



Resource upgrade delivers

Highfield has delivered an updated Resource Estimate on Muga-Vipasca of 302Mt at 11.5% K₂O (from 268Mt at 11.2%). A higher grade subset of the resource at 12.3% is expected to feed into the DFS mine design and will support a larger +1Mtpa operation (from 860ktpa) with a mine life of 19 years based in our conservative interpretation of the numbers. There is plenty of room for improvement and refinement of these numbers in the DFS which is due out in March, and significant upside to the share price on our base case numbers. We have updated our valuation based on a 1Mtpa production scenario, increasing our Price Target to AUD 1.35/share (from: AUD 1.20/share) based on an NPV_{10%} and 0.8x multiple.

New resource delivers improvement in project metrics

The increased resource size justifies a second decline and higher extraction rate for the project which will allow Highfield to produce over 1Mtpa of K60 product. Assuming a base case Reserve grade and extraction ratios (11.3% K₂O and 50%) increases our valuation 11%. Upside case production numbers and price forecasts give the company a valuation of AUD 1,371m or AUD 2.64/share. Highfield confirmed it is on track to complete its DFS at the end of the March quarter which will confirm the production metrics.

Resource triggers conversion of 50m performance shares

The higher subset resource grade meets the criteria (150Mt at ≥13% K₂O) for 50m performance share to convert into ordinary shares. 11m of these are held by directors Derek Carter (Chairman) and Pedro Rodriguez (Exec. Director). This does not impact our valuation as it is based on fully diluted shares.

AUDm	2014	2015e	2016e	2017e	2018e
Revenues	-	-	-	38	287
EBITDA	(6)	(6)	(5)	12	126
EBIT	(6)	(6)	(5)	10	110
EPS	(0.02)	(0.02)	(0.05)	(0.03)	0.15
EPS adj	-	-	-	-	-
DPS	-	-	-	-	-
EV/EBITDA	-	-	-	-	5.6
EV/EBIT	-	-	-	-	6.4
P/E adj	-	-	-	-	-
P/B	3.85	4.57	2.63	2.88	1.97
ROE (%)	-	-	-	-	37.7
Div yield (%)	-	-	-	-	-
Net debt	(12)	(17)	189	308	232

Source: Pareto

Target price (AUD)	1.35
Share price (AUD)	0.90

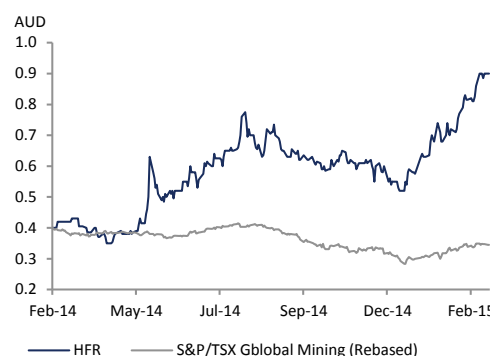
Forecast changes

%	2015e	2016e	2017e
Revenues	NM	NM	(12)
EBITDA	-	(8)	(20)
EBIT adj	NM	NM	NM
EPS reported	0	(4)	(31)
EPS adj	NM	NM	NM

Source: Pareto

Ticker	HFR.AX, HFR AU
Sector	Metals & Mining
Shares fully diluted (m)	340.8
Market cap (AUDm)	307
Net debt (AUDm)	-17
Minority interests (AUDm)	0
Enterprise value 15e (AUDm)	290
Free float (%)	100

Performance



Source: Factset

Analysts

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Resource supports improved metrics

The updated Resource has validated Highfield's proposal for a second decline to increase production capacity (announcement: 11 Dec '14). We have updated our numbers to reflect plans for two 400tph declines (6.3Mtpa), rather than one 600tph decline (4.7Mtpa). We have conservatively assumed that only the lower grade and tonnes of M&I material will be mined and have added USD 19m to our capex assumption for the second decline, associated infrastructure and ventilation (per PFS numbers).

Base case numbers represent our assumptions which we are comfortable the company will meet. The upside case assumptions are possible, however they are primarily dependent on a higher Reserve grade (from 11.3% to 12.3% per DFS mine design) and higher extraction ratios (from 50% to 80% with backfill).

