

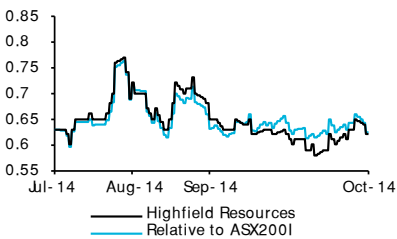
13 July 2015

## BUY

Current Share Price	AUD1
Target Price	AUc350
Market Capitalisation	AUD4,561,778
Shares In Issue	310m
RIC/BLBG	HFR.AX/HFR AU
Avg. Daily Volume (3M)	773,130
Net Cash/(Debt) (m) (06/15F)	AUc107.9m
Broker	Yes

Current share price(s) timed at 4:30PM on 05/07/15

### Share Price



Performance (%)	1M	3M	12M
Absolute	-12	-22	109
Relative	-10	-18	108

Source: Datastream (relative to UK-DS Market index)

## Highfield Resources

Estimate Changes

### Plumped up

**We maintain our BUY recommendation and increase our TP to A\$3.50, from A\$3.40, due to our revised commodity price forecasts and changes to our model.**

- Company Snapshot.** ASX-listed potash junior focused in Spain. Its assets comprise the Muga, Sierra del Perdón and Pintano projects, which are undergoing resource definition and feasibility work. Javier is expected to commence production Q2 2017, producing 1.1Mtpa KCl at \$135/t, with one of the lowest capital intensities in the world.
- Investment Thesis. Attractive** - Three low-risk, shallow potash projects that can utilise low-capital entry, conventional extraction plus strong local infrastructure and in-country expertise to fast track development in close proximity to end markets. **Muga robust** - DFS showed an NPV (10%) of \$1.42bn and IRR of 52%. Production of 1.12Mtpa over 24 years at an AISC of \$135/t, in the middle of the cost curve. Shallow (<300m), meaning accessible by twin decline for conventional underground mining and flotation processing. Capex of \$354m (pre-production \$254m), with bottom quartile capital intensity of \$315/tpa vs. global average of c.\$930/tpa. Plenty of upside: increased size and grade of resource, higher extraction rates, higher plant recovery and utilisation, lower capex/opex, plus salt by-products. Mining concession application was lodged in Q4 2014 and MOU signed with two ports and for power. A\$101m raised in equity in May to start construction (debt to follow). **Other projects** - We forecast the 82Mt Sierra del Perdón project starting in 2017/18 (NPV \$527m and IRR 39%), and Pintano in 2018/19, with peak group production at 2.2Mtpa in 2024 at a cash costs of \$140/t, in line with global averages. While of modest grade, the projects are within the same region, all benefiting from competitive advantages with low capital intensity and high IRR's of +40%.
- Potash market.** The potash market appears to have bottomed at c.\$305/t KCl. Prices are thought to remain subdued in the short-term but rebound in the long-term, as price momentum and demand pick up and inventory levels decline. We remain neutral, forecasting c.\$300/t KCl.
- News Catalysts.** Debt financing, development updates, drilling results, permitting.
- Valuation.** 1x NAV; projects risk-weighted up to 75%.
- Risks.** Moderate: Permitting, keeping on time and budget, financing, project delivery.

### Analysts

#### Cailey Barker

Tel: +44 (0)20 7260 1420  
c.barker@numis.com

#### Phil Swinfen

Tel: +44 (0)20 7260 1430  
p.swinfen@numis.com

This research was prepared and approved by

#### Numis Securities Limited

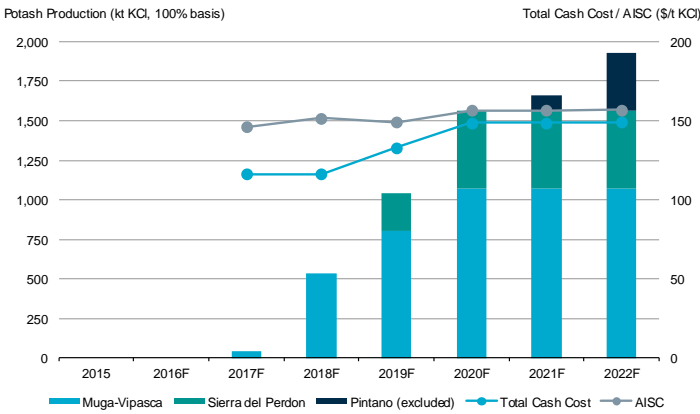
The London Stock Exchange Building  
10 Paternoster Square  
London EC4M 7LT

