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SHEFFIELD RESOURCES LTD (SFX AU, $0.62. Market cap A$215m)

Breaking news: KMS secures a highly attractive debt facility of up to $160m

We were concerned that the forthcoming Federal election could delay the finalisation of debt negotiations with NAIF (the North Australian Infrastructure Facility). This has not been the case, with an announcement that a A$160m facility has just been secured. NAIF debt, we understand, is very attractive, with long tenor and competitive interest rates. If the Strandline (STA)/Coburn facility provides any guidance, debt repayment does not commence for 5 years after the start of production.

The debt facility remains subject to final documentation and 'customary conditions precedent'. Little more than formalities, we suspect.

SFX and its partner in KMS, Yansteel, will now move into the commercial debt markets to secure the balance of the required debt (which is to total around $310-320m). As discussed below, we'd be surprised if SFX doesn't follow the in the footsteps of STA and seek the balance of the funds in short tenor Nordic bonds (or something similar).

In our recent report (April 2022), we provided an updated valuation for SFX and its 50% share in Thunderbird. Our valuation for SFX is now $2.00/share. It incorporates slightly higher zircon price assumptions than proposed in SFX's own valuation and a very conservative estimate of the value of additional Thunderbird resources not in the mine plan, satellite resources (Night Train) and exploration potential within an extensive tenement package surrounding Thunderbird.

Sum-of-the-Parts	A$m	Equity	Risk	A$m	A$/share
Thunderbird	1,384	50%	100%	692	1.95
Exploration	69	50%	100%	35	0.10
Other Assets	-	100%	100%	-	-
Corporate Costs	(18)	100%	100%	(18)	(0.05)
Net Cash (Debt)	7	100%	100%	7	0.02
Cash from options & new equity		100%	100%	-	-
Total	**1,442**			**715**	**2.00**
WACC					**8.0%**
FPO Shares					347
Options					2
Performance Rights					5
Fully Diluted SOI					**354**

It is important to note that the combination of a lower capital requirement and the sale of non-core assets (which raised ca. $36m) appears to have removed a requirement for any further equity by SFX.

This is a very positive outcome for SFX and we anticipate continued rerating of SFX as the debt package is finalised and as this Tier 1 project moves toward production. At the current share price, SFX continues to trade at a significant discount to its underlying value.

Funding Thunderbird

- The following table summarises our estimate of the sources and uses of funds:

Thunderbird project, sources and uses of funds (KMS JV basis)	
Uses of funds	(m)
Pre-production capex	$361
Working capital	$20
Financing costs	$62
Cost overrun	$40
	$484
Sources of funds	
Senior debt (approx. Range $310-320m)	$317
JV cash on hand (approx)*	$105
Additional equity (approx)**	$62
	$484
*JV cash at 12/21 was $107m	
**Contribution from SFX	$36

Source: SFX presentation and 2022 interim report

- Around half of the required debt funding has now been obtained, with the balance to be obtained from commercial debt markets. In total, this is forecast to cover around 65% of the total funding requirement for the project of $484m.
- We estimate SFX's cash balance to be currently around $40m so sufficient to fund a $36m additional equity top-up for the JV. This was part of the original agreement with Yansteel.

Strandline/Coburn debt facilities: a guide as to what to expect

Kimberley Mineral Sands (SFX 50%) appears to be in STA's wheel tracks, although it should be remembered SFX has been in discussions with NAIF for many years. In fact, SFX secured a $95m debt facility from NAIF in September 2018. Difficulties in filling an 'equity gap' during the following years left this and other loans undrawn. This no longer is an issue.

In 2021 STA obtained a NAIF debt facility of A$130m, with a second facility of $20m to fund construction of regional road facilities (not for the Coburn project itself). This facility is very attractive with:

- 15 year tenor.
- No debt repayment for 5 years from first production.
- No disclosure on costs. Industry sources suggest to us that it will be comparable to commercial bank rates.

STA subsequently secured an additional US$60m in the form of a Nordic bond. Here the terms are less attractive, much higher cost (12%) and significantly lower tenor (5 years).

Both are senior debt facilities and secured against the project. Each will be drawn down pro-rata.

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BSCP has earned fees from capital raisings undertaken by SFX. BSCP are Corporate Advisors to the company and receive fees from this company for services provided.

By downloading this report you acknowledge receipt of our Financial Services Guide, available on our web page www.bridgestreetcapital.com.au.

Appendix 1

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