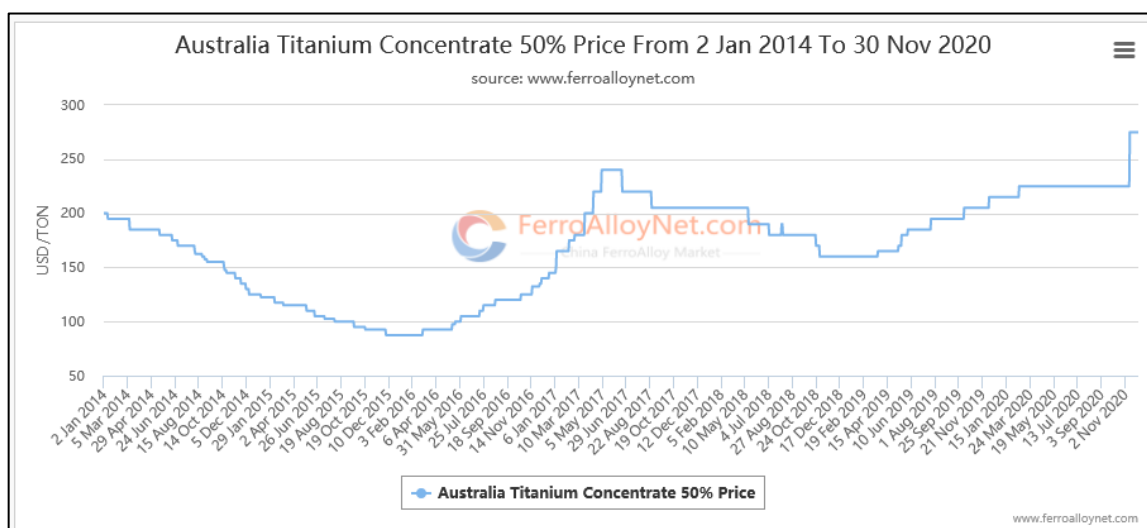




SHEFFIELD RESOURCES LTD (SFX AU, \$0.35. Market cap A\$121m)

Further positive news: JV with Yansteel signed

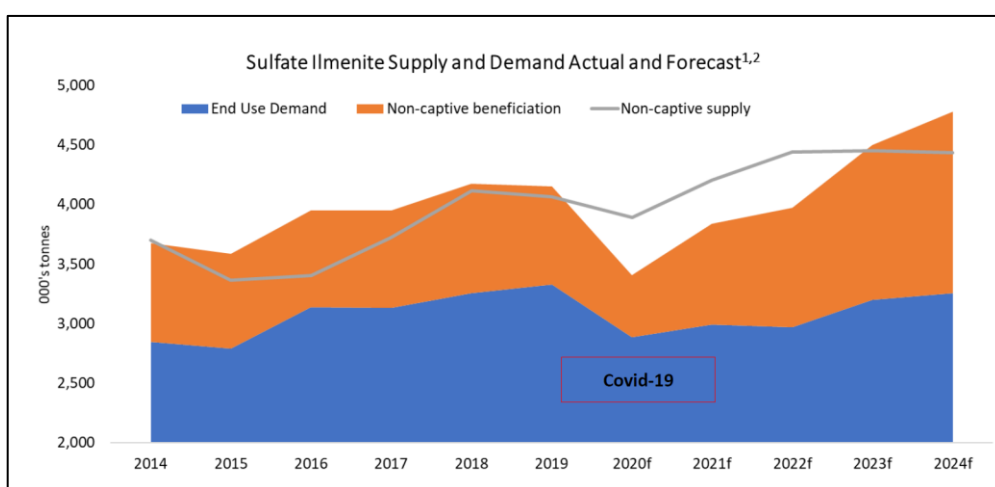
- Further good news from SFX with an announcement that binding documents with Yansteel have been signed, effectively cementing a 50:50 JV over the world class Thunderbird mineral sands project. Finalisation of the JV, which involves Yansteel making its A\$130.1m payment, is expected “over the coming weeks”.
- Interestingly, SFX and debt providers, Taurus, have agreed to terminate existing financing agreements and may look to renegotiate a new debt facility. We are reassured by comments from Taurus in the SFX release that Taurus “is looking forward to considering new finance facilities for Thunderbird”.
- The previous debt package was announced over 3 years ago, so it is perhaps not surprising that both parties are looking to renegotiate a new facility. The presence of Yansteel in the JV, together with increased certainty surrounding offtake for the TiO₂ feedstock (to Yansteel itself), might also provide other debt providers with greater confidence.
- We assume that NAIF (Northern Australian Infrastructure Fund) is still supportive of an offer of A\$95m largely to fund Thunderbird infrastructure. (We note with interest that NAIF has thrown its support behind Strandline’s Coburn mineral sands project, to the tune of A\$150m).
- No change to our valuation which at \$1.52/share represents a significant premium to the current share price. It should be stressed that this is an indicative valuation only as the project’s NPV is certain to change as we obtain more details of the final feasibility study, due in 1Q21. See our December 2020 report for more details.
- We would expect progressive rerating of SFX as critical milestones are achieved. These will include finalisation of the JV and payment of the \$130.1m into a JV account, completion of the final BFS and finalisation of a debt package. It is entirely possible that we’ll see long lead orders put in place and the start of early construction works within the next few months.
- On the commodity front, we continue to marvel at the performance of ilmenite, a key input for pigment manufacture, and an important future product from the Thunderbird mine. In this note we look at the reasons behind the strength of ilmenite prices.



