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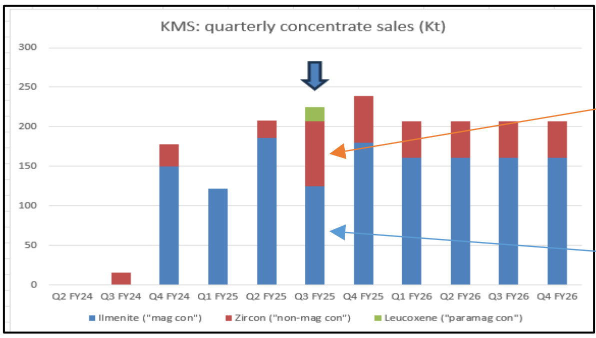
SHEFFIELD RESOURCES LTD (SFX AU, $0.175/sh. Market cap A$69.1m)

Low capex expansion to take Thunderbird to a "Top 2" zircon producer globally
March quarterly: Record zircon sales translates to strong positive operating cashflow

As previously reported we were encouraged to see a strong rebound in zircon sales for the March quarter. This has translated to a **$32m positive operating cashflow for the quarter**, in line with our recently revised estimates.



In the March quarter, KMS sold more zircon concentrate that it has sold to Dec 24.

Ilmenite shipments limited in the quarter by port capacity during the quarter. More capacity is currently under construction.

- **At 82kt zircon sales, the March quarter was not only a record for zircon sales, it was 22% more than had been sold over the preceding 4 quarters**. This is a remarkable turnaround. Costs (on a P&L basis) were up slightly, in line with the top end of guidance. **Our forecasts continue to show a positive operating EBITDA going forward.**
- Kimberley Mineral Sands (KMS, SFX 50%) is steadily breaking into the large Chinese market with a new zircon rich product. These impressive sales suggest that the product is gaining acceptance from the customers. The decision to proceed with an expansion suggests to us that KMS marketers are confident the product can be sold. KMS's customer base has expanded to 10-11 individual off-takers, with 6 or 7 currently taking product. We understand the company also has one prospective customer outside China.
- As we discuss below, the mine's zircon concentrate production is now forecast to grow to around 220-240ktpa from mid 2027. Putting this into perspective, the Thunderbird mine is now positioned to become the **second largest supplier of zircon globally by 2028**. This will address an inevitable decline in zircon supply from ILU's Jacinth mine (which is to close next year) and RIO's Richards Bay operation.
- On top of this we hear that zircon demand in China has started to rebound, possibly in response to economic stimulus packages. The negative, of course, are the tariff wars. China is a sizeable exporter of sanitaryware and decorative tiles to the US. However, the bulk of zircon demand (and particularly "standard" grade – KMS's dominant product) is absorbed by Chinese domestic demand.

Thunderbird expansion plans

- The highlight in this release were details of the **revised mine/processing plan designed to deal with the oversize issue**.
- Importantly the company states that the upgrade is "**not expected to require material capital expenditure** or require significant working capital to implement". **This has validated our long-held view that KMS should not require a significant injection of capital to achieve BFS production levels.**
- The expansion is forecast to see a **significant reduction of unit costs** on a "per tonne" basis.

Earnings and valuation

- Our near-term earnings have edged up. However, our valuation for SFX has reduced, now 73c/share with Stage 2 risked at 25% (previously unrisked) and 50c/share taking out Stage 2 entirely (the latter an unlikely proposition we believe).
- We remain of the view that Thunderbird will emerge as one of the world's key new sources of zircon, assisted by a relatively high grade, +30 year mine life orebody, which can be expanded to meet global demand. The mineral sands industry is mature and at least one major mine is facing closure. We see a +10% decline in global zircon production into 2028 as being supportive for long term volumes and prices.

