

# Sierra Rutile Ltd

## (SRX \$0.30) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Trent Barnett	6 <sup>th</sup> September 2022	\$0.76/sh

## Initiate Coverage: Speculative Buy

### Investment case

Sierra Rutile Ltd (SRX) demerged from Iluka (ILU.asx) in August;

SRX has no debt and a cash balance of A\$60m as at 30 June 2022. In addition to the cash balance, there is a US\$45m rehabilitation trust;

“Area 1” is currently in production and produces around 144ktpa of rutile. The remaining mine life is ~5 years. We estimate Area 1 EBITDA (after SRX overheads) ~A\$100m on spot prices but that drops to ~A\$50m pa using our base case commodity prices;

Sembehun is a nearby deposit which ILU recently completed a PFS. SRX will now complete a DFS, with construction expected CY24. The PFS estimated capex at US\$337m. We estimate annual Sembehun EBITDA of ~US\$85m pa on base prices or ~US\$140m on spot prices;

On spot prices, Sembehun could be funded by Area 1 cash flows. On our base commodity prices though, we estimate new equity and debt facilities will be required (DFS is not due until late CY23);

**We initiate coverage with a Speculative Buy and 76cps Price Target.**

### Key points

- Sep Quarterly production: October
- Dec Quarterly production: January
- 1H23 earnings results: February/March
- Sembehun DFS: late 2023

Sierra Rutile Ltd		Year End 31 Dec
Share Price	0.30	A\$/sh
Price Target	0.76	A\$/sh
Valuation	0.44	A\$/sh npv (8.0%)

Shares on issue	424	m, diluted *
Market Capitalisation	127	A\$m
Enterprise Value	67	A\$m
Debt (30 Jun 22a)	0	A\$m
Cash (30 Jun 22a)	60	A\$m
Largest Shareholder		Perpetual

Production F/Cast	2022F	2023F	2024F
Zircon	7	6	6
Rutile / HiTi	135	131	131
Ilmenite	57	55	55

Assumptions	2022F	2023F	2024F
Ilmenite	294	290	280
Zircon	1909	1700	1600
Rutile	1534	1375	1350
AUDUSD	0.72	0.74	0.74

Key Financials	2022F	2023F	2024F
Revenue (A\$m)	324	275	272
EBITDA (A\$m)	95	54	51
NPAT (A\$m)	93	50	31
Cashflow (A\$m)	97	64	42

CFPS (Ac)	23	15	8
P/CFPS (x)	1.3	2.0	3.6

EPS (Ac)	22	12	5
EPS growth (%)	0%	0%	-57%
PER (x)	1.4	2.6	6.0

EV:EBITDA (x)	1.9	3.2	3.4
EV:EBIT (x)	2.0	3.5	4.3

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	nm	nm	nm
Interest Cover (x)	-	-	4.5

### Disclaimer

Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to SRX during the last year. Euroz Hartleys has received a fee for these services.

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# Sierra Rutile Ltd

(SRX \$0.30) Speculative Buy

## Market Statistics Year End 30 June

Share Price	\$0.300	A\$/sh	Directors	
Issued Capital	424.2	m	Greg Martin	NE Chair
Options	0.0	m	Theuns de Bruyn	MD
Fully diluted	424.2	m	Martin Alciaturi	ED
Fully dil. & financed	824.2	m	Graham Davidson	NE
			Joanne Palmer	NE
Mkt Capital'n (dil.)	127.3	\$m	Shareholders	
Enterprise Value	67.3	\$m	Perpetual	14.4%
Debt	0.0	\$m	Tribecca	7.1%
Cash	60.0	\$m	Yarra	6.7%
EV post capex	172.4	\$m	FIL	6.0%
			Vanguard Group	5.3%
			Regal	5.2%

## F/Cast Production 2021A 2022F 2023F 2024F

Area 1 Production Summary					
Mining Inventory	Mt	70.4	60.0	48.0	36.0
Grade	%	2.7%	2.7%	2.7%	2.7%
Mill Throughput	Mt	12.3	10.4	12.0	12.0
HM grade	%	3.1%	3.0%	2.7%	2.7%
Zr production	kt	4	7	6	6
Rutile production	kt	129	135	131	131
Ilmenite production	kt	46	57	55	55
Revenue	US\$m	184	235	202	201
Cost	US\$m	-142	-156	-153	-154
- /t z&r (net ilmenite credits)	US\$/t	-1012	-1047	-1001	-1015
EBITDA	US\$m	42	79	50	47
Ilmenite	% rev.	6.0%	6.0%	6.5%	7.2%
Zircon	% rev.	5.1%	5.1%	4.4%	4.8%
Rutile	% rev.	88.9%	88.9%	89.2%	88.0%

Sembehun Production Summary					
Mining Inventory	Mt	187.9	187.9	187.9	187.9
VHM Grade	%	2.4%	2.4%	2.4%	2.4%
Mill Throughput	Mt	0.0	0.0	0.0	0.0
VHM grade	%	-	-	-	-
Zr production	kt	0.0	0.0	0.0	0.0
Rutile production	kt	0.0	0.0	0.0	0.0
Ilmenite production	kt	0.0	0.0	0.0	0.0
Revenue	US\$m				
Cost	US\$m				
- /t z&r (net ilmenite credits)	US\$/t				

