



Highfield Resources Ltd (HFR.ASX)

Imminent re-rating with permitting anticipated in near term.

Investment thesis:

- Permit for flagship Muga Project on track for receipt in near term, major re-rating event:** Following discussions with management, we remain confident in the environmental impact assessment (EIA) being awarded in respect of HFR's flagship Muga Potash Project in the near term. The receipt of the EIA is in advance of the official mining concession (targeted by April 2016) and will enable mine construction to officially kick off. We understand that all levels of Government and local provinces have been extremely positive throughout the permitting process and remind investors that Muga is an underground potash mine, with backfilling of salt tailings, no use of cyanide and no uranium. In addition, Pamplona is located within 60kms of Muga and it is expected that ~4,000 people will be employed directly or indirectly, highlighting the strategic importance of Muga for Spain, which currently has an unemployment rate of ~25% and where the whole Navarran economy created only 100 new jobs in 2015. In addition, the project is expected to boost local municipality budgets by >20% annually. The recent engagement of Spanish headquartered and IBEX 35 company Acciona is also a positive endorsement locally.
- Muga identified to be the highest margin potash project globally:** Argus FMB, a global fertilizer consultant mandated by the European project financing banking syndicate (as part of their due diligence and credit committee approvals), recently released an independent report highlighting Muga to be the highest margin and lowest cost potash project globally based upon average 2015 potash prices received into the target markets of Europe, Brazil and the US. The November 2015 optimized DFS highlighted that Muga is expected to produce ~1.1Mtpa MOP for a LOM of almost 50 years at AISC to customer of ~US\$160/t, capex of ~US\$300m (Stage 1) and ~US\$150m (Stage 2). On our estimates, once fully ramped up Muga will be generating ~US\$180m EBITDA p.a, a margin of ~50%. First production is expected late 2017/early 2018.
- Finalization of debt funding expected to be another major catalyst:** Credit approval has been received from 2 of the 4 mandated banks in respect of the 8 year €222m term facility. It is expected approval from the final 2 banks will be given in the near term following satisfactory completion of rigorous due diligence. The project finance facility is subject to the award of the mining concession and together with the existing A\$107m cash at bank (end of CY2015), will go a long way towards funding the development of Muga. We model a funding gap of ~A\$75m, which HFR has optionality in which to cover including equity, project sell-down, offtake and/or reduction in capex by contract mining (or a combination of these). We also expect any such financing to be following the receipt of the permit and debt funding (i.e further de-risked).
- Recent geotechnical drilling has demonstrated high grade and thickness to the south of Muga:** Geotechnical drilling conducted by HFR to the south of Muga's existing resource has highlighted great potential with thick, high grade zones of mineralisation encountered at the limit of the existing resource. Assays include a cumulative 11m @ ~16% K2O (vs 13.5% resource grade). This is expected to materially increase the total resource and endorses the company's decision to build the mine with expansion optionality.

Recommendation:

- We maintain our BUY on HFR and, following a revision to our modelling, derive an updated price target of \$2.30/sh (previously \$2.80/sh).** The revisions primarily relate to the increase in capex and opex as per the optimized DFS.

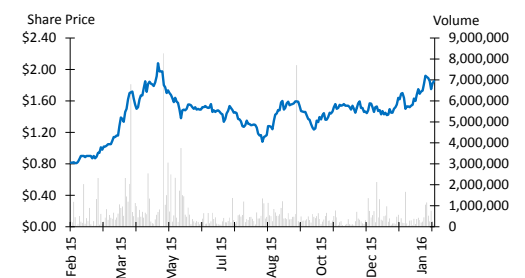
Rating	BUY	
Previous	BUY	
Price Target (\$)	\$2.30	
Previous	\$2.80	
Share Price (\$)	\$1.85	
52 week low - high (\$)	0.67 - 2.08	
Valuation (\$/share)	\$2.29	
Methodology	DCF/Sum of Parts	
Risk	High	
Capital Structure		
Shares on issue (m)		
	FPO	310.8
	Performance	50.0
	Options	52.3
	Total	413.1
Market Cap (\$m)		
	Undiluted	575.0
	Diluted	764.2
Net cash/(debt) (A\$m)		107.5
EV (A\$m)		656.7
	Undiluted	467.5
	Diluted	656.7
Av 3mth daily volume ('000)		624

Board	
Derek Carter	Non Executive Chairman
Anthony Hall	Managing Director
Pedro Rodriguez	Development Director
Richard Crookes	Non Executive Director
Owen Hegarty	Non Executive Director
Jim Dietz	Non Executive Director
Pauline Carr	Non Executive Director

Substantial Shareholders (diluted)	
EMR Capital	25%

Catalysts	
Muga mining concession	Q1 2016
Debt financing finalised	Q1 2016
Muga Development	mid 2016

Share Price Graph



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.



FOSTER STOCