



SHEFFIELD RESOURCES LTD (SFX AU, \$0.56. Market cap A\$198m)

Thunderbird construction now 66% complete and on budget, despite “once in a century” flood event. Commissioning scheduled for mid 2023

Investment view:

Thunderbird (SFX 50%) is a Tier 1, zircon-dominated mineral sands project located in WA, with relatively low costs (R/C of 2.5), world scale and expandable production levels and a minimum 30-40 year minimum mine life. Our project NPV₈ of A\$1.48bn (vs SFX’s revised estimate of \$1.4bn) translates to our fully funded valuation of \$2.25/share. SFX is trading on an effective EV/EBITDA of 1.5x (24/25) and 1.3x (25/26) based on its 50% share of project economics. SFX is inexpensive on all metrics

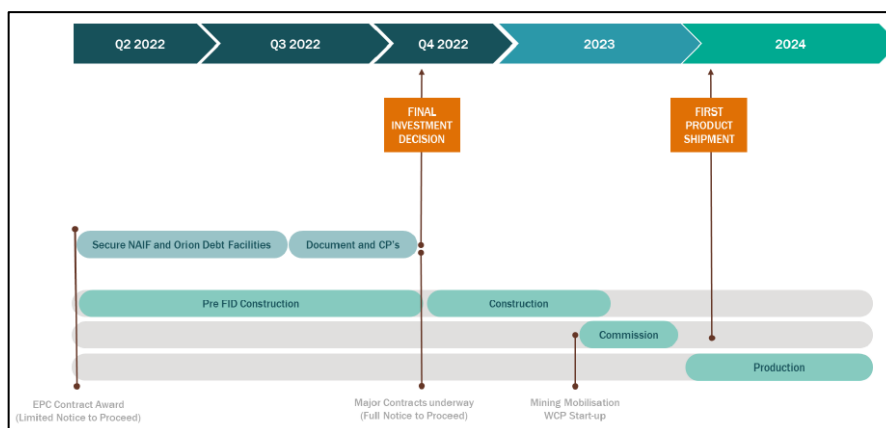
We note with interest from SFX’s December quarterly that the company is evaluating additional mineral sand opportunities, now Thunderbird is fully funded and is scheduled to move toward commissioning within the next 6 months. SFX’s Executive Chairman, a mineral sands specialist, assisted by a reconfigured board, has been successful in achieving a viable technical outcome for Thunderbird +7 years since the completion of a prefeasibility study (October 2015). Following a frustrating period for investors, we saw the introduction of an equity partner (August 2020) and a debt solution within a sector where debt solutions are challenging (April 2022). To us, SFX has a management team that is able to identify quality mineral sand opportunities to add to its Tier 1 asset base. In our view, mineral sands developments require an in-depth knowledge of this complex sector, from technical, permitting, marketing and financing viewpoints. Few companies are able to deliver these skills in our view. We await further details with much interest.

KMS draws down first NAIF/Orion debt allowing Thunderbird to move to 66% constructed

A busy December quarter from SFX’s 50%-owned Kimberley Mineral Sands (which in turn owns 100% of the Tier 1 Thunderbird zircon project). Debt drawdown from the NAIF/Orion facility has commenced.

Key elements completed during the quarter include the bulk of the civils work and the camp. The tailings storage facility and stormwater storage pond civil earthworks are now approaching completion. Process plant steel structures are being progressively installed in conjunction with process tanks and associated equipment. Civil earthworks to support the power generation facilities are now complete, enabling installation of power generation equipment during 2023.

Despite near record rainfall in the Kimberley region, we are impressed there has been no change to the Thunderbird construction/production timetable. First product shipment remains scheduled for early 1Q24. Project capex is in line with budget: again, an impressive outcome.