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Business improvement plan – "oversize issue" to be remedied with a low capex expansion to a 16Mtpa mining rate

SFX has in earlier announcements discussed a major study into re-engineering of the Thunderbird mine to overcome the unexpected "oversize issue" which has seen ore flows to the wet plant some 25% lower than planned. This has been somewhat offset with a positive grade call for the finer material which hits the plant. This issue we've discussed at length in earlier reports.

KMS management has succeeded in developing a solution to in-pit issues in order to increase the production of concentrate. This study is now largely complete and has been hugely successful. SFX have just announced that when implemented the Stage 1 mine and plant should have the capacity to produce 10% more heavy mineral concentrate than was forecast in the BFS. **Moreover, this can be achieved with negligible capital investment**.

Importantly SFX state that KMS has undertaken a series of trials that have successfully demonstrated that the existing fleet of dozers and DMU could sustain a mining rate equivalent to 16mtpa. KMS has developed an operating plan to progressively increase mine production to 16mtpa by the second half of 2026. Simultaneously KMS are putting in place an implementation plan to maximise throughput at the process plant.

Paraphrasing elements of this plan from yesterday's release:

- Introduction of a **new drill and blast contractor for waste mining** (by mid 2025). With the benefit of hindsight, it now looks like underperformance from the waste mining contractor has been one of the key challenges for the project achieving target production levels.
- This is forecast to allow an **increased mining rate to 16mtpa** without any increase in the contractor mining fleet.
- **Minor modifications to the DMU screens**. It is now quite clear that the existing DMU is performing to expectations and increased capacity can now be introduced.
- **Increased feed rate to the plant** to result in concentrate production of 900 – 950Ktpa of ilmenite concentrate (currently around 650Ktpa, so up over 40%) and 220 – 240Ktpa of zircon concentrate (ca. 160Ktpa, also +40%) by Q1 FY27. This more than offsets the "oversize issue" and is forecast to produce concentrate at roughly 10% above BFS design rate. This is an impressive result.
- SFX stress that there is **sufficient capacity at the Port of Broome**, which is currently being enhanced with the new Kimberley Marine Supply Base facility currently under construction.
- The company states:
  - The above proposed changes are expected to result in a **reduction in the unit cost of production**
  - **The expansion is not expected to require material capital expenditure** or require significant working capital to implement.
- We are forecasting that **cash costs on a per tonne of concentrate basis should decline** from current levels (under A$300/t) to a range of A$240-250/t as the expansion to 16Mtpa is implemented.
- As shown in our earnings table, production is forecast to grow from around the 160ktpa mark for zircon concentrate to around 240Ktpa, and ilmenite concentrate will increase from current levels of around 650Ktpa to over 900Ktpa.
- SFX have also announced **that Stage 2 of Thunderbird is likely to be deferred** until later in the current decade. This comes as no surprise. As we discuss below, we had already assumed Stage 2 will come into production in mid 2030 at a rate of 24Mtpa, as described in the 2022 study. We suspect that there may be a number of other options available to KMS, where we might see several incremental expansions, ultimately targeting PFS production levels of zircon in concentrate at around 300ktpa and ilmenite over 1Mtpa. Much will depend on the demand side of the equation in 2030.

KMS could become a "Top 2" global zircon producer from 2027/28.

Based on our estimates, this expansion should have KMS as one of the world's largest zircon producers. Expressed on a pure zircon basis, and should the plan unfold as SFX has described, Thunderbird will be producing around 150Ktpa of contained zircon. We are forecasting continuing decline in zircon production from two of the major producers, Iluka and RIO's Richard's Bay operation. Estimates for the top 6 global zircon producers (expressed on a pure zircon basis) for 2028 are now as follows:

1. Tronox: around 220Ktpa mainly from Namakwa Sands, Murray Basin and KZN.
2. **Kimberley Mineral Sands: around 150Ktpa from Thunderbird.**
3. Richards Bay Minerals: around 100-120Ktpa.
4. Iluka: around 100Ktpa with the closure of Jacinth in 2027.
5. Eramet/Grand Cote: around 60Ktpa.
6. Kenmare: around 60Koz.