## Ratio Analysis (A\$m) 2021A 2022F 2023F 2024F

CF (A\$m)	2	98	64	52
CF / Sh (Ac/sh)	0	23	15	8
CF Ratio (x)	99	1	2	4
Earnings (A\$m)	8	93	50	31
EPS (Ac/sh)	1	22	12	5
EPS Growth (%)				-57%
Earnings Ratio (x)	23	1	3	6
E'prise Val. (A\$m) full funded	234	183	172	175
EV : EBITDA (x)	8	2	3	3
EV : EBIT (x)	nm	2	3	4
Net Debt / ND+Eq (%)	nm	nm	nm	nm
Interest Cover (x)	-	-	-	4.5
EBIT Margin (%)	-6%	29%	18%	15%
ROE (%)	14%	59%	22%	10%
ROA (%)	7%	34%	14%	6%
Div. (Ac/sh)	-	-	-	-
Div. payout ratio (x)	-	-	-	-
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%
Div. Franking (%)	100%	100%	100%	100%

## Profit and Loss (A\$m) 2021A 2022F 2023F 2024F

Net Revenue	255.8	323.7	275.1	271.6
Total Costs	-227.4	-228.3	-220.7	-220.7
EBITDA	28.5	95.3	54.4	50.9
- margin	11%	29%	20%	19%
Depreciation/Amort	-44.6	-2.0	-4.5	-10.6
EBIT	-16.1	93.4	49.9	40.3
Net Interest	-0.7	0.0	0.0	-9.0
Pre-Tax Profit	13.2	93.3	49.9	31.3
Tax Expense	-4.7	-0.5	-0.2	-0.2
Normalised NPAT	8.5	92.9	49.6	31.2
Abnormal Items	0.0	0.0	0.0	0.0
Reported Profit	8.5	92.9	49.6	31.2
Minority	0.0	0.0	0.0	0.0
Profit Attrib	8.5	92.9	49.6	31.2

## Cash Flow (A\$m) 2021A 2022F 2023F 2024F

Operating Cashflow	1.9	97.9	63.8	51.5
Income Tax Paid	-5.3	-0.5	-0.2	-0.2
Interest & Other	-0.3	0.0	0.0	-9.0
Operating Activities	-3.6	97.4	63.6	42.4
Property, Plant & Equip.	0.0	-41.4	-49.0	-143.9
Exploration and Devel.	0.0	-4.8	-3.8	-0.8
Other	0.0	0.0	0.0	0.0
Investment Activities	0.0	-46.2	-52.8	-144.7
Borrowings	0.0	0.0	0.0	150.0
Equity or "tbc capital"	0.0	0.0	0.0	100.0
Dividends Paid	0.0	0.0	0.0	0.0
Financing Activities	0.0	0.0	0.0	250.0
Net Cashflow	-3.6	51.2	10.8	147.7

## Balance Sheet (A\$m) 2021A 2022F 2023F 2024F

Cash	13.1	64.2	75.0	222.7
Other Current Assets	117.5	115.1	104.6	104.0
Total Current Assets	130.6	179.3	179.6	326.7
Property, Plant & Equip.	37.5	76.9	121.4	254.8
Exploration	0.0	4.8	8.6	9.4
Investments/other	61.5	61.5	61.5	61.5
Tot Non-Curr. Assets	99.0	143.3	191.6	325.7
Total Assets	229.6	322.6	371.2	652.4
Short Term Borrowings	0.1	0.1	0.1	0.1
Other	42.8	42.9	41.9	41.9
Total Curr. Liabilities	42.9	43.0	42.0	42.0
Long Term Borrowings	-	-	-	150.0
Other	74.9	74.9	74.9	74.9
Total Non-Curr. Liabil.	74.9	74.9	74.9	224.9
Total Liabilities	117.8	117.9	116.9	266.9
Net Assets	111.8	204.7	254.3	385.5
Net Debt	-12.9	-64.1	-74.9	-72.6

## Reserves & Resources

	VHM Grade	Rutile	Ilmenite	Zircon
Total Resource	1.8%	59.2%	35.2%	5.5%
Area 1 (Sierra Leone)	1.6%	63%	31%	6%
Sembehun (Sierra Leone)	1.9%	58%	37%	5%
Other				
Total Reserve	2.4%	61.0%	34.9%	4.1%
Area 1 (Sierra Leone)	2.1%	67%	29%	5%
Sembehun (Sierra Leone)	2.5%	60%	36%	4%
Other				

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# Sierra Rutile Ltd

(SRX \$0.30) Speculative Buy

## Analysis

SRX is a rutile producer in Sierra Leone and demerged from Illuka earlier this year.

Current Resources (Area 1 is in production, Sembahun is a development nearby)

### Mineral Resource Estimate

Mineral Resource Category	Material Tonnes	In Situ Rutile	In Situ Ilmenite	In Situ Zircon	In Situ Rutile Tonnes	In Situ Ilmenite Tonnes	In Situ Zircon Tonnes
	Mt	%	%	%	Mt	Mt	Mt
<b>Area 1</b>							
Measured	44	1.2	0.5	0.1	0.5	0.2	0.0
Indicated	143	1.0	0.5	0.1	1.4	0.7	0.2
Inferred	19	1.0	0.5	0.1	0.2	0.1	0.0
<b>Area 1 Subtotal</b>	<b>205</b>	<b>1.0</b>	<b>0.5</b>	<b>0.1</b>	<b>2.1</b>	<b>1.1</b>	<b>0.2</b>
<b>Sembahun</b>							
Measured	134	1.4	0.9	0.1	1.9	1.2	0.1
Indicated	167	1.0	0.7	0.1	1.7	1.2	0.1
Inferred	207	0.9	0.6	0.1	1.9	1.3	0.1
<b>Sembahun Subtotal</b>	<b>508</b>	<b>1.1</b>	<b>0.7</b>	<b>0.1</b>	<b>5.5</b>	<b>3.7</b>	<b>0.4</b>
<b>Other</b>							
Measured	-	-	-	-	-	-	-
Indicated	-	-	-	-	-	-	-
Inferred	39	1.2	-	-	0.5	-	-
<b>Other Subtotal</b>	<b>39</b>	<b>1.2</b>	<b>-</b>	<b>-</b>	<b>0.5</b>	<b>-</b>	<b>-</b>
<b>Grand Total</b>							
Measured	178	1.4	0.8	0.1	2.4	1.4	0.2
Indicated	309	1.0	0.6	0.1	3.1	2.0	0.3
Inferred	265	1.0	0.5	0.1	2.6	1.4	0.2
<b>Grand Total</b>	<b>752</b>	<b>1.1</b>	<b>0.6</b>	<b>0.1</b>	<b>8.1</b>	<b>4.8</b>	<b>0.6</b>

#### Notes:

1. Competent Person – Mineral Resources: Brett Gibson (MAIG).
2. In situ (dry) metric tonnage is reported.
3. Mineral Resources are inclusive of Ore Reserves.
4. Rounding may generate differences in last decimal place.
5. Rutile, ilmenite and zircon are reported as a percentage of in situ material.
6. The ilmenite and zircon grades are included for tabulation purposes under the Measured, Indicated and Inferred Resource category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Indicated where rutile is Measured. Otherwise the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.
7. "Other" refers to the Gambia, Jagbahun, Nyandahun & Taninahun Boka deposits outside the Area 1 & Sembahun operational areas.

Source: SRX

## AREA 1 (100%)

Sierra Rutile was acquired by ILU.asx in 2016. The operations have had periods of only marginal profitability, but the recent improvement in fiscal terms, operating costs and selling prices means there is now a decent profit margin. The new fiscal terms related to the minimum tax rate in relation to Area 1. It reduced from 3.5% of turnover up until July 2021 to 0.5% from August 2021 onwards.

The company estimated FY22 cost guidance is US\$892/t rutile, although this excludes overheads. Corporate overheads were US\$23m in CY21, but we expect it to return to US\$10m in CY22. CY21 non-site costs were boosted by several one-offs, including expensing capex.

The remaining mine life is ~4-6 years, with possible extension beyond that.

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# Sierra Rutile Ltd

(SRX \$0.30) Speculative Buy

## Overview

<b>541Kt</b> Contained Rutile Ore Reserve <sup>1</sup>	<b>2.1Mt</b> Contained Rutile Mineral Resource <sup>1</sup>
<b>144kt</b> FY22 Rutile Production Guidance <sup>2</sup>	<b>US\$892/t of rutile</b> FY22 Unit Cost Guidance (net of co-products) <sup>3</sup>
<b>Work program to extend the Area 1 LOM Plan is underway</b>	

<b>Products</b>	<ul style="list-style-type: none"> <li>Standard Grade Rutile (SGR)</li> <li>Industrial Grade Rutile (IGR)</li> <li>High-grade ilmenite</li> <li>Zircon-in-concentrate (ZIC)</li> </ul>
<b>Mining method</b>	<ul style="list-style-type: none"> <li>Dry mining; truck and excavator with dozer support.</li> </ul>
<b>Processing<sup>4</sup></b>	<ul style="list-style-type: none"> <li>Four wet concentrator plants (WCPs) producing mineral concentrate with feed capacity of 500-600tph.</li> <li>Mineral concentrate from Area 1 is processed in the mineral separation plant (MSP), which includes a feed preparation plant and dry plant. The MSP has capacity to produce 175ktpa of rutile.</li> </ul>
<b>Other assets</b>	<ul style="list-style-type: none"> <li>Products are exported through the Nitti Port facilities situated in the Area 1 mining lease. The mine also maintains an extensive network of water supply ponds, power generation facilities, accommodation for senior and management staff, offices, extensive workshops, laboratory, a clinic and roads.</li> </ul>

## Area 1 historical operating and financial performance

		Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
<b>Production volumes</b>				
Zircon (Z)	kt	8.5	6.6	4.1
Rutile (R)	kt	137.2	120.2	129.3
<b>Total Z/R production</b>	<b>kt</b>	<b>145.7</b>	<b>126.8</b>	<b>133.4</b>
Ilmenite	kt	59.2	45.8	52.1
<b>Total production</b>	<b>kt</b>	<b>204.9</b>	<b>172.6</b>	<b>185.5</b>
HMC produced	kt	288	306	301
HMC processed	kt	290	293	312
<b>Unit cash cost of production - Z/R</b>	<b>US\$/t</b>	<b>823</b>	<b>1,002</b>	<b>1,047</b>
<b>Unit cash cost of production (net of co-product credits) - R</b>	<b>US\$/t</b>	<b>744</b>	<b>929</b>	<b>985</b>

TABLE 3.15 SIERRA RUTILE PRO FORMA HISTORICAL INCOME STATEMENTS

USD \$'m	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
Revenue	183.1	157.7	184.2
Other income	1.4	0.0	2.1
Expenses	(141.3)	(145.9)	(165.8)
<b>Underlying EBITDA</b>	<b>43.2</b>	<b>11.9</b>	<b>20.5</b>
Depreciation and amortisation expense	(46.0)	(52.1)	(32.1)
Write down of non-current assets	(290.0)	-	(5.7)
Inventory movement – non cash	(1.4)	1.3	(0.8)
Changes in rehabilitation provision recognised in profit and loss	(6.3)	2.3	28.9
<b>EBIT</b>	<b>(300.5)</b>	<b>(36.7)</b>	<b>10.9</b>
Rehab and mine closure discount unwind	(1.6)	(7.5)	(0.8)
Net interest and finance charges	(0.3)	0.1	(0.5)
<b>Profit/(loss) before income tax</b>	<b>(302.5)</b>	<b>(44.1)</b>	<b>9.6</b>
Income tax expense	(121.2)	(5.6)	(3.4)
<b>Profit/(loss) after tax</b>	<b>(423.6)</b>	<b>(49.7)</b>	<b>6.1</b>

Sierra Rutile's minimum tax rate for FY19, FY20 and January 2021 to July 2021 was 3.5% of turnover, decreasing to 0.5% from August 2021 to December 2021. The minimum tax rate changed as a result of the Third Amendment Agreement to the Sierra Rutile Act in relation to Area 1. The rate is expected to be maintained at 0.5% going forward for Area 1. No pro forma adjustment has been reflected for the change in tax rate in the pro forma historical income statements.

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# Sierra Rutile Ltd

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TABLE 3.19 SIERRA RUTILE PRO FORMA HISTORICAL FREE CASH FLOW

USD \$'m	Note	Year ended 31 December 2019	Year ended 31 December 2020	Year ended 31 December 2021
<b>Pro forma historical operating cash flow</b>		<b>28.0</b>	<b>26.3</b>	<b>2.6</b>
Interest paid		0.3	0.6	(0.2)
Income taxes paid		(9.5)	(5.7)	(3.8)
Capital expenditure		(49.8)	(15.0)	-
<b>Pro forma historical free cash flow</b>		<b>(31.0)</b>	<b>6.1</b>	<b>(1.5)</b>

Source: SRX Demerger Booklet

## Area 1 reserves and resources

### Area 1 – Current Reserve by Deposit<sup>1</sup>

Deposit	Material Tonnes (Mt)	In Situ Rutile (%)	In Situ Rutile (Mt)
Gangama (inc ROM)	11.8	1.4	0.17
Gbeni North	19.0	1.3	0.25
Lanti	4.9	1.8	0.09
Taninahun	2.5	1.4	0.04
<b>TOTAL</b>	<b>38.2</b>	<b>1.4</b>	<b>0.54</b>

### Area 1 – Target Resources in Mine Life Extension Program<sup>1</sup>

Deposit	Material Tonnes (Mt)	In Situ Rutile (%)	In Situ Rutile (Mt)
<b>Pejebu</b>			
Indicated	18.6	1.0	0.18
Inferred	4.8	1.0	0.05
<b>Ndendemoia East</b>			
Indicated	14.3	1.1	0.16
<b>Ndendemoia West</b>			
Indicated	4.0	0.6	0.03
<b>TOTAL</b>	<b>41.7</b>	<b>1.0</b>	<b>0.40</b>

Source: SRX

## Euroz Hartleys estimated Area 1 production (base case commodity prices)

Area 1 Production Summary		Dec 21a	Dec 22e	Dec 23e	Dec 24e	Dec 25e	Dec 26e	Dec 27e
Mining Inventory	Mt	70.9	60.0	48.0	36.0	24.0	12.0	0.0
Grade	%	2.8%	2.7%	2.7%	2.7%	2.7%	2.7%	#DIV/0!
Mill Throughput	Mt	12.3	10.9	12.0	12.0	12.0	12.0	12.0
HM grade	%	3.1%	3.1%	2.7%	2.7%	2.7%	2.7%	2.7%
Zr production	kt	4	5	6	6	6	6	6
Rutile production	kt	129	136	132	132	132	132	132
Ilmenite production	kt	46	57	55	55	55	55	55
Revenue	US\$m	184	228	203	202	196	191	191
Cost	US\$m	-142	-145	-153	-154	-154	-154	-154
- /t z&r (net ilmenite credits)	US\$/t	-1047	-932	-1011	-1008	-1017	-1023	-1023
EBITDA	US\$m	42	83	50	48	43	38	38
Ilmenite	% rev.	6.2%	6.2%	6.4%	7.2%	6.8%	6.5%	6.5%
Zircon	% rev.	3.2%	3.2%	4.4%	4.8%	4.5%	4.2%	4.2%
Rutile	% rev.	90.5%	90.5%	89.2%	88.0%	88.7%	89.3%	89.3%

Source: Euroz Hartleys

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# Sierra Rutile Ltd

(SRX \$0.30) Speculative Buy

Euroz Hartleys estimated Area 1 production (spot case commodity prices)

Area 1 Production Summary		Dec 21a	Dec 22e	Dec 23e	Dec 24e	Dec 25e	Dec 26e	Dec 27e
Mining Inventory	Mt	70.9	60.0	48.0	36.0	24.0	12.0	
Grade	%	2.8%	2.7%	2.7%	2.7%	2.7%	2.7%	
Mill Throughput	Mt	12.3	10.9	12.0	12.0	12.0	12.0	12.0
HM grade	%	3.1%	3.1%	2.7%	2.7%	2.7%	2.7%	2.7%
Zr production	kt	4	5	6	6	6	6	6
Rutile production	kt	129	136	132	132	132	132	132
Ilmenite production	kt	46	57	55	55	55	55	55
Revenue	US\$m	184	238	231	236	236	236	236
Cost	US\$m	-142	-144	-148	-148	-148	-148	-148
- /t z&r (net ilmenite credits)	US\$/t	-1047	-869	-911	-886	-886	-886	-886
EBITDA	US\$m	42	95	83	88	88	88	88
Ilmenite	% rev.	8.9%	8.9%	9.8%	11.1%	11.1%	11.1%	11.1%
Zircon	% rev.	3.4%	3.4%	4.7%	5.2%	5.2%	5.2%	5.2%
Rutile	% rev.	87.7%	87.7%	85.5%	83.7%	83.7%	83.7%	83.7%

Source: Euroz Hartleys

## SEMBEHUN (100%)

Sembehun is a nearby deposit which ILU recently completed a PFS. The company will now pursue a DFS.

