This report is intended solely for bmcfadzean@sheffieldresources.com.au

EQUITY RESEARCH

RBC Capital Markets

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September 11, 2019

Sheffield Resources Limited

Remain constructive on Thunderbird; funding still the key risk

Our view: The A$18m share placement provides funding through the strategic partner process. We remain constructive on the Thunderbird Mineral Sands Project (RBCe P/NAV ~0.4x) given its long-life, low-cost position in an industry where we expect fundamentals to tighten in the medium term. Finalising funding remains (in our view) the key risk from here.

Key points:

Placement provides funding through the strategic partner process

SFX has announced receipt of commitments to raise up to A$18m (before costs) via two tranches of share placements. The placement is timely given the tight cash position at the end of FY19 (A$2.7m). It allows SFX to withdraw from the US$10m bridging loan facility with Taurus (announced during the June quarter) and leaves the company funded to continue the search for a strategic partner.

Constructive on Thunderbird

We maintain our constructive view on the Thunderbird Mineral Sands Project and have incorporated the updated BFS parameters into our estimates. The project continues to provide long-life, low-cost exposure to the mineral sands space; a market we see as experiencing tightening fundamentals over the medium term due to low levels of investment. The BFS update has removed the ilmenite processing facility (lowering capital requirements) and prioritises zircon production, whilst also lowering unit costs. Furthermore, the update has confirmed that offtake has been secured for 100% of Stage 1 product revenue.

Funding the key risk

However, funding remains the key risk for SFX. The A$18m placement alleviates some of the time pressure associated with the strategic partner process. Taking on a strategic partner should reduce the overall equity funding requirement (100% of the project ~A$140m) which may be more palatable for investors. It could also provide additional credibility to the project. The equity component is part of the conditions precedent for the drawdown of the US$175m Taurus facility, which provides added risk. Further, SFX expects that revised financing agreements (following the BFS update) will be completed in 2019; another point of caution.

Earnings and valuation impact

We have updated our modelling for the BFS update (lower capital, lower opex and increased zircon production), incorporated the A$18m placement, and the FY19 results. We revise timing of equity funding to the 2020 June quarter (9 months), resulting in first production at the end of FY22. Whilst NAV is boosted on the updated project parameters, this is offset by increased dilution from the equity raise (lower share price). We maintain a A$1.25 price target and Outperform, Spec. Risk rating.

Outperform

Speculative Risk

ASX: SFX; AUD 0.43

Price Target AUD 1.25

WHAT'S INSIDE	
☐ Rating/Risk Change	☐ Price Target Change
☐ In-Depth Report	☑ Est. Change
☐ Preview	☑ News Analysis

Scenario Analysis*

Downside Scenario	Current Price	Price Target	Upside Scenario
0.25	0.43	1.25	1.75
↓ 42%		↑ 191%	↑ 307%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	260.0	Market Cap (MM):	112
Dividend:	0.00	Yield:	0.0%
NAVPS:	1.27	P/NAVPS:	0.34x
		Cash ROE:	(2.2)%
		Tr. 12 ROE:	(2.20)%
		Avg. Daily Volume:	394,073

Priced at ASX close on 11 September 2019

RBC Estimates

FY Jun	2018A	2019A	2020E	2021E
EPS, Adj Basic	(0.01)	(0.04)	(0.01)	(0.02)
Prev.		(0.01)	(0.02)	(0.04)
P/AEPS	NM	NM	NM	NM
CFPS, Adj Basic	(0.01)	(0.02)	(0.01)	(0.02)
Prev.		(0.01)	(0.02)	(0.04)
P/ACFPS	NM	NM	NM	NM

All values in AUD unless otherwise noted.

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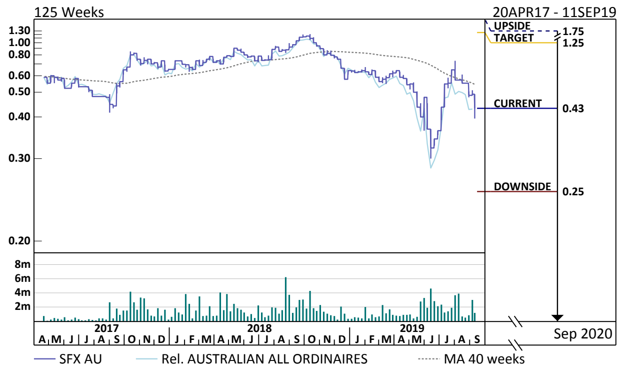
Target/Upside/Downside Scenarios

Exhibit 1: Sheffield Resources Limited



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Price target/base case

We set our 12-month price target using a NPV methodology and a 10% discount rate, and a 1x multiple (now that risks around permitting have been removed). Our asset-level valuation is c.A$430m (post-tax), while assuming existing A $340m debt facilities and a further A$140m equity financing results in a rounded price target of A$1.25/share.