Indonesia is a relatively large producer of zircon, but from quite small operations. It is uncertain as to what the recent royalty increases will have done to this capacity. Production is also slated from the Murray Basin, but none of these projects are as yet financed. Most are not yet fully permitted.

Quarterly production – record revenues generate strong operational cashflow

			Reported	*Forecast*		
Thunderbird, 100% basis*		**Q2 FY25**	**Q3 FY25**	**Q4 FY25**	**Q1 FY26**	**Q2 FY26**
Ore processed (75% of mined)	Mt	2.5	2.6	2.6	2.6	2.6
Concentrate production/sales						
Ilmenite	Kt	161	149	180	186	186
Zircon	Kt	37	39	39	43	43
Zircon concentrate sales	Kt	*23*	*82*	*50*	*43*	*43*
Revenue ("P&L")	A$m	*52.1*	*86.5*	*81.2*	*74.5*	*75.8*
Revenue (Cashflow statement)		*54.3*	*91.5*			
Revenue, US$/t zircon concentrate	*US$/t*	*542*	*543*	*560*	*560*	*580*
AUD/USD		*0.62*	*0.63*	*0.62*	*0.62*	*0.62*
Operating costs ("P&L")	A$m	57.6	61.5	62.5	60.8	60.8
EBITDA ("P&L")		(5.5)	24.9	18.7	13.7	15.0
Operating cost per tonne processed (C1 basis)	*A$/t*	*26.4*	*23.6*	*24.0*	*23.4*	*23.4*
Operating cost per tonne of concentrate (C1 basis)	*A$/t*	*297*	*328*	*285*	*265*	*265*

- **Production rates**: Ore mined was up 2% to an annualised rate of 10mtpa. Concentrate production was down 6%, reflecting lower grades in the current area of the pit as waste pre-stripping advances.
- **Metallurgy**: The plant continues to perform exceptionally well, with ample spare capacity. Concentrate production was down 8% on guidance driven by the grade issue and unscheduled maintenance.
- **Sales**: As previously reported, March was a bumper quarter, with zircon sales up over 250% to 82Kt driven by an expanded customer base and strong interest from new and existing customers. Ilmenite shipments were lower than expected driven by KMS's focus on higher value zircon sales and due to port closure at the end of the quarter. This is no more than a timing issue.
- **Costs**: The P&L cost base was a little higher than we'd expected at $61.5m for the quarter, up 4% on last quarter. Guidance has been $55-60m.
- **Cash and cashflow statement**: There were a number of issues which saw KMS finish with a $2.8m cash balance (down from $4.7m).
    - Ca. $10m in delayed revenue from an ilmenite shipment in early April.
    - The absence of A$12m of ilmenite shipments settling a Yansteel prepayment. (Around $23m remains outstanding against this facility).
    - Double payment of quarterly debt service charge ($14.8m), a catch up from the December quarter.
    - Offsetting this, capex of $5.6m was a little lower than our expectation.

- Ordinarily, we'd be a bit concerned with cash levels as they are. There was some catch up during the quarter and clearly partner Yansteel is able to assist in supporting working capital to help flatten out very lumpy cashflows.
- SFX itself finished the quarter with a cash balance of $7.8m.

Update on the KMS balance sheet from the webinar

- In today's webinar a question was asked about the company's debt position and debt repayments. As a reminder, KMS has a US$110m debt facility with Orion and A$160m with NAIF.
- The first of the Orion debt repayments of US$11m is due by the end of June 2025. Our forests suggest that this repayment can be accommodated by project cashflows. Repayments of the NAIF facility do not start until end 2027.
- The next (of a further 5) repayments are more arduous, averaging around US$20m/6 month period to the end of 2028. In our cashflow assumptions, we assume that the repayment schedule is modified to reflect the delayed ramp up schedule for the mine. We assume that the repayments will be back-ended to take advantage of the strong cashflow forecast to emerge from the 16Mtpa expansion.
- It should be remembered that JV partner Yansteel has been happy to fund working capital shortfalls for the project during ramp-up. We see no reason as to why the company wouldn't continue to support KMS's balance sheet.

