



## Highfield Resources Ltd (HFR.ASX)

*+\$100m equity financing de-risks Muga development and strengthens bargaining position with potential 3<sup>rd</sup> parties*

### Event:

- HFR raised \$101m in equity via an institutional placement.
- A total of 56m shares were placed at an issue price of \$1.80/sh.
- Cornerstone HFR shareholder EMR Capital provided strong leadership and support to the placement, subscribing for 29m shares. Following the placement, EMR have increased their position on the HFR register from 20% to 26% (fully diluted).

### Comments:

- **Key de-risking event for Muga Project development:** Following the placement, HFR are now in a very strong cash position with ~\$120m in the bank. In addition, project finance term sheets have been received from European commercial banks indicating a debt/equity ratio of 65%. Based on the DFS capex bill of ~US\$300m, a total of ~US\$100m in equity will be required for Muga construction. Consequently, the existing cash position largely covers the equity component required.
- **Financing sends a strong signal to authorities in Spain of HFR's intention to construct Muga:** The raising sends a strong signal to the authorities in Spain that the Company is putting itself in a position to construct the Muga Potash Mine. The final de-risking event for the project in our view remains the receipt of the mining permit expected in Q3 CY15. We remain confident in this timeline being met and remind investors that Muga is an underground mine, with backfilling of salt tailings, no use of cyanide and no uranium. Pamplona is located within 60kms of Muga and it is expected that more than 1,000 people will be employed directly and indirectly during the project development phase, highlighting the strategic importance of Muga for a country that currently has an unemployment rate of ~25%.
- **Strengthens bargaining position with potential 3<sup>rd</sup> parties in respect of project investment:** We consider the recent equity raise as strategically important in that it demonstrates to potential 3<sup>rd</sup> parties/partners that HFR have numerous avenues with which to finance the development of Muga. We continue to believe that HFR's project portfolio and control of an entire basin, holds significant appeal to larger potash players globally. This has the potential to be realised by HFR shareholders in the event of a project sell-down or outright M&A transaction.

### Recommendation:

- **We maintain our BUY on HFR. We increase our price target from \$2.45 to \$2.80/sh, given the recent equity raising was at less dilutionary levels than previously modelled.**
- Whilst Muga is the most advanced project within HFR's portfolio, the company has a pipeline of world-class potash projects that could ultimately deliver 2-3mtpa K60 once fully developed. A potash basin that carries this level of potential scale clearly has corporate appeal.
- The next 3 - 6 months are a critical period for HFR and, as key catalysts are ticked off (namely permitting, but also the potential for corporate initiatives or debt finance), we see the potential for the stock to be materially re-rated towards our unrisks equity valuation of \$1.6b or \$3.80/sh.

Rating	BUY
Previous	BUY
Price Target (\$)	\$2.80
Previous	\$2.45
Share Price (\$)	\$1.68
52 week low - high (\$)	0.38 - 2.08
Valuation (\$/share)	\$2.77
Methodology	DCF/Sum of Parts
Risk	High

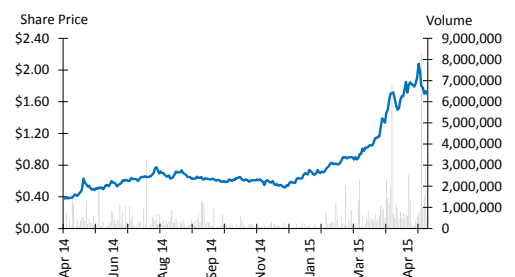
<b>Capital Structure</b>		
Shares on issue (m)		
	FPO	310.3
	Performance	50.0
	Options	40.8
	<b>Total</b>	<b>401.1</b>
Market Cap (\$m)		
	Undiluted	521.3
	<b>Diluted</b>	<b>673.9</b>
Net cash/(debt) (A\$m)		120.0
EV (A\$m)		
	Undiluted	401.3
	<b>Diluted</b>	<b>553.9</b>
Av 3mth daily volume ('000)		1,000

<b>Board</b>		
Derek Carter		Non Executive Chairman
Anthony Hall		Managing Director
Pedro Rodriguez		Development Director
Richard Crookes		Non Executive Director
Owen Hegarty		Non Executive Director
John Claverley		General Manager
Gonzalo Mayoral		Director of Mining

<b>Substantial Shareholders (diluted)</b>	
EMR Capital	26%

<b>Catalysts</b>	
Muga Financing	Throughout 2015
Muga mining concession	Q3 2015
Muga Development	late 2015

### Share Price Graph



<b>Analyst</b>		
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Foster Stockbroking acted as Joint Lead Manager to Highfield Resources Ltd's \$32m Placement in June 2014 and \$101m Placement in May 2015. Foster Stockbroking received a fee for this service and continue to assist the company with capital markets advisory.



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**Foster Stockbroking acted as Joint Lead Manager to Highfield Resources Ltd's \$32m Placement at \$0.48 in June 2014 and \$101m Placement at \$1.80 in May 2015. Foster Stockbroking received fees for this service.**