Upside scenario

We are able to derive an upside value of A$1.75, in the event that a lower equity contingent is required (A$75m), at a higher share price (10% discount to the current trading range), in addition to 10% higher realised commodity prices through the first c.5 years of the project (equivalent to Stage I).

Downside scenario

As a downside, we consider the potential dilution to equity shareholders of a larger capital requirement, at a larger discount to the current share price (c.A$200m @ 25% discount), and a further 12-month delay to first production, which derives a value of A$0.25.

Investment summary

Sheffield Resources (ASX: SFX) provides an investment vehicle which is exposed not only to the global demand/consumption thematic (given zircon/TiO_2 use in industrial/commercial applications) but also the transition toward growth. With many miners/producers fully priced (on our estimates) based on current commodity price, volume, and earnings estimates, we believe the time is right to consider developers positioned to deliver material volume growth as a driver of earnings and share price.

The Thunderbird project is ideally located in a low-risk jurisdiction (WA), while project metrics are in our view attractive (c.19% IRR post-tax), and a large contingent of the funding is already in place. Offtake for the majority of Stage I production has been secured (reducing marketing risk), while the engagement of well-credentialed contractor GR Engineering mitigates execution risk, as does the completion of all major approvals.

Potential catalysts

Over the next 12 months, we see the following headlines as having potential to move the share price:

- Funding solution for remaining (minimum) c.A$140m of required capital component, through either a strategic sell-down or partnership
- Continued early works and engineering to assist in de-risking the project
- Any further offtake announcements

Key risks

Outside generic mining risks (commodity and fx), we see the following company-specific elements for SFX:

- **Funding.** Additional funding via equity issuance could be dilutive, dependent on appetite for participation, although there may also be other funding solutions under consideration (strategic partners, JV, etc.).
- **Timing of final approvals and funding** is clearly important, with ongoing delays having a potential impact on valuation, although key permitting and approvals are now complete.

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Remain constructive on Thunderbird Project, funding the key risk from here

We maintain a constructive view on the Thunderbird Mineral Sands Project in Western Australia. The project is well positioned in a market we believe will experience tightening fundamentals over the medium term, given a lack of investment in the mineral sands space in recent times. The BFS update continues to detail a long-life operation (~37 years) and very competitive cost position (1st quartile in terms of revenue: cost ratio; see Exhibit 3 below).

Exhibit 2: Thunderbird is well positioned on the Industry cost curve (on a revenue:cost basis)

Source: Company reports, TZMI

Funding solution remains the focus

In our view, the key for investors in the near term is a resolution to the search for a strategic partner and the ultimate finalisation of the project funding parameters. As noted before, any investment from a strategic should reduce the overall size of the equity funding requirement for SFX, which may be more palatable for investors (RBCe 100% equity funding requirement: A$140m). Securing a strategic partner could also provide additional credibility to the project.

Funding remains the key risk to our view – we remain constructive on the Thunderbird Mineral Sands Project. The more drawn out the process of finding a strategic partner becomes, the greater the risks to overall funding. The equity funding component is part of the conditions precedent to the drawdown of the US$175m (~A$240m) Taurus facility, and could also impact its ability to drawdown on NAIF funding (A$95m – requires that "alternative funding sources are secured"). Furthermore, following the change of project scope given the BFS Update, SFX is anticipating revised financing agreements to be concluded in 2019. We also exercise caution around the revised agreements.

Earnings and valuation impact

We have made adjustments to our modelling including: i) reflecting the updated BFS parameters which increase zircon production, lower cost and up-front capital, ii) reflection of the A$18m share placement and iii) the 2019 financial results released today. We have adjusted timing, now assuming equity funding in the 2020 June quarter (time to resolve the strategic partner process). As a result, project timing is pushed out, now assuming first production at the end of FY22. Our NAV for Thunderbird is relatively unchanged as higher project valuation is offset by increased dilution from the required equity raise given a lower share price. Therefore, we maintain our A$1.25 price target with an Outperform, Speculative Risk rating.