The resource is much larger than Area 1, and hence SRX production and profit would increase under a development. The intention is to have a transition from Area 1 to Sembehun such that offtake customers can be continuously fulfilled and do not need to find alternative supply.

## Sembehun PFS

### Sembehun PFS Highlights

Ore Reserves <sup>1</sup>	• 174Mt @ 1.45% Rutile
Mineral Resources <sup>1</sup>	• 508Mt @ 1.10% Rutile
Mine Life	• >13 years
Mining Method	• Dry mining (truck & excavator)
Processing	• Mineral concentrate from Sembehun will be processed in a magnetic separation circuit (to be constructed) and proceed to the company's existing mineral separation plant, which includes a feed preparation plant and dry plant
Project Net Present Value (8%, post tax real) <sup>2</sup>	• US\$318m
Project Internal rate of return (post tax real) <sup>2</sup>	• 24%
Capital cost (US\$m real)	• Total: US\$337m – Phase 1: US\$284m   Phase 2: US\$52m
Steady state average unit cash costs of production (US\$/t Z/R, real)	• US\$726/t rutile and zircon produced (excluding royalties and rehabilitation)
Steady state average unit cash costs of production, net of co-product credits (US\$/t R, real) <sup>3</sup>	• US\$535/t rutile produced (excluding royalties and rehabilitation)

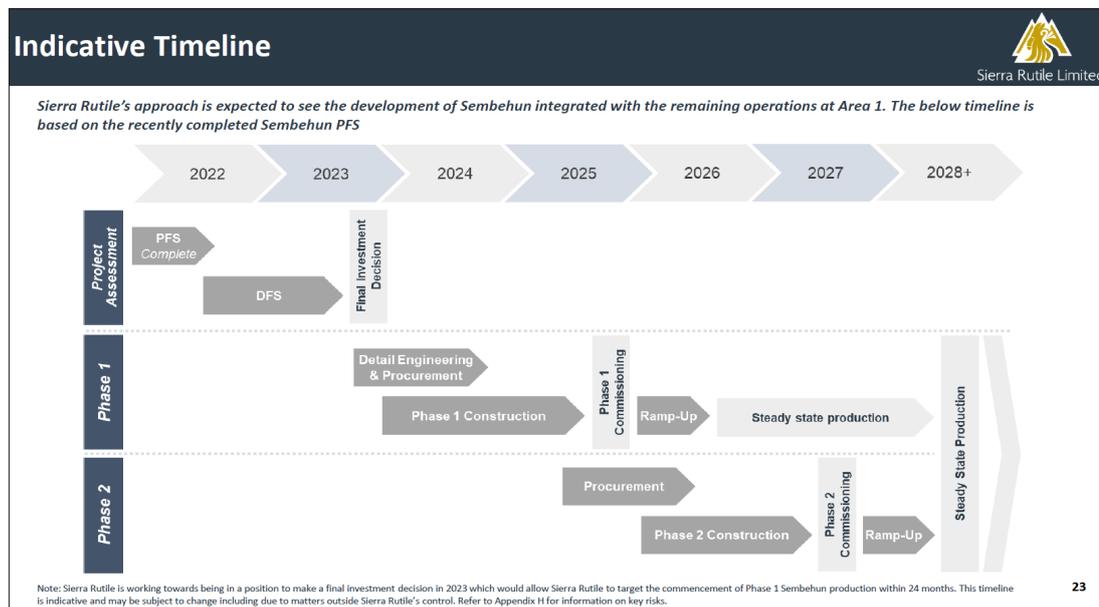
Source: SRX

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Sierra Rutile Ltd  
(SRX \$0.30) Speculative Buy

Sembehun Timetable



Source: SRX

Sembehun Reserves

Ore Reserve category <sup>1</sup>	Ore Tonnes <sup>2</sup>	In Situ Rutile <sup>4</sup>	In Situ Ilmenite <sup>4,5</sup>	In Situ Zircon <sup>4,5</sup>	In Situ Rutile	In Situ Ilmenite <sup>5</sup>	In Situ Zircon <sup>5</sup>
	(Mt)	(%)	(%)	(%)	(Mt)	(Mt)	(Mt)
<b>Benduma</b>							
Proved	12.9	1.3	0.9	0.1	0.17	0.11	0.01
Probable	39.7	1.5	1.0	0.1	0.59	0.40	0.03
<b>Dodo</b>							
Proved	47.7	1.4	0.9	0.1	0.69	0.41	0.05
Probable	6.4	1.3	0.8	0.1	0.08	0.05	0.01
<b>Kamatipa</b>							
Proved	33.8	1.7	1.1	0.2	0.56	0.36	0.05
Probable	8.6	1.3	0.9	0.1	0.11	0.08	0.01
<b>Kibi</b>							
Proved	14.9	1.4	0.6	0.1	0.21	0.09	0.01
Probable	8.1	1.3	0.7	0.1	0.10	0.06	0.01
<b>Komende</b>							
Proved	1.3	1.3	1.7	0.2	0.02	0.02	0.00
Probable	0.3	1.2	1.8	0.2	0.00	0.01	-
<b>Grand Total</b>							
Proved	110.5	1.5	0.9	0.1	1.64	1.00	0.13
Probable	63.1	1.4	0.9	0.1	0.90	0.59	0.06
<b>Grand Total</b>	<b>173.7</b>	<b>1.5</b>	<b>0.9</b>	<b>0.1</b>	<b>2.54</b>	<b>1.59</b>	<b>0.18</b>

Notes:

1. Competent Person – Ore Reserves: Andrew Walkenhorst (MAuS/IMM).
2. Ore Reserves are a sub-set of Mineral Resources.
3. Rounding may generate differences in last decimal place.
4. Mineral assemblage is reported as a percentage in Ore.
5. The ilmenite and zircon grades are included for tabulation purposes under the Proved and Probable Reserve category. The confidence in the estimate of the grade and tonnage for ilmenite and zircon are however only to be considered as Probable where rutile is Proved. Otherwise the ilmenite and zircon are considered to be Inferred due to material factors influencing the confidence in the estimates for ilmenite and zircon.
6. The quoted figures for Sembehun are stated as at 31 December 2021 and have been depleted for all production conducted to this date.

