	A\$m	142	100	46	-	-
Provisions	A\$m	10	10	10	10	10
Other	A\$m	59	59	59	59	59
Liabilities	A\$m	218	188	136	91	91
Net Assets	A\$m	121	150	200	265	323

Key Assumptions	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Non-mag Concentrate (US\$/t)	800	800	800	800	800
Mag Con (US\$/t)	125	125	125	125	125
Paramagnetic Concentrate (US\$/t)	100	100	100	100	100
AUDUSD	0.70	0.70	0.70	0.70	0.70

Liquidity & Leverage	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Borrowings	A\$m	142	100	46	-	-
Net Debt / (Cash)	A\$m	119	88	33	(44)	(113)
Gearing: Net Debt / (Net Debt + Equity)	%	49%	37%	14%	-20%	-54%
Net Debt / EBITDA	x	5.2x	1.1x	0.3x	(0.4)x	(1.1)x
EBIT Interest Cover	x	1.1x	5.2x	11.1x	64.6x	(32.6)x

Production - 100% Basis	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Mag Con (kt)	246	661	736	761	761
Non-mag Concentrate (kt)	60	174	198	205	205
Paramagnetic Concentrate (kt)	12	66	85	88	88

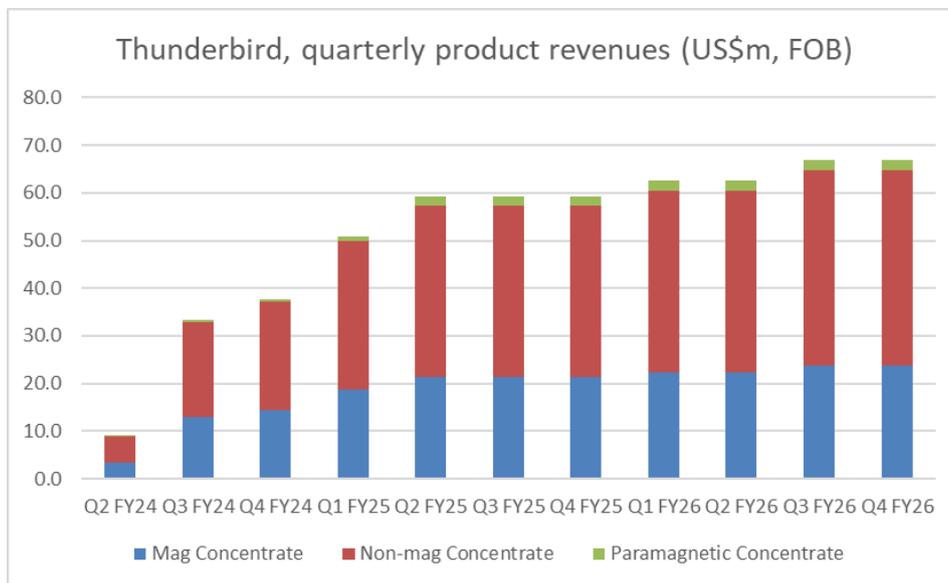
Valuation	A\$m	Equity	Risk	A\$m	A\$/share
Kimberly Mineral Sands (KMS)					
Thunderbird	1,804	50%	100%	902	2.25
Exploration	50	50%	100%	25	0.06
Debt	(324)	50%	100%	(162)	(0.41)
Cash	35	50%	100%	18	0.04

SFX	A\$m	Equity	Risk	A\$m	A\$/share
Corporate Costs	(26)	100%	100%	(26)	(0.07)
Debt	-	100%	100%	-	-
Cash	23	100%	100%	23	0.06
Exploration	10	100%	100%	10	0.02
Total	1,572			779	1.95

Discount rate	8.0%
FPO Shares	393
Options	2
Performance Rights	5
Fully Diluted SOI	400

Non-mag con = zircon rich concentrate
Mag con = ilmenite rich concentrate

The following chart shows the importance of the zircon-rich non-mag concentrate to the Thunderbird project, making up just over 60% of revenues.



Source: BSCP estimates

Thunderbird Stage 2

In our remodelling of KMS and SFX, we have taken note of guidance provided by SFX in recent presentations, which points to likely deferral of the Thunderbird Stage 2 expansion for what we guess will be around 12-18 months. We think this may happen for the following reasons:

- Based on our cashflow estimates, a delay will enable KMS to fully repay debt (27/28 or earlier by our estimates) and start to build cash to fund the expansion.
- Enable KMS to fine tune the Stage 1 plant, identify bottlenecks and perhaps extract higher production rates with moderate capital expenditure.
- Match increased zircon production with the decline profile of one of the world's largest producers of zircon, ILU's Jacinth-Ambrosia mine. We must always remember that the zircon market is small and can easily become oversupplied.

The impact of this delay on our KMS valuation has been negligible. It does remain a very valuable option for KMS, with SFX's stated valuation for the expansion of A\$548m (100% basis).

South Atlantic Project:

SFX is investing up to US\$2.5 million to earn an option to acquire a 20% interest in the Brazilian South Atlantic project by paying a further US\$12.5 million. This is payable 18 months following execution of the original agreement, so during 3Q24.

A 10,000m drilling programme is to commence in the current quarter. The exploration target for the Retiro and Bujuru deposits are 500 to 720Mt at attractive grades of 3.2 to 4.0% HM with low slimes. A PFS is to be completed under the supervision of consultants, Hatch by mid-year (earlier than we'd been expecting).

This will be an important milestone as it may present SFX with a new development opportunity.

Commodity view

- Key to Thunderbird's future is pricing of zircon. SFX comments as follows: *"Premium zircon from major producers increased from c.US\$1,350 per tonne in mid-2019, peaking in mid-2023 at c.US\$2,200 per tonne prior to softening to approximately US\$2,000 per tonne by then end of 2023.*
- *"New supply entering the market, including Thunderbird, offset by continued low inventory levels and reduced production from some existing operators is expected to see a modest contraction in pricing for 2024 around US\$1,900 per tonne, well above long term price forecasts.*
- *"Longer range price forecasts demonstrate price appreciation to continue, as the market outlook for zircon continues to indicate an emerging supply deficit as leading, mature operators representing >50% of the market forecast flat or declining production."*
- The world's largest zircon producer, Iluka, commented as follows:
- *"Customers continued to demonstrate a degree of caution, reflecting both broad based global economic uncertainty and general weakness in key markets. In China, policymakers have made several announcements aimed at stimulating demand in the real estate market and encouraging consumer spending. While there are signs these policies are stabilising the real estate market and creating more favourable financial market conditions for economic growth, there is yet to be an increase in zircon consumption, which would be expected to lead to some re-stocking on top of underlying demand.*
- *"European demand slowed towards the end of Q4, coinciding with regular seasonal factory closures; and customers ended the quarter with lower zircon inventory. In the US, industrial production remained stable, with the overall economy in expansion".*
- ILU also commented: *"Average prices agreed to date for Q1 2024 are ~2% lower than the realised price for Q4 2023 (net of accruals), while contracted volumes for premium and standard zircon are up more than 50%."*
- Volume increases are certainly impressive, but note they are off a low base.
- ILU also comments that zircon prices rose 6% during 2023 (over 2022 prices).

BSCP long term premium zircon price assumptions remain at US\$1750/t (CIF), unchanged for the past 2 years.

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Appendix 1

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