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Placement provides funds to continue the strategic partner process

Sheffield Resources Limited (SFX) has announced receipt of commitments to raise up to A$18m (before costs) via two tranches of share placements. The placement is timely given the tight cash position at the end of the prior quarter (~A$2.7m) and the expected cash outflows during the September quarter (~A$2.4m). Further, the placement will allow the company to withdraw from the US$10m bridging facility loan with Taurus Mining Finance, announced during the 2019 June quarter.

The placement helps sustain SFX's cash position whilst it continues to pursue a strategic partner for its Thunderbird Mineral Sands Project in Western Australia. We believe this remains a key focus for investors in terms of project de-risking, whilst any project or corporate level investment by a strategic should reduce the overall size of the equity funding requirement for SFX which may also be more palatable for investors. Engaging a strategic partner may also provide additional credibility to the project – one on which we continue to hold a constructive view.

The A$18m placement will involve two tranches (issue price of A39c/share reflects a ~20% discount to close of trading on 5 September 2019):

i) Tranche 1: ~26.5m shares to raise ~A$10.4m using SFX's existing placement facility.

ii) Tranche 2: ~19.6m shares to raise ~A$7.6m, subject to shareholder approval at a general meeting scheduled for mid-October 2019.

BFS update provides incremental upside to Thunderbird Project

SFX recently released the results of its BFS update. At a high level, the update detailed the removal of the ilmenite processing facility (i.e. ilmenite and roasting facility), instead prioritising zircon production over the LOM (LOM average now increased to 202ktpa from 145ktpa (2017 BFS). As a result, the total Stage 1 capital requirement was lowered by A$71m (or 15%) to A$392m.

The update also detailed an increase in mining capacity and capacity at the Wet Concentrate Plant (WCP) by some ~38%, which has led to lower unit costs (LT average ~A$9.50/t ore mined vs ~A$11.50/t ore mined previously). Furthermore, the update confirmed that offtake has been secured for 100% of Stage 1 product revenue.

Exhibit 3:

	BFS Update	Prior discloures
Project capital	A$392m	A$463m
LTR & Ilmenite Process Circuit	Removed	Included
Processing rate	1,085kt/hr	788kt/hr
Average Zircon production	202ktpa	145ktpa
LT unit cash costs	~A$9.50/t ore mined	~A$11.50/t ore mined
Mine life	37 years	42 years

Source: Company Reports

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Production and financial summary

Exhibit 4: RBCe price, fx, volume, earnings and valuation estimates

Sheffield Resources	ASX: SFX		**Price Target:** A$1.25	**Rating:**	**Outperform**
RBC Capital Markets	No Shares (m):	627.6		Risk Specifier:	Speculative Risk
Paul Hissey +61 3 8688 6512	Liquidity (M $/month)	1.9	Share Price ($/sh): $0.43	Implied Return (%):	190.7%
Alexander Hislop +61 3 8688 6551	Market Cap. (M $):	$113	2020E Dividend ($/sh): $0.00	Implied Total Return (%):	190.7%
Paul Kaner +61 3 8688 6519	Enterprise Value (M $)	$90	NAV ($/sh): $1.27	P/NAV (x)	0.34x