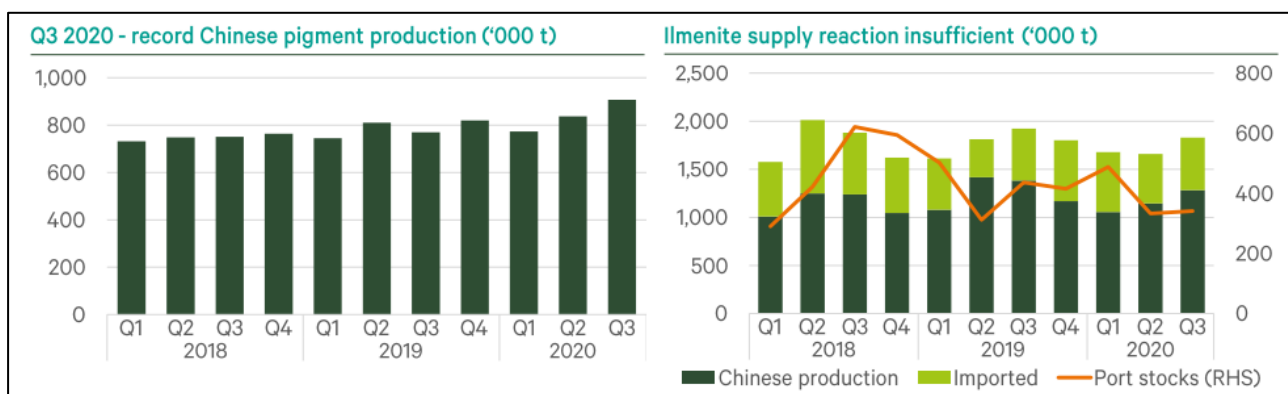
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Commodity comment: ilmenite

- As we reported in our December SFX note, we've been surprised with a dramatic increase in feedstock prices, especially ilmenite for the sulphate pigment producers where we have seen figures quoted in the range US\$250-300/t (CIF). [Note that the chart on the previous page from Ferroalloy.net is US\$/tonne on a CIF China basis].
- Demand in China post COVID has been very strong and from what we read in the trade press, inventories are low.
- TZMI's view remains of an emerging supply gap in feedstock within the next 2-3 years, as illustrated in the following chart. Demand is underpinned by the sulphate producers, but demand from the new chloride pigment producers in China is growing rapidly. This should be positive for Yansteel's plan to produce Ti-rich slag from Thunderbird LTR ilmenite.



- Kenmare Resources (KMR LN, not covered) has recently presented insights into the ilmenite market following the company's solid 1H2020 profit release. In this result the company reported a 28% increase in received ilmenite prices (at US\$217/t) over the previous year.
- As with most in the mining space, KMR seems to have misjudged the impact of COVID, where they expressed a view of a 'more subdued H2 2020'. In a more recent update the company now focuses on the emerging supply gap which follows record Chinese pigment production, and presents a more upbeat tone.



- KMR comment that positive market conditions have been driven by both strong Chinese pigment output and, surprisingly, lower domestic ilmenite production. The recent price spike seems to be in response to persistent low inventory positions (as measured by port stocks).
- Our current Thunderbird model, based on the BFS Update (from July 2019), has around 30% of total revenue derived from unroasted ilmenite and ilmenite concentrate. These products were priced, we assumed, at well under US\$100/t due to relatively low TiO₂ contents.
- However, the company is now considering the production of a low-temperature-roast (or LTR) ilmenite, which will likely deliver a product of over 50% TiO₂ and was proposed in the first Thunderbird BFS. This product should trade in line with, or potentially at a premium to, 'typical' ilmenite feedstock out of Australia. Its therefore possible that ilmenite revenues could be more significant for the Thunderbird JV than we currently forecast.
- We await details from the next iteration of the BFS, due in Q1 2021.

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BSCP earned fees from a capital raising undertaken by SFX in 2019.

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Appendix 1

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