Source: SRX Demerger Booklet

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# Sierra Rutile Ltd

(SRX \$0.30) Speculative Buy

Euroz Hartleys estimated Sembahun production (**base case** commodity prices)

Sembahun Production Summary		Dec 21a	Dec 22e	Dec 23e	Dec 24e	Dec 25e	Dec 26e	Dec 27e	Dec 28e	Dec 29e	Dec 30e	Dec 31e	Dec 32e
Mining Inventory	Mt	187.9	187.9	187.9	187.9	187.9	183.4	175.5	162.0	148.5	135.0	121.5	108.0
VHM Grade	%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Mill Throughput	Mt	0.0	0.0	0.0	0.0	0.0	4.5	7.9	13.5	13.5	13.5	13.5	13.5
VHM grade	%	-	-	-	-	-	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Zr production	kt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rutile production	kt	0.0	0.0	0.0	0.0	0.0	58.3	102.1	175.0	175.0	175.0	175.0	175.0
Ilmenite production	kt	0.0	0.0	0.0	0.0	0.0	21.4	37.4	64.2	64.2	64.2	64.2	64.2
Revenue	US\$m						79	139	238	240	244	244	244
Cost	US\$m						-63	-92	-156	-156	-156	-158	-158
- /t z&r (net ilmenite credits)	US\$/t						-1004	-822	-815	-815	-815	-824	-827
EBITDA	US\$m						16	47	82	83	88	87	86
Ilmenite	% rev.						5.7%	5.7%	5.7%	5.6%	5.5%	5.5%	5.5%
Zircon	% rev.						0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rutile / Hi-Ti production	% rev.						94.3%	94.3%	94.3%	94.4%	94.5%	94.5%	94.5%

Source: Euroz Hartleys

Euroz Hartleys estimated Sembahun production (**spot case** commodity prices)

Sembahun Production Summary		Dec 21a	Dec 22e	Dec 23e	Dec 24e	Dec 25e	Dec 26e	Dec 27e	Dec 28e	Dec 29e	Dec 30e	Dec 31e	Dec 32e
Mining Inventory	Mt	187.9	187.9	187.9	187.9	187.9	183.4	175.5	162.0	148.5	135.0	121.5	108.0
VHM Grade	%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Mill Throughput	Mt	0.0	0.0	0.0	0.0	0.0	4.5	7.9	13.5	13.5	13.5	13.5	13.5
VHM grade	%	-	-	-	-	-	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%
Zr production	kt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rutile production	kt	0.0	0.0	0.0	0.0	0.0	58.3	102.1	175.0	175.0	175.0	175.0	175.0
Ilmenite production	kt	0.0	0.0	0.0	0.0	0.0	21.4	37.4	64.2	64.2	64.2	64.2	64.2
Revenue	US\$m						96	168	288	290	294	294	294
Cost	US\$m						-61	-89	-151	-151	-151	-152	-153
- /t z&r (net ilmenite credits)	US\$/t						-882	-706	-700	-700	-700	-709	-711
EBITDA	US\$m						35	80	137	139	144	142	142
Ilmenite	% rev.						9.8%	9.8%	9.8%	9.7%	9.6%	9.6%	9.6%
Zircon	% rev.						0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rutile / Hi-Ti production	% rev.						90.2%	90.2%	90.2%	90.3%	90.4%	90.4%	90.4%

Source: Euroz Hartleys

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# Sierra Rutile Ltd

(SRX \$0.30) Speculative Buy



## INDUSTRY EXPOSURE

SRX is primarily exposed to the rutile titanium market. As such, it is exposed to global pigment and welding markets;

### SRX products

Sierra Rutile currently produces three primary products for sale:

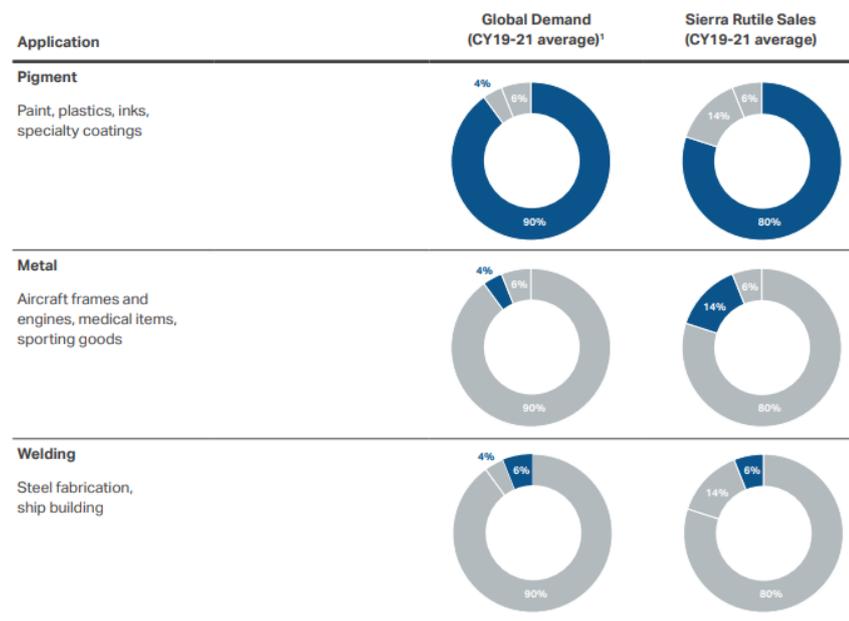
- **Standard Grade Rutile (SGR)**, which is considered to be an industry leading high quality product and is consumed primarily in the manufacture of titanium dioxide pigment and titanium sponge.
- **Industrial Grade Rutile (IGR)**, which is well suited to high quality flux core wire applications due to its high packing density and low contaminant level, ensuring that the product generally trades at a premium to competing rutile products.
- **High-grade ilmenite**, which is sold mainly for pigment production.