Priced at: 11/09/19 — Year to 30 June — All AUD unless noted

RATIO ANALYSIS		FY18	FY19	FY20E	FY21E
Earnings - Adjusted	$/sh	-$0.01	-$0.04	-$0.01	-$0.02
P/E Multiple	x	-62.3x	-10.7x	-71.6x	-17.4x
CFPS (CFO)	$/sh	-$0.01	-$0.02	-$0.01	-$0.02
P/CF Multiple	x	-44.4x	-18.3x	-71.6x	-17.4x
FCFPS (CFO-CFI-CFF)	$/sh	-$0.07	-$0.14	-$0.02	-$0.37
FCF Yield	%	(15.2%)	(33.5%)	(4.4%)	(85.4%)
Dividends Per Share	$/sh	$0.00	$0.00	$0.00	$0.00
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%
LTD/(Total Cap)	%	0.1%	1.7%	1.7%	1.7%
INCOME STATEMENT		**FY18**	**FY19**	**FY20E**	**FY21E**
Revenue	M $	$0.0	$0.0	$0.0	$0.0
Operating Costs	M $	-$4.7	-$10.3	-$4.1	-$5.6
EBITDA	**M $**	**-$4.7**	**-$10.3**	**-$4.1**	**-$5.6**
D&A	M $	$0.0	$0.0	$0.0	$0.0
EBIT	**M $**	**-$4.7**	**-$10.3**	**-$4.1**	**-$5.6**
Financing Income/Expenses	M $	$0.4	$0.1	$0.3	-$9.9
EBT	**M $**	**-$4.3**	**-$10.3**	**-$3.8**	**-$15.5**
Taxes	M $	$2.7	$0.0	$0.0	$0.0
Net Income - Adjusted	**M $**	**-$1.6**	**-$10.3**	**-$3.8**	**-$15.5**
Adjustments	M $	$0.0	$0.0	$0.0	$0.0
Net Income - Reported	**M $**	**-$1.6**	**-$10.3**	**-$3.8**	**-$15.5**
Weighted average diluted shares	M	229.0	254.0	627.6	627.6
CASH FLOW STATEMENT		**FY18**	**FY19**	**FY20E**	**FY21E**
Cash Flows from Operating Activities					
Net Income	M $	-$1.6	-$10.3	-$3.8	-$15.5
D&A	M $	$0.0	$0.0	$0.0	$0.0
Taxes Paid	M $	$0.0	$0.0	$0.0	$0.0
Non Recurring/Other/Exploration	M $	-$0.6	$4.3	-$0.4	$0.4
Operating Cash Flow	**M $**	**-$2.2**	**-$6.0**	**-$4.2**	**-$15.1**
Changes in Working Capital	M $	$0.0	$0.0	-$0.4	$0.4
Net Operating Cash flow	**M $**	**-$2.2**	**-$6.0**	**-$3.8**	**-$15.5**
Cash Flows From Investing Activities					
Capital Expenditure	M $	-$10.7	-$28.1	-$8.0	-$215.0
Other (excl exploration)	M $	$0.0	$0.0	$0.0	$0.0
Net Investing Cash Flow (incl. stripping)	**M $**	**-$12.7**	**-$30.6**	**-$8.0**	**-$215.0**
Cash Flows From Financing Activities					
Equity Issues (net of costs)	M $	$29.9	$16.3	$158.0	$0.0
Net Drawdown/(Repayment)	M $	$0.0	-$0.2	$111.9	$246.5
Dividends, Interest & Other	M $	-$0.1	-$0.0	-$0.1	-$0.1
Net Financing Cash Flow	**M $**	**$29.8**	**$16.1**	**$269.9**	**$246.4**
Increase (Decrease) in Cash	M $				
Cash at End of Year	**M $**	**$23.1**	**$2.7**	**$260.8**	**$276.7**
Operating Free Cash Flow	M $	-$12.9	-$34.1	-$11.8	-$230.5
Free Cash Flow	M $	$14.8	-$20.4	$258.1	$15.9
BALANCE SHEET		**FY18**	**FY19**	**FY20E**	**FY21E**
Cash & Equivalents	M $	$23	$3	$261	$277
Other Current Assets	M $	$1	$0	$0	$0
PP&E & Mining Interests	M $	$0	$4	$12	$227
Other Long Term Assets	M $	$68	$75	$333	$349
Total Assets	**M $**	**$68**	**$80**	**$346**	**$577**
Current Liabilities	M $	$7	$5	$117	$363
Long Term Debt	M $	$0	$2	$2	$2
Other Long Term Liabilities	M $	$0	$0	$0	$0
Total Liabilities	**M $**	**$7**	**$7**	**$119**	**$365**
Shareholder Equity	M $	$62	$73	$227	$211
Total Liabilities & Shareholder Equity	**M $**	**$68**	**$80**	**$346**	**$577**
FINANCIAL RATIOS		**FY18**	**FY19**	**FY20E**	**FY21E**
Return on Equity (ROE)	%	(2.6%)	(14.1%)	(1.7%)	(7.3%)
Return on Capital (ROIC)	%	(2.3%)	(12.9%)	(1.1%)	(2.7%)