SFX valuation

We have taken a hard look at our SFX valuation. Previous estimates have seen our NPV_8 up at around the $1.20/share level, but this had taken 100% probability of Stage 2 of Thunderbird going ahead. Our current valuation incorporates the new Stage 1 expansion and applies a 25% probability to Stage 2 going ahead. Key elements to our new valuation include the following:

- Zircon concentrate prices increasing by 16% in A$ terms from 2024 levels to 2028. This we think is plausible given likely reductions in zircon supply as major mines contract or close.
- Increasing concentrate production (by some 42-44%) into 2028 as mining rates increase from 10 to 16Mtpa.
- A 12-14% reduction in unit costs as production ramps up to 16Mtpa.
- 8% real discount rate.

Our new valuation for SFX's 50% equity in KMS is as follows:

Scenario 1 (our preferred valuation)
$0.73/share assuming a 100% valuation for the 16Mt Stage 1 expansion and with a 25% risked value for a Stage 2 expansion to 24Mtpa from 2030.

Scenario 2
$0.50/share assuming the Stage 2 expansion does not occur.

We have yet to see a new mine plan for the 16Mtpa expansion but we remain of the view that an expansion beyond 16Mtpa is justified, and a proportion of that value should be included in our SFX "base case" value.

Looking at earnings and cashflow multiples, the move to higher production levels is forecast to result in strong earnings improvements into 2027, 2028 and beyond. Base on our assumptions, we have SFX (with its 50% of KMS) and treating KMS as a subsidiary* we have SFX trading on a 0.8x EV/EBITDA multiple in 2027 and 2028.

** Our SFX forecasts are based on a 50% equity share of KMS which owns 100% of the Thunderbird project. The data displayed on the following summary 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.*

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FINANCIAL SUMMARY — Sheffield Resources Limited (SFX.AX)

Share Price	A$/sh	0.175
Shares on Issue	m	393
Market Cap (A$m)	A$m	69
Net Debt / (Cash) (A$m)	A$m	(10)
Enterprise Value (A$m)	A$m	59

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

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Profit & Loss	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Sales and Other Income	A$m	36	111	160	203	207
Expenses	A$m	(48)	(118)	(130)	(149)	(151)
EBITDA	A$m	**(12)**	**(7)**	**31**	**54**	**56**
D&A	A$m	(9)	(16)	(18)	(22)	(23)
EBIT	A$m	**(21)**	**(7)**	**12**	**32**	**33**
Financing Costs	A$m	(19)	(18)	(13)	(12)	(9)
Tax	A$m	-	-	-	-	-
NPAT	A$m	**(40)**	**(21)**	**(1)**	**20**	**25**

Cashflow	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Cash From Operations	A$m	(29)	5	31	54	56
Interest	A$m	(13)	(18)	(13)	(12)	(9)
Tax	A$m	-	-	-	-	(10)
Working Capital	A$m	-	(3)	-	-	-
Net Cash From Operations	A$m	**(42)**	**(15)**	**17**	**42**	**38**
Capex	A$m	(46)	(8)	(6)	(5)	(4)
Exploration & Other	A$m	(1)	-	-	-	-
Free Cash Flow	A$m	**(89)**	**(24)**	**11**	**37**	**34**
Borrowings	A$m	49	11	(10)	(40)	(25)
Equity	A$m	8	-	-	-	-
Dividend	A$m	-	-	-	-	-
Net Increase / (Decrease) in Cash	A$m	**(33)**	**(12)**	**1**	**(3)**	**9**