In addition to the three primary products above, Sierra Rutile also produces **Zircon-in-concentrate (ZIC)**, used in ceramics, chemicals, refractory and foundry.

Sierra Rutile has no committed off-take volumes post December 2022 and expects that future arrangements will be entered into on market terms.

Source: SRX

## Global and SRX rutile market



<sup>1</sup> Global demand for titanium feedstocks (TZMI February 2022).

Source: SRX Demerger Booklet

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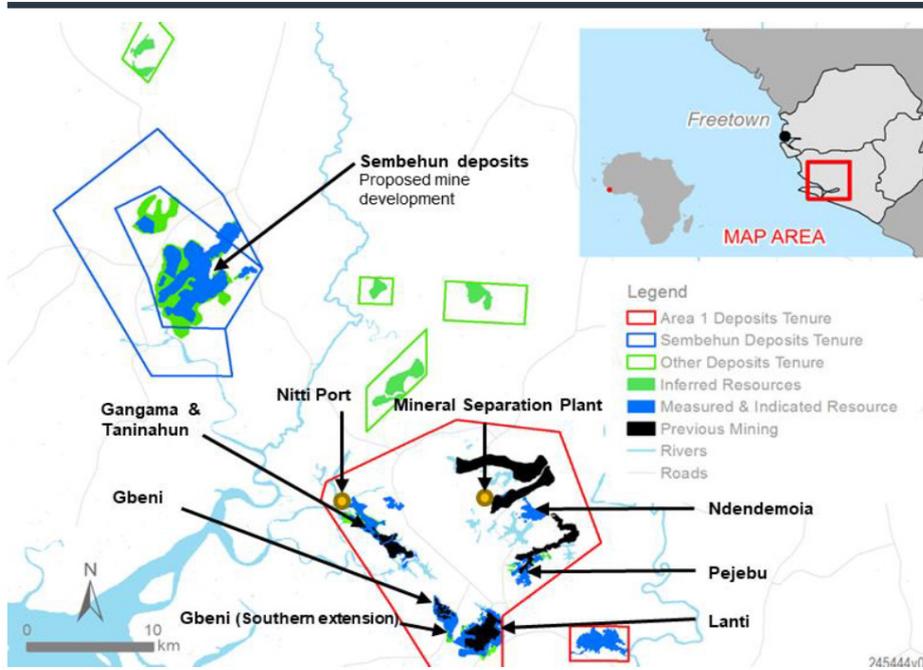
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**Sierra Rutile Ltd**  
**(SRX \$0.30) Speculative Buy**

**GEOGRAPHIC EXPOSURE**

SRX operations are in Sierra Rutile, south of Freetown.

**Location & Size**



Source: SRX

**PEERS AND COMPETITORS**

ASX listed mineral sands peers include ILU.asx (Australia), STA.asx (Australia), BSE.asx (Kenya & Madagascar), SFX.asx (Australia), IMA.asx (Australia) and SVM.asx (Malawi).

NWF.asx operates a diamond mine in Sierra Leone.

# Sierra Rutile Ltd

(SRX \$0.30) Speculative Buy

## KEY SUPPLIERS & CUSTOMERS

### SRX key customers

#### Key Customers

Sierra Rutile’s key customers include some of the world’s largest producers of pigment, the world’s leading welding consumable manufacturers and discerning titanium sponge producers serving the high quality aeronautical applications.



Source: SRX

### Management, Directors and Major Shareholders

## Experienced Board and Senior Management



Sierra Rutile Limited

Sierra Rutile will be established with a strong Board and management team that have the requisite skills and experience to deliver sustainable value for shareholders.