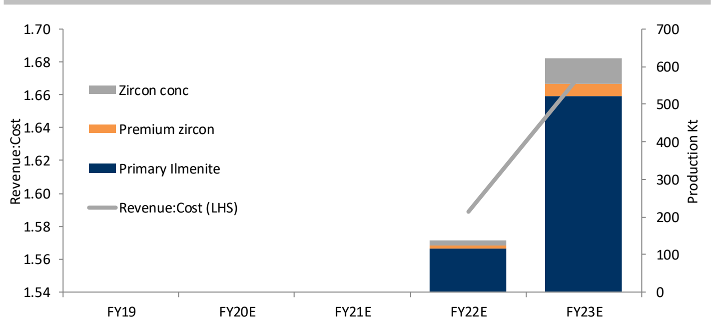
PRICES & EXCHANGE RATES		FY18	FY19	FY20E	FY21E	LT - 2023E
Exchange rate	AUD:USD	0.77	0.72	0.67	0.67	0.75
Zircon price (realised)	US$/t	1282	1350	1350	1350	1400
Primary Ilmenite (realised)	US$/t	183	102	102	102	102

CAPEX BREAKDOWN		FY18	FY19	FY20E	FY21E	FY22E
Sustaining Capex	M $	0.0	0.1	0.0	0.0	0.0
Expansionary Capex	M $	10.7	28.0	8.0	215.0	155.0
Exploration	M $	2.0	2.5	0.0	0.0	0.0
Total	M $	12.8	30.6	8.0	215.0	155.0

ATTRIBUTABLE RESERVES & RESOURCES	Ore (mt)	VHM (mt)	% VHM	Zr. %	Ilm. %
Thunderbird					
Proven/Probable Reserve (P&P)	680.6	76.8	11.3	7.7	27.4
Measured/Indicated (M&I) >7.5% VHM	860.0	108.0	12.6	7.5	27.7
Measures/Indicated/Inferred	1050.0	127.0	12.2	7.6	27.0
Eneabba					
Measures/Indicated/Inferred	3996.0	58.0	3.6	12.0	62
McCall's					
Measures/Indicated/Inferred	3650.0	50.4	1.4	5.1	78.5

REVENUE BY PRODUCT		FY18	FY19	FY20E	FY21E	FY22E
Zircon	A$m	-	-	-	-	12.54
Zircon conc	A$m	-	-	-	-	14.12
Primary Ilmenite	A$m	-	-	-	-	17.01
Revenue/cost	**x**	-	-	-	-	**1.59**
Company Guidance						

PRODUCTION VOLUMES AND COSTS



NET ASSET VALUE	DR (Real %)	($m)	A$/Sh	NAV (%)
Operating Value	Share count (m) post funding:		627.6	
Thunderbird (post tax)	10.0%	$649	$1.03	100%
Total operating assets	**10.0%**	**$649**	**$1.03**	**100%**
All exploration		$50	$0.08	
Debt, reclamation etc..		-$112	-$0.18	
Cash		$261	$0.42	
Group, Corporate and Unallocated		-$53	-$0.08	
Other		$0	$0.00	
Total Net Asset Value		**$795**	**$1.27**	
P/NAV			**0.34x**	

Source: Company reports, RBC Capital Markets estimates, FACTSET

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Valuation

Our valuation assumes the base case outlined in the bankable feasibility study, with additional conservatism around capital expenditure and timing to project completion. In deriving our price target, we assume a 10% discount rate in setting an asset-level, post-tax NAV. While SFX has agreed to terms on a range of debt funding, we estimate an additional A$175m in capital shortfall required to complete construction and provide working capital up to and through commissioning. Our price target of A$1.25 supports our Outperform rating. Our Speculative Risk qualifier is warranted given the funding hurdle that lies ahead and the potential uncertainty around any potential sell-down, equity raise, or other alternative funding methods.

Risks to rating and price target

Critical risks to our rating and price target include: commodity price and foreign exchange; potential dilution around funding solutions; timing of project development and potential resolution to both funding and the existing Native Title approvals. Risks around product off-take should be mitigated given that a significant portion of projected revenue is under either binding or non-binding agreements, while project construction will be delivered under a fixed-price EPC contract with an established, reputable operator (GR Engineering).

Company description

Sheffield Resources (ASX: SFX) is an Australian-listed resource company engaged in the evaluation and development of the Thunderbird project near Derby in Western Australia. The project has completed a bankable feasibility study and is currently pending final Native Title approvals, along with potential financing solutions. We forecast that Thunderbird will be able to produce both zircon and TiO_2 products for in excess of 40 years, after an initial capital commitment of c.A$470m with production starting in 2021.