We have calculated NPV's and Price Targets based on potash prices of USD 300/t and USD 350/t FOB Vancouver, plus base case and upside case production scenarios. The January FOB Vancouver price was USD 305/t with expectations for a strengthening price on the back of contract price negotiations in China.

We note that 2017e earnings during ramp-up have fallen due to a lower assumed grade (per M&I resource).

Base and upside case project metrics (base case Pareto valuation in grey)

	Base Case Production Scenario (New Pareto Assumptions)	Upside Case Production Scenario	Old Pareto Assumptions
Resource	M&I: 239Mt at 11.3%	DFS design: 256Mt at 12.3%	154Mt at 12.9%
Extraction Ratio	50%	80%	61%
Throughput (90% utilisation)	6.3Mtpa	6.3Mtpa	4.7Mtpa
Mine Life	19 years	32 years	20 years
Annual Production	1.0Mtpa	1.1Mtpa	860ktpa
Potash Price: USD 300/t FOB Vancouver			
Company NPV _{10%}	AUD 865m (1.67/share)	AUD 1,003m (AUD 1.93/share)	AUD 776m (AUD 1.52/share)
Price Target (0.8x NPV)	AUD 1.35/share	AUD 1.55/share	AUD 1.20/share
Potash Price: USD 350/t FOB Vancouver			
Company NPV _{10%}	AUD 1,195m (2.30/share)	AUD 1,371m (AUD 2.64/share)	AUD 1,062m (2.08/share)
Price Target (0.8x NPV)	AUD 1.85/share	AUD 2.10/share	AUD 1.67/share

Source: Pareto

Muga-Vipasca Resource

The updated resource incorporates all drilling on the project to date. The resource diagrams highlight the potential for increases in tonnes and confidence from further drilling. The resource was calculated independently by Agapito, based on an 8% cutoff grade and a minimum 1.5m bed true thickness.

Resource numbers have been presented below in number of scenarios to highlight the potential of the project from a grade and scalability point of view. For valuation purposes we have only used the M&I portion of the resource.

Resource scenarios

	Tonnes	Grade (K ₂ O)
Total Resource	302Mt	11.5%
Expected DFS mine design	256Mt	12.3%
M&I only (Pareto inputs)	239Mt	11.3%
High grade subset	232Mt	13.5%

Source: Highfield

PROFIT & LOSS (fiscal year) (AUDm)	2013	2014	2015e	2016e	2017e	2018e
Revenues	0	-	-	-	38	287
EBITDA	(4)	(6)	(6)	(5)	12	126
Depreciation & amortisation	(0)	(0)	-	-	(2)	(15)
EBIT	(4)	(6)	(6)	(5)	10	110
Net interest	0	0	-	(19)	(25)	(24)
Other financial items	-	-	-	-	-	-
Profit before taxes	(3)	(6)	(6)	(24)	(15)	87
Taxes	-	-	-	-	-	(11)
Minority interest	-	-	-	-	-	-
Net profit	(3)	(6)	(6)	(24)	(15)	76
EPS reported	(0.04)	(0.02)	(0.02)	(0.05)	(0.03)	0.15
EPS adjusted	-	-	-	-	-	-
DPS	-	-	-	-	-	-
BALANCE SHEET (AUDm)	2013	2014	2015e	2016e	2017e	2018e
Tangible non current assets	0	0	4	318	417	408
Other non-current assets	24	40	46	50	54	63
Other current assets	0	1	1	1	1	1
Cash & equivalents	6	12	17	125	6	30
Total assets	31	53	69	494	479	502
Total equity	30	51	67	178	163	238
Interest-bearing non-current debt	-	-	-	314	281	164
Interest-bearing current debt	-	-	-	-	33	98
Other Debt	0	2	2	2	2	2
Total liabilities & equity	31	53	69	494	479	502
CASH FLOW (AUDm)	2013	2014	2015e	2016e	2017e	2018e
Cash earnings	(3)	(9)	(12)	(27)	(18)	83
Change in working capital	0	0	-	-	-	-
Cash flow from investments	(0)	(0)	(4)	(314)	(101)	(7)
Cash flow from financing	-	10	22	449	-	(52)
Net cash flow	(3)	1	6	108	(119)	24
CAPITALIZATION & VALUATION (AUDm)	2013	2014	2015e	2016e	2017e	2018e
Share price (AUD end)	0.34	0.58	0.90	0.90	0.90	0.90
Number of shares end period	341	341	341	520	520	520
Net interest bearing debt	(6)	(12)	(17)	189	308	232
Enterprise value	110	184	290	658	776	700
EV/Sales	-	-	-	-	20.7	2.4
EV/EBITDA	-	-	-	-	-	5.6
EV/EBIT	-	-	-	-	-	6.4
P/E reported	-	-	-	-	-	6.2
P/E adjusted	-	-	-	-	-	-
P/B	3.8	3.8	4.6	2.6	2.9	2.0
FINANCIAL ANALYSIS & CREDIT METRICS	2013	2014	2015e	2016e	2017e	2018e
ROE adjusted (%)	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-
EBITDA margin (%)	-	-	-	-	31.3	43.7
EBIT margin (%)	-	-	-	-	25.7	38.3
NIBD/EBITDA	1.71	2.00	2.81	(40.66)	26.22	1.85
EBITDA/Net interest	28.70	33.59	-	-	0.47	5.33