+44 (0)20 7260 1000  
mail@numis.com  
[www.numis.com](http://www.numis.com)

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Figure 1: Model summary

Highfield Resources		Ticker	HFR.AX	Market Capitalisation		A\$530	Financial Year End			June	
BUY		Share Price	A\$1.47	Enterprise Value (EV)		A\$460	Reporting Currency			A\$	
A\$3.50		Implied Return	138%	Net Debt (Cash)		-A\$52	Shares in Issue			360m	
Valuation						Key Metrics					
<b>Net Asset Value</b>	<b>Disc Rate</b>	<b>NAV (%)</b>	<b>\$m</b>	<b>*/sh</b>	<b>*A\$/sh</b>	2014	2015F	2016F	2017F	2018F	
Muga-Vipasca (25% risk-weighted)	10%	81%	1,216	2.13	2.84	EPS (\$/sh)	(0.04)	(0.07)	(0.07)	(0.05)	0.14
Sierra del Perdon (50% risk weighted)	10%	15%	222	0.39	0.52	EPS Growth	-29%	-79%	3%	19%	370%
Pintano (75% risk weighted)	10%	8%	121	0.21	0.28	P/E	n.m	n.m	n.m	n.m	10.2x
<b>Sub-total</b>			<b>1,559</b>	<b>2.73</b>	<b>3.64</b>	CFPS (\$/sh)	(0.03)	(0.04)	(0.06)	(0.05)	0.16
Cash & Equivalents	3%		52	0.09	0.12	P/CFPS	n.m	n.m	n.m	n.m	9.1x
Debt	0%		0	0.00	0.00	FCFPS (\$/sh)	(0.03)	(0.22)	(0.70)	(0.65)	(0.23)
Corporate G&A / Other	(8%)		(113)	(0.20)	(0.26)	P/FCFPS	n.m	n.m	n.m	n.m	n.m
<b>Total</b>			<b>1,498</b>	<b>2.62</b>	<b>A\$3.49</b>	FCF Yield	-2%	-15%	-48%	-44%	-15%
Current NAV Multiple (Implied)						EV/EBITDA	n.m	n.m	n.m	n.m	3.3x
<b>Earnings Value</b>						EBITDA Margin	0%	0%	0%	-89%	54%
EPS (1 year forward)						Dividend Per Share (\$/sh)	0.00	0.00	0.00	0.00	0.04
Current P/E multiple (implied)						Dividend Yield	0.0%	0.0%	0.0%	0.0%	2.9%
<b>Blended Valuation</b>						Return on Assets (ROA)	-10%	-11%	-6%	-4%	8%
NAV valuation		Target Multiple	Weight			Return on Equity (ROE)	-11%	-11%	-12%	-8%	19%
Earnings valuation		1.00x	100%	A\$3.49		Return on Capital Employed (ROCE)	-11%	-11%	-5%	-3%	14%
<b>VALUATION</b>		0.0x	0%	A\$0.00		Net Debt/EBITDA	2.1x	3.1x	-8.6x	-19.6x	3.6x
<b>Sensitivity Analysis</b>						Gearing (Debt/Equity)	0%	0%	95%	111%	131%
Base case potash price forecast		NAV (A\$/sh)	18F EPS	18F CFPS		Interest Cover	n.m	n.m	n.m	n.m	-0.1x
Base case +10%		3.49	0.14	0.16		Shares Outstanding (m)	156	360	435	530	530
Base case -10%		4.12	0.18	0.19		<b>Income Statement</b>	2014	2015F	2016F	2017F	2018F
Flat potash price (at spot \$305/t)		2.86	0.11	0.13		Revenue	0	0	0	20	253
		3.00	0.11	0.13		Cost of Sales	0	0	0	(7)	(84)
<b>News Catalysts (CY)</b>						G&A	(5)	(5)	(5)	(15)	(15)
Muga DFS		H1 15	H2 15	2016	2017	Exploration	(1)	(12)	(16)	(16)	(16)
Sierra del Perdon resource						Other	0	0	0	0	0
Sierra del Perdon Scoping Study						<b>EBITDA</b>	<b>(6)</b>	<b>(17)</b>	<b>(21)</b>	<b>(18)</b>	<b>138</b>
Muga permits received & financing			Q4			DD&A	0	0	0	(1)	(9)
Muga starts construction			Q4			<b>EBIT</b>	<b>(6)</b>	<b>(17)</b>	<b>(21)</b>	<b>(19)</b>	<b>128</b>
Muga begins production				Q2		Net Interest Expense	0	0	(4)	(10)	(19)