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Required disclosures

Non-U.S. analyst disclosure

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An analyst involved in the preparation of this report has visited material operations of Sheffield Resources Limited, and more specifically, the head office or other administrative offices of Sheffield Resources Limited.

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An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Top Pick (TP): Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

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The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

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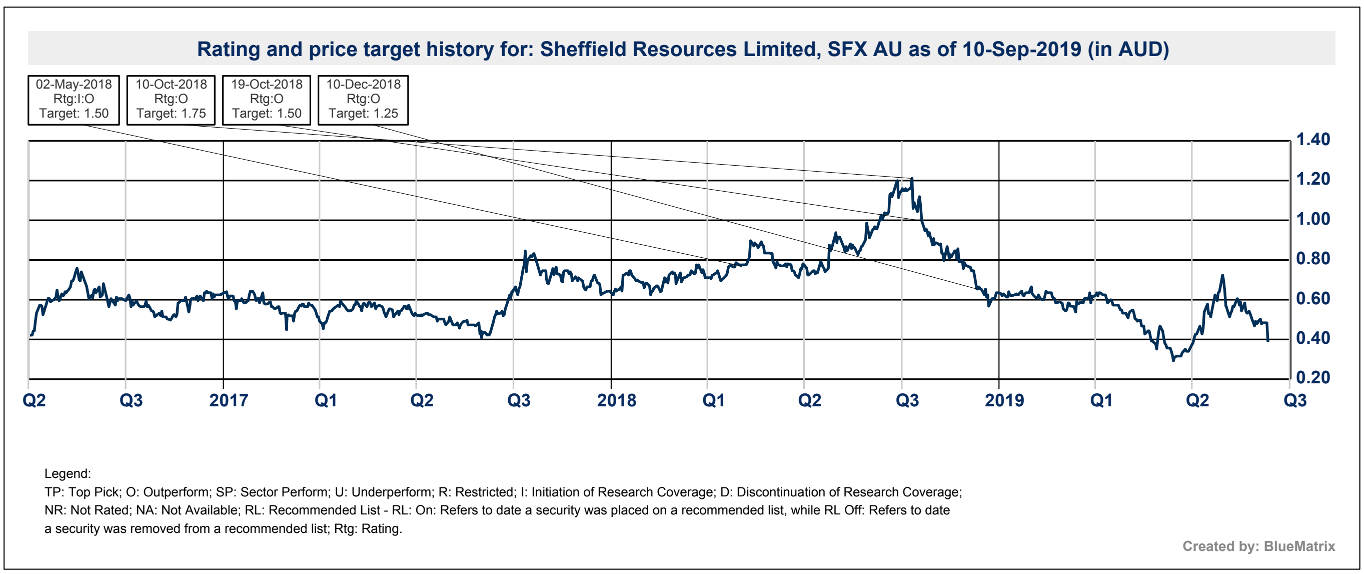
Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm''s own rating categories. Although RBC Capital Markets'' ratings of Top Pick/ Outperform, Sector Perform, and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Distribution of ratings
RBC Capital Markets, Equity Research
As of 30-Jun-2019

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**772**	**53.57**	**215**	**27.85**
HOLD [Sector Perform]	**588**	**40.80**	**114**	**19.39**
SELL [Underperform]	**81**	**5.62**	**2**	**2.47**



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

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For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at https://www.rbcinsightresearch.com or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

Sheffield Resources Limited

Valuation

Our valuation assumes the base case outlined in the bankable feasibility study, with additional conservatism around capital expenditure and timing to project completion. In deriving our price target, we assume a 10% discount rate in setting an asset-

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level, post-tax NAV. While SFX has agreed to terms on a range of debt funding, we estimate an additional A$175m in capital shortfall required to complete construction and provide working capital up to and through commissioning. Our price target of A $1.25 supports our Outperform rating. Our Speculative Risk qualifier is warranted given the funding hurdle that lies ahead and the potential uncertainty around any potential sell-down, equity raise, or other alternative funding methods.

Risks to rating and price target

Critical risks to our rating and price target include: commodity price and foreign exchange; potential dilution around funding solutions; timing of project development and potential resolution to both funding and the existing Native Title approvals. Risks around product off-take should be mitigated given that a significant portion of projected revenue is under either binding or non-binding agreements, while project construction will be delivered under a fixed-price EPC contract with an established, reputable operator (GR Engineering).

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