PROFIT & LOSS (fiscal year) (AUDm)	1Q'15e	2Q'15e	3Q'15e	4Q'15e	1Q'16e	2Q'16e	3Q'16e	4Q'16e
Revenues	-	-	-	-	-	-	-	-
EBITDA	(2)	(2)	(1)	(1)	(1)	(1)	(1)	(1)
Depreciation & amortisation	-	-	-	-	-	-	-	-
EBIT	(2)	(2)	(1)	(1)	(1)	(1)	(1)	(1)
Net interest	-	-	-	-	(3)	(3)	(6)	(6)
Other financial items	-	-	-	-	-	-	-	-
Profit before taxes	(2)	(2)	(1)	(1)	(4)	(4)	(7)	(7)
Taxes	-	-	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-	-	-
Net profit	(2)	(2)	(1)	(1)	(4)	(4)	(7)	(7)
EPS reported	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
EPS adjusted	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
DPS	-	-	-	-	-	-	-	-
BALANCE SHEET (AUDm)	1Q'15e	2Q'15e	3Q'15e	4Q'15e	1Q'16e	2Q'16e	3Q'16e	4Q'16e
Tangible non current assets	0	0	4	4	121	239	279	318
Other non-current assets	42	45	46	46	47	48	49	50
Other current assets	1	1	1	1	1	1	1	1
Cash & equivalents	30	25	19	17	52	63	173	125
Total assets	73	71	70	69	222	352	502	494
Total equity	71	69	68	67	63	193	186	178
Interest-bearing non-current debt	-	-	-	-	157	157	314	314
Interest-bearing current debt	-	-	-	-	-	-	-	-
Other Debt	2	2	2	2	2	2	2	2
Total liabilities & equity	73	71	70	69	222	352	502	494
CASH FLOW (AUDm)	1Q'15e	2Q'15e	3Q'15e	4Q'15e	1Q'16e	2Q'16e	3Q'16e	4Q'16e
Cash earnings	(4)	(4)	(2)	(2)	(5)	(5)	(8)	(8)
Change in working capital	-	-	-	-	-	-	-	-
Cash flow from investments	-	-	(4)	-	(117)	(118)	(39)	(40)
Cash flow from financing	22	-	-	-	157	135	157	-
Net cash flow	18	(4)	(6)	(2)	35	12	109	(48)
CAPITALIZATION & VALUATION (AUDm)	1Q'15e	2Q'15e	3Q'15e	4Q'15e	1Q'16e	2Q'16e	3Q'16e	4Q'16e
Share price (AUD end)	0.62	0.63	0.90	0.90	0.90	0.90	0.90	0.90
Number of shares end period	341	341	341	341	341	520	520	520
Net interest bearing debt	(30)	(25)	(19)	(17)	105	94	141	189
Enterprise value	182	190	288	290	574	562	610	658
EV/Sales	-	-	-	-	-	-	-	-
EV/EBITDA	(22.9)	(20.0)	(27.0)	(47.9)	(113.1)	(120.7)	(130.9)	(141.2)
EV/EBIT	(22.9)	(19.9)	(26.9)	(47.9)	(113.1)	(120.7)	(130.9)	(141.2)
P/E reported	(27.2)	(23.0)	(29.2)	(50.7)	(37.3)	(32.4)	(23.3)	(18.2)
P/E adjusted	(27.2)	(23.0)	(29.2)	(50.7)	(37.3)	(32.4)	(23.3)	(18.2)
P/B	3.0	3.1	4.5	4.6	4.9	2.4	2.5	2.6
FINANCIAL ANALYSIS & CREDIT METRICS	1Q'15e	2Q'15e	3Q'15e	4Q'15e	1Q'16e	2Q'16e	3Q'16e	4Q'16e
Dividend yield (%)	-	-	-	-	-	-	-	-
EBITDA margin (%)	-	-	-	-	-	-	-	-
EBIT margin (%)	-	-	-	-	-	-	-	-
NIBD/EBITDA	1.63	1.86	2.00	3.74	(2.18)	(8.75)	(17.36)	(28.44)
EBITDA/Net interest	46.06	55.24	62.01	-	-	-	-	-