Sierra del Perdon Starts construction				Q1		<b>PBT</b>	<b>(6)</b>	<b>(17)</b>	<b>(25)</b>	<b>(28)</b>	<b>109</b>
<b>Reserves &amp; Resources (attributable)</b>		Tonnage	Grade %	Potash	EV/t	Non-Recurring Items/Other	0	0	0	0	0
Reserves (P&P)	Mt KCI	146	21.2	31.0	11.14	Taxes/Recovery	0	0	0	0	(33)
Resources (M&I)	Mt KCI	281	18.0	50.5	6.84	<b>Net Profit (Loss) - attributable</b>	<b>(6)</b>	<b>(17)</b>	<b>(25)</b>	<b>(28)</b>	<b>76</b>
Resources (Total)	Mt KCI	572	17.8	101.7	3.40	Minority Interest	0	0	0	0	0
<b>Production &amp; Cost</b>		2016F	2017F	2018F	2019F	<b>Cashflow</b>	2014	2015F	2016F	2017F	2018F
Potash Production (KCI, MOP)	000t	0	45	535	1,038	Net Profit (Loss)	(6)	(17)	(25)	(28)	76
Salt Production (NaCl) - excluded	000t	0	0	0	164	DD&A	0	0	164	1	9
Potash Eq. Production	000t	0	45	535	1,090	Non Recurring/Other	1	0	0	0	0
EV/oz Production (attributable)	\$/t	0	7,751	646	333	Working Cap. Changes	0	2	0	0	0
Total Cash Cost (co-product basis)	\$/t	0	116	116	133	<b>Cash Flow From Operations</b>	<b>(4)</b>	<b>(15)</b>	<b>(25)</b>	<b>(28)</b>	<b>86</b>
All-in Sustaining Cost	\$/t	0	146	152	149	Capital Expenditure	(0)	(64)	(280)	(315)	(206)
						Acquis./Investments	(4)	(1)	0	0	0
						<b>Cash Flow From Investing</b>	<b>(4)</b>	<b>(65)</b>	<b>(280)</b>	<b>(315)</b>	<b>(206)</b>
						Equity Issues (Net of Costs)	14	121	75	170	0
						Net Borrowings	0	0	195	190	140
						Dividends Paid & Other	0	0	0	0	(23)
						<b>Cash Flow From Financing</b>	<b>14</b>	<b>121</b>	<b>270</b>	<b>360</b>	<b>117</b>
						Net Change in Cash	5	40	(35)	17	(3)
						<b>Free Cash Flow</b>	<b>(4)</b>	<b>(79)</b>	<b>(305)</b>	<b>(343)</b>	<b>(120)</b>
						<b>Balance Sheet</b>	2014	2015F	2016F	2017F	2018F
						<b>Cash &amp; Equivalents</b>	<b>12</b>	<b>52</b>	<b>17</b>	<b>34</b>	<b>31</b>
						Total Current Assets	13	52	17	34	31
						PP&E & Mining Interests	0	65	345	660	856
						Deferred taxation	0	0	0	0	0
						Other	40	40	40	40	40
						<b>Total Assets</b>	<b>53</b>	<b>157</b>	<b>402</b>	<b>733</b>	<b>927</b>
						Short Term Debt	0	0	0	0	0
						Current Liabilities	2	2	2	2	2
						Long Term Debt	0	0	195	385	525
						Other Long Term Liabilities	0	0	(0)	(0)	0
						<b>Total Liabilities</b>	<b>2</b>	<b>2</b>	<b>197</b>	<b>387</b>	<b>527</b>
						Shareholder Equity	51	155	205	347	400
						<b>Total Liab. &amp; S/Holder Equity</b>	<b>53</b>	<b>157</b>	<b>402</b>	<b>733</b>	<b>927</b>
						Working Capital	11	50	15	32	29
						<b>Net Debt (Cash)</b>	<b>(12)</b>	<b>(52)</b>	<b>178</b>	<b>351</b>	<b>494</b>



Assumptions (Real)	2014	2015F	2016F	2017F	LT
Potash Price (KCI, MOP - \$/t)	379	297	304	300	300
Salt Price (NaCl, \$/t) - excluded	50	50	50	50	50
Exchange Rate (A\$:US\$)	0.97	0.90	0.77	0.75	0.75

\* post-financing basis

Source: Company & Numis Securities Research