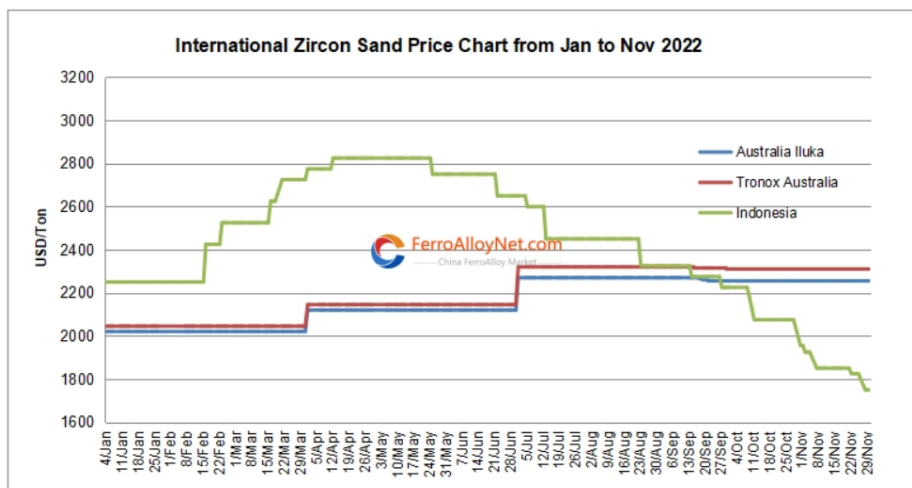


Source: SFX December 2022 quarterly report.

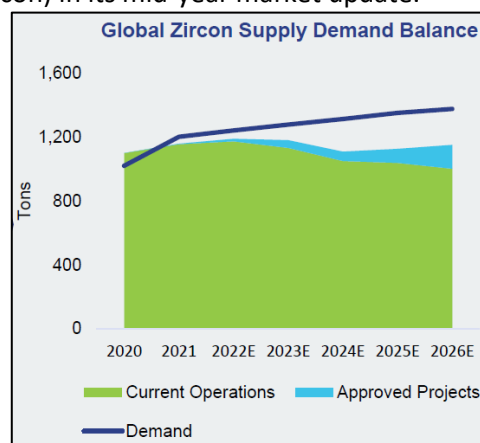
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Zircon outlook

- Thunderbird’s revenue will be dominated by zircon concentrate shipped to upgraders in Asia.
- As SFX noted in its recent quarterly, premium zircon from major producers moved from c.US\$1,350 per tonne in mid-2019 through to c.US\$2,200 per tonne during Q3 2022 and remained around this level in Q4 2022.
- Demand softness in China first observed in Q3 2022 continued in Q4 2022, primarily as a result of weakness in the property market and the impact of zero-COVID lockdowns followed by the sudden reversal of the China zero-COVID policy.
- The market in Europe weakened in Q4 2022 due to energy supply constraints. Global zircon supply remains balanced, and inventory levels remain low, limiting the pressure on prices with major producer prices expected to soften in early 2023 but remain above US\$2,000 per tonne, well above long term price forecasts.
- Our SFX valuation is based on a long term premium zircon price assumption of US\$1600/t (with AUDUSD of 0.70).
- We note that pricing of small volume/swing production from Indonesia, remains under pressure. This has not yet been reflected in long term pricing from the major suppliers.



- As we’ve discussed in past reports, the lack of new supply has left an emerging supply gap, which has been filled by swing production largely from small scale Asian producers and with the reprocessing of tailings from Iluka’s Eneabba mine. This supply gap was an important point stressed by Tronox (the world’s second largest producer of zircon) in its mid-year market update.




Source: Tronox Investor day, June 2022.

- We remain bemused that the world’s largest zircon producer, Iluka (by its own admission) will struggle to fill this emerging supply gap. It is generally believed that production from its flagship mine Jacinth will ‘fall off a cliff’ (as it was described to us by insiders recently) from 2025/26. And as shown in a recent presentation from ILU, the company has few opportunities to replace production.