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Appendix A

Disclosure requirements pursuant to the Norwegian Securities Trading Regulations section 3-10 (2) and section 3-11 (1), letters a-b

Pareto Securities AS does not alone or - together with affiliated companies or persons – owns a portion of the shares exceeding 5 % of the total share capital in any company where a recommendation has been produced or distributed by Pareto Securities AS.

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Pareto Securities AS may hold financial instruments in companies where a recommendation has been produced or distributed by Pareto Securities AS in connection with rendering investment services, including Market Making.

Please find below an overview of material interests in shares held by employees in Pareto Securities AS, in companies where a recommendation has been produced or distributed by Pareto Securities AS. "By material interest" means holdings exceeding a value of NOK 50 000.

Company	Analyst holdings	Total holdings	Company	Analyst holdings	Total holdings
AF Gruppen		1,675	Panoro Energy		104,950
Austevoll Seafood		45,215	Pareto Bank		19,590
Avance Gas Holding Ltd		2,770	Petroleum Geo-Services		42,000
Awilco LNG		40,000	Prosafe		86,105
B2 Holding		939,400	Protector Forsikring		504,000
Bonheur		21,300	Questerre Energy		117,000
BW LPG Ltd		2,169	REC Silicon		132,836
Deep Sea Supply		45,000	REC Solar		9,021
Det norske oljeselskap		40,180	Royal Caribbean Cruises		6,614
DNB		71,323	SalMar		72,800
DNO International		24,750	Sandnes Sparebank		15,001
DOF		217,000	Seadrill		14,962
Dolphin Group		140,000	Selvaag Bolig		70,000
Farstad Shipping		11,700	Sparebank 1 Nord-Norge		144,744
Fred Olsen Energy		23,245	Sparebank 1 SMN		85,423
Frontline 2012		16,650	Sparebank 1 SR-Bank		77,820
Gjensidige Forsikring		25,755	Sparebanken Møre		4,507
Global Rig Company		50,1699	Spectrum		12,000
Grieg Seafood		72,000	Statoil		8,322
Havila Shipping		9,750	Stolt-Nielsen		2,335
Høegh LNG		9,000	Storebrand		81,070
Kongsberg Automotive		515,000	Subsea 7		20,961
Kongsberg Gruppen		8,700	Tanker Investments		1,395
Lerøy Seafood Group		22,700	Telenor		15,900
Marine Harvest Group		900	TGS-NOPEC		7,730
Norsk Hydro		150,504	Vardia Insurance Group		7,600
Norske Skogindustrier		130,000	Western Bulk		600,000
Norwegian Air Shuttle		3,100	Wilh. Wilhelmsen Holding A		3,304
Ocean Yield		26,700	Wilh. Wilhelmsen ASA		104,700
Od fjell Drilling		16,700	Yara International		19,934
Orkla		22,906	Zenterio		236,817