#### Board of Directors

	<b>Greg Martin</b> <i>Independent Chair</i>	<ul style="list-style-type: none"> <li>• 40 years’ experience in the mining, utilities, financial services, energy and energy related infrastructure sectors in Australia, New Zealand and internationally. Immediate past Chair of Iluka.</li> <li>• BEc, LLB, FAIM, MAICD</li> <li>• Sydney, Australia</li> </ul>
	<b>Theuns de Bruyn</b> <i>Managing Director and Chief Executive Officer</i>	<ul style="list-style-type: none"> <li>• Over 25 years’ experience in the African mining sector, starting his career with BHP where he worked in Operations and Business Development across various commodities. Joined Sierra Rutile in 2019 as COO and was appointed CEO in January 2021.</li> <li>• BEng (Chemical Engineering), MBA</li> <li>• Site, Sierra Leone</li> </ul>
	<b>Martin Alciaturi</b> <i>Finance Director</i>	<ul style="list-style-type: none"> <li>• Over 40 years in corporate finance (as a Partner of EY and a Director of Macquarie) and as a mining executive with Aquila Resources.</li> <li>• BSc (Eng) (Hons), GradDipAppFin, FCA, MAICD</li> <li>• Perth, Australia</li> </ul>
	<b>Graham Davidson</b> <i>Independent Non-Executive Director</i>	<ul style="list-style-type: none"> <li>• Over 30 years’ professional experience of executive and board positions with a track record of leading large multicultural teams on natural resource projects, including at Rio Tinto.</li> <li>• BEng, GradDip in Maintenance Management, MIO (UK)</li> <li>• London, United Kingdom</li> </ul>
	<b>Joanne Palmer</b> <i>Independent Non-Executive Director</i>	<ul style="list-style-type: none"> <li>• Over 25 years’ of industry experience providing audit and assurance services on company listings, M&amp;A and takeovers and significant experience with international mining companies.</li> <li>• BSc (Hons), FCA (ANZ and England &amp; Wales), GradDip AICD, Registered Company Auditor ASIC</li> <li>• Perth, Australia</li> </ul>

#### Senior Management Team

	<b>Theuns de Bruyn</b> <i>Managing Director and Chief Executive Officer</i>	<ul style="list-style-type: none"> <li>• See left hand side.</li> </ul>
	<b>Martin Alciaturi</b> <i>Finance Director</i>	<ul style="list-style-type: none"> <li>• See left hand side.</li> </ul>
	<b>Eben Lombard</b> <i>Chief Operating Officer</i>	<ul style="list-style-type: none"> <li>• 22 years’ experience in the African mining sector, across various commodities including steel, chrome, platinum, copper, cobalt and lead.</li> <li>• BSc (Eng), MBA, Cert (Fundamentals of Fin Mgmt)</li> <li>• Site, Sierra Leone</li> </ul>
	<b>Maurice Cole</b> <i>Chief Financial Officer</i>	<ul style="list-style-type: none"> <li>• Over 30 years’ experience in the Accounting and Auditing including 5 years at Sierra Rutile.</li> <li>• Qualifications from ACCA and AAT, FCA (England &amp; Wales and Sierra Leone)</li> <li>• Freetown, Sierra Leone</li> </ul>
	<b>Derek Folmer</b> <i>General Manager Marketing</i>	<ul style="list-style-type: none"> <li>• Over 25 years’ commercial experience in the mineral sands sector, including 9 years of active involvement with Sierra Rutile.</li> <li>• BEng, MBA, Member of OIQ</li> <li>• London, United Kingdom</li> </ul>
	<b>Sue Wilson</b> <i>General Counsel &amp; Company Secretary</i>	<ul style="list-style-type: none"> <li>• Over 40 years’ leadership experience in the governance, education, mining and banking sectors including 5 years at Iluka.</li> <li>• BJuris, LLB, FAICD, FGIA</li> <li>• Perth, Australia</li> </ul>

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Source: SRX

### Major Shareholders

Shareholders	%
Perpetual	14.4%
Tribecca	7.1%
Yarra	6.7%
FIL	6.0%
Vanguard Group	5.3%
Regal	5.2%

Source: IRESS

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## Sierra Rutile Ltd

(SRX \$0.30) Speculative Buy

### OPTIONS, CONVERTIBLES AND UNPAID CAPITAL

There is no significant unpaid capital.

#### Debt

We assume A\$150m of project debt for the construction required in 2024 for Sembehun, although this assumes commodity prices are lower than spot. At spot prices, the new equity and debt requirements are considerably lower (they may be minimal);

#### Hedging

There is no hedging.

#### Capex requirements

Area 1 capex was expensed in CY21, hence the high implied overheads in the accounts. We expect higher capitalized capex for Area 1 in CY22. Sembehun start-up capex is estimate (PFS) at US\$284m (Phase 2 additional US\$52m for total US\$337m).

#### Free cash flow

On spot prices we expect meaningful free cash flow from Area 1, but we assume it remains on balance sheet to fund Sembehun. On our base case estimates, free cash flow from Area 1 is low, but positive. Continued operation maybe important to fill customer offtakes such that they can be rolled into Sembehun offtakes when it is developed.

#### Dividends

We do not expect dividends for a considerable time.

#### FX exposure

Costs are mainly in USD.

#### Interest Rate exposure

We expect minimal interest rate exposure.

#### Commodity price exposure

SRX is mainly exposed rutile prices.

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## Sierra Rutile Ltd

(SRX \$0.30) Speculative Buy

### PRICE TARGET TABLE

We have a 76cps Price Target which is a composite of several scenarios.

Price Target Methodology	Weighting	Spot	12 mth out
NPV <sub>12</sub> consensus prices	55%	\$0.44	\$0.46
NPV <sub>12</sub> at spot commodity and fx prices	25%	\$1.14	\$1.28
NPV <sub>8</sub> consensus prices	15%	\$0.68	\$0.75
NPV <sub>8</sub> at spot commodity and fx prices	3%	\$1.84	\$2.04
Net cash backing	2%	\$0.14	\$0.14
<b>Risk weighted composite</b>		<b>\$0.69</b>	
<b>12 Months Price Target</b>		<b>\$0.76</b>	
Shareprice - Last		\$0.300	
<b>12 mth total return</b>		<b>152%</b>	

### SIMPLE S.W.O.T. TABLE

STRENGTHS	In production Potential mine life extensions History of operating in country Experienced management team
WEAKNESSES	Located in Sierra Leone Capex requirement Area 1 AISC
OPPORTUNITIES	Expansions Other African opportunities Takeover
THREATS	Commodity Prices Sovereign Risk

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