Balance Sheet	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Cash	A$m	8	1	2	(1)	8
Receivables	A$m	12	11	13	17	17
Inventory	A$m	17	25	8	10	10
PP&E	A$m	262	230	218	201	182
Other	A$m	65	61	61	61	61
Assets	A$m	**364**	**328**	**302**	**287**	**278**
Creditors	A$m	15	17	20	25	26
Borrowings	A$m	124	172	162	122	97
Provisions	A$m	15	10	10	10	10
Other	A$m	59	59	59	59	59
Liabilities	A$m	**262**	**258**	**251**	**216**	**192**
Net Assets	A$m	**102**	**70**	**51**	**71**	**86**

Liquidity & Leverage	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Borrowings	A$m	124	172	162	122	97
Net Debt / (Cash)	A$m	117	171	160	123	89
Gearing: Net Debt / (Net Debt + Equity)	%	53%	71%	76%	63%	51%
Net Debt / EBITDA	x	(9.8)x	(23.6)x	5.2x	2.3x	1.6x
EBIT Interest Cover	x	(1.1)x	(0.4)x	0.9x	2.6x	3.8x

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

Per Share Data	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Shares Out (m)	393	393	393	393	393
EPS (¢)	(10.1¢)	(5.3¢)	(0.3¢)	5.0¢	6.3¢
Dividend (¢)	-	-	-	-	-
Payout Ratio (%)	0%	0%	0%	0%	0%
Book Value (A$/share)	0.26	0.18	0.13	0.18	0.22
Operating Cash Flow (A$/share)	(0.11)	(0.04)	0.04	0.11	0.10
Free Cash Flow (A$/share)	(0.23)	(0.06)	0.03	0.09	0.09
EBITDA (A$/share)	(0.03)	(0.02)	0.08	0.14	0.14

Valuation Metrics	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
P/E (x)	(1.7)x	(3.3)x	(60.6)x	3.5x	2.8x
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV / Sales	1.6x	0.5x	0.4x	0.3x	0.3x
EV / EBITDA	(4.9)x	(8.1)x	1.9x	1.1x	1.0x
EV / EBIT	(2.8)x	(8.1)x	4.8x	1.9x	1.8x
FCF Yield (%)	-129.0%	-34.5%	16.1%	53.7%	48.7%

Operating Metrics (%)	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
EBITDA Margin	-33%	-7%	19%	27%	27%
EBIT Margin	-58%	-7%	8%	16%	16%
Net Profit Margin	-110%	-19%	-1%	10%	12%
ROIC	-10%	-3%	6%	16%	19%
Return on Assets	-11%	-6%	0%	7%	9%
Return on Equity	-39%	-30%	-2%	27%	29%
Effective Tax Rate	0%	0%	0%	0%	0%

Key Assumptions	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Non-mag Concentrate (US$/t)	688	547	578	629	706
Mag Con (US$/t)	133	132	133	133	133
Paramagnetic Concentrate (US$/t)	-	20	20	20	20
AUDUSD	0.68	0.63	0.62	0.66	0.70

Production - 100% Basis	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Mag Con (kt)	150	623	745	891	917
Non-mag Concentrate (kt)	44	155	172	237	238
Paramagnetic Concentrate (kt)	-	18	-	-	-

Valuation	A$m	Equity	Risk	A$m	A$/share
Kimberly Mineral Sands (KMS)					
Thunderbird Stage 1	698	50%	100%	349	0.89
Thunderbird Stage 2	610	50%	25%	76	0.19
Exploration	50	50%	100%	25	0.06
Debt	(324)	50%	100%	(162)	(0.41)
Cash, receivables	5	50%	100%	3	0.01
SFX					
Corporate Costs	(26)	100%	100%	(26)	(0.07)
Debt	-	100%	100%	-	-
Cash	10	100%	100%	10	0.02
Exploration	10	100%	100%	10	0.02
Total	**1,033**			**274**	**0.73**
Totsl, excl Stage 2	**423**			**198**	**0.50**
Discount rate					**8.0%**
FPO Shares					393
Options					2
Performance Rights					5
Fully Diluted SOI					**400**

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