This overview is update monthly (last updated 31.01.2015)

Appendix B

Disclosure requirements pursuant to the Norwegian Securities Trading ST Regulation § 3-11, letters d-f, ref the Securities Trading Act Section 3-10

Overview over issuers of financial instruments where Pareto Securities AS have prepared or distributed investment recommendation, where Pareto Securities AS have been lead manager/co-lead manager or have rendered publicly known not immaterial investment banking services over the previous 12 months:

African Petroleum	Global Ship Lease	Pareto Bank
AINMT Holdings	Golar LNG	Personahuset
Aker Philadelphia Shipyard	Golden Close	Pexip
AndesEnergia	Gulf Keystone Petroleum	Pharmaq
Ardmore Shipping Corporation	Half wave	Philly Tankers
Atlantic Offshore	Harkand Global Holdings	Pioneer Marine
Aurora LPG	Hercules Offshore	Pioneer Public Properties III
Avance Gas Holding Ltd.	Hitec Vision	Polarcus Limited
B2 Holding	Høegh LNG	Prosafte
Baker Hughes	Jaya Holdings	Prospector Offshore Drilling
Blue Wall Shipping	Kistefos	Protector Forsikring
Boa OCV	Klavness Ship Holding	Ranger Offshore
Cecon	Knightbridge Tankers	Robotic Drilling Systems
Chemical Transportation Company	Kolon Water & Energy	Rocksource
Deep Sea Supply	Kongsberg Gruppen	Sanjel Corporation
Delta Electronics	Lundin Mining	Selvaag Bolig
DigiPlex Fet	Magseis	Solør Bioenergi
DryShips	Navig8 Chemical	Sterling Resources
Exmar	Navig8 Crude Tankers	Tanker Investments
Fafnir Offshore	Navig8 Product Tankers	Teekay Offshore
Faroe Petroleum	Norda	TiZir
Fjord Line	Noreco	Vardia Insurance Group
Flumill	Ocean Yield	Western Bulk
Genel Energy	Oro Negro	World Wide Supply
Gjensidige Forsikring	PA Resources	Xcite Energy
Global Rig Company	-	-

This overview is updated monthly (this overview is for the period 31.01.2014 – 31.01.2015).

Appendix C

Disclosure requirements pursuant to the Norwegian Securities Trading ST Regulation § 3-11(4)

Distribution of recommendations

Recommendation	% distribution
Buy	62 %
Hold	29 %
Sell	9 %

Distribution of recommendations (transactions*)

Recommendation	% distribution
Buy	71%
Hold	29 %
Sell	0 %

* Companies under coverage with which Pareto Securities Group has on-going or completed public investment banking services in the previous 12 months

This overview is updated monthly (last updated 31.01.2015).

Appendix D

This section applies to research reports prepared by Pareto Securities AB.

Disclosure of positions in financial instruments

The beneficial holding of the Pareto Group is 1 % or more of the total share capital of the following companies included in Pareto Securities AB's research coverage universe: None

The Pareto Group has material holdings of other financial instruments than shares issued by the following companies included in Pareto Securities AB's research coverage universe: None

Disclosure of assignments and mandates

Overview over issuers of financial instruments where Pareto Securities AB has prepared or distributed investment recommendation, where Pareto Securities AB has been lead manager or co-lead manager or has rendered publicly known not immaterial investment banking services over the previous twelve months:

Africa Oil	Lundin Gold	Sagax
Etrion Corporation	Lundin Mining	ShaMaran Petroleum
FastPartner	Nexstim	Victoria Park
Lucara Diamond	NGEX Resources	-

Members of the Pareto Group provide market making or other liquidity providing services to the following companies included in Pareto Securities AB's research coverage universe:

Africa Oil	Lundin Gold	NGEX Resources	Tethys Oil
Cavotec	NAXS	Rusforest	Tribona
Delarka Holding	Nexstim	ShaMaran Petroleum	Trigon Agri
Lucara Diamond	-	-	-

Members of the Pareto Group have entered into agreements concerning the inclusion of the company in question in Pareto Securities AB's research coverage universe with the following companies: ShaMaran Petroleum.

This overview is updated monthly (last updated 13.02.2015).