	EUCLA BASIN	MURRAY BASIN	PERTH BASIN	
SELECT Preliminary Feasibility Study <i>Determine what it should be</i>	ATACAMA	EUSTON WIMMERA	SOUTH WEST DEPOSITS	
DEVELOP Definitive Feasibility Study <i>Determine what it will be</i>		BALRANALD		RESOURCE RESERVE
EXECUTE Project execution <i>Deliver the project</i>			ENEABBA REFINERY SR1 KILN RESTART	OTHER
PRODUCING Operate and maximise <i>Grow and improve</i>	JACINTH AMBROSIA		SR2 KILN CATABY	

Source: ILU Half Year presentation 2022

- The “novel” Balranald project – an underground mineral sands deposit in Victoria – is still on the drawing boards, with the DFS scheduled for completion “in late 2022”. This we believe is a rutile-dominated project, and not without risk. Balranald alone cannot fill the zircon gap.
- Otherwise, no new zircon from ILU unless the likes of Atacama and Wimmera – still at PFS level - see the light of day.
- Beyond Strandline’s new Coburn project (around 60ktpa zircon) new supply will now come from the Thunderbird project (around 150ktpa pure zircon basis, or around 8-10% of global supply). These two projects are essential to help fill the supply gap.
- There appears to be few additional projects in the medium term. The Murray Basin of Victoria should become the world’s next major source of zircon (together with titanium dioxide feedstock and monazite) but permitting issues are resulting in delays. The next most likely project is WIM Resources’ Avonbank project (ca. 150ktpa) which may be in production in 2025/26. Here the company is dealing with the final issues associated with the EES, and it is not yet funded. Other significant projects in Victoria appear to have stalled due to permitting, technical and/or funding issues (Kalbar/Fingerboards and Astron/Donald). History would suggest that Victoria production is unlikely to emerge ahead of schedule.
- Outside Australia, we see no change to the status of the massive Rio Tinto-managed Zulti South project (despite its approval back in May 2020). This remains a ‘dead duck’ in our view, and with the recent escalation of power costs (15-20%) the existing RBM Ti smelters must be under considerable cost pressure.. Permitting issues are continuing for Base Minerals’ Toliara project in Madagascar. We are not yet convinced this is a viable project.
- In summary, we see a robust zircon price environment into the ramp up of the Thunderbird project.

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FINANCIAL SUMMARY											Sheffield Resources Limited (SFX.AX)					
Share Price	A\$/sh						0.56	Target Price						2.25		
Shares on Issue	m						354	Upside / (Downside)						302%		
Market Cap (A\$m)	A\$m						198	Dividend Yield						0%		
Net Debt / (Cash) (A\$m)	A\$m						(40)	Total Return Forecast						302%		
Enterprise Value (A\$m)	A\$m						158									
Profit & Loss		Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e	Per Share Data		Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e		
Sales and Other Income	A\$m	50	174	192	184	238	Shares Out (m)			354	354	354	354	354		
Expenses	A\$m	(40)	(97)	(104)	(104)	(126)	EPS (\$)			(3.5¢)	8.4¢	11.8¢	9.7¢	15.4¢		
EBITDA	A\$m	10	77	88	80	112	Dividend (\$)			-	-	-	-	-		
D&A	A\$m	(12)	(22)	(18)	(18)	(22)	Payout Ratio (%)			0%	0%	0%	0%	0%		
EBIT	A\$m	(2)	55	70	62	90	Book Value (A\$/share)			0.64	0.72	0.84	0.94	1.08		
Interest	A\$m	(11)	(12)	(10)	(13)	(12)	Operating Cash Flow (A\$/share)			(0.01)	0.13	0.17	0.16	0.19		
Tax	A\$m	-	(13)	(18)	(15)	(23)	Free Cash Flow (A\$/share)			(0.18)	0.10	0.12	(0.05)	0.08		
NPAT	A\$m	(13)	30	42	34	54	EBITDA (A\$/share)			0.03	0.22	0.25	0.23	0.32		
Cashflow		Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e	Valuation Metrics		Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e		
Cash From Operations	A\$m	10	77	88	80	112	P/E (x)			(15.8)x	6.7x	4.7x	5.7x	3.6x		
Interest	A\$m	(11)	(12)	(10)	(13)	(12)	Dividend Yield (%)			0.0%	0.0%	0.0%	0.0%	0.0%		
Tax	A\$m	-	(13)	(18)	(15)	(23)	EV / Sales			3.1x	0.9x	0.8x	0.9x	0.7x		
Working Capital	A\$m	(3)	(6)	(2)	3	(8)	EV / EBITDA			15.2x	2.0x	1.8x	2.0x	1.4x		
Net Cash From Operations	A\$m	(3)	45	59	56	68	EV / EBIT			(79.3)x	2.9x	2.3x	2.5x	1.8x		
Capex	A\$m	(60)	(9)	(17)	(73)	(41)	FCF Yield (%)			-31.9%	18.5%	20.8%	-9.0%	13.6%		
Exploration	A\$m	-	-	-	-	-	Operating Metrics (%)		Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e			
Acquisitions / Investments	A\$m	-	-	-	-	-	EBITDA Margin			21%	44%	46%	43%	47%		
Free Cash Flow	A\$m	(63)	37	41	(18)	27	EBIT Margin			-4%	31%	36%	34%	38%		
Borrowings (repayment of borrowings)	A\$m	69	(18)	(35)	107	(41)	Net Profit Margin			-25%	17%	22%	19%	23%		
Equity	A\$m	-	-	-	-	-	ROIC			-1%	20%	26%	19%	26%		
Dividend	A\$m	-	-	-	-	-	Return on Assets			-3%	7%	10%	6%	10%		
Net Increase / (Decrease) in Cash	A\$m	5	18	6	89	(14)	Return on Equity			-6%	12%	14%	10%	14%		
							Effective Tax Rate			0%	30%	30%	30%	30%		
Balance Sheet		Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e	Key Assumptions		Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e		
Cash	A\$m	96	114	120	209	195	Non-mag Concentrate (US\$/t)			852	887	828	759	739		
Receivables	A\$m	4	14	15	15	19	Mag Con (US\$/t)			119	137	133	131	111		
Inventory	A\$m	3	9	10	9	12	NM Finisher mag (US\$/t)			115	117	113	109	104		
PP&E	A\$m	157	144	143	198	217	AUDUSD			0.70	0.70	0.70	0.70	0.70		
Other	A\$m	116	116	116	116	116	Production		Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e			
Assets	A\$m	376	397	404	548	560	Mag Con (kt)			211	654	747	759	1,058		
Creditors	A\$m	4	14	15	15	19	Non-mag Concentrate (kt)			55	179	209	213	297		
Borrowings	A\$m	145	127	92	199	158	Paramagnetic Concentrate (kt)			23	77	90	91	127		
Other	A\$m	1	1	1	1	1	Valuation		A\$m	Equity	Risk	A\$m	A\$/share			
Liabilities	A\$m	150	142	108	214	178	Thunderbird			1,467	50%	100%	734	2.07		
Net Assets	A\$m	226	255	296	333	382	Exploration			73	50%	100%	37	0.10		
							Corporate Costs			(18)	100%	100%	(18)	(0.05)		
Liquidity & Leverage		Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e	Net Cash (Debt)			40	100%	100%	40	0.11	
Borrowings	A\$m	145	127	92	199	158	Total			1,563			793	2.25		
Net Debt / (Cash)	A\$m	49	13	(28)	(10)	(37)	WACC							8.0%		
Gearing: Net Debt / (Net Debt + Equity)	%	18%	5%	-11%	-3%	-11%	FPO Shares							347		
Net Debt / EBITDA	x	4.7x	0.2x	(0.3)x	(0.1)x	(0.3)x	Options							2		
EBIT Interest Cover	x	(0.2)x	4.4x	7.0x	4.9x	7.3x	Performance Rights							5		
							Fully Diluted SOI							354		

Note: 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.

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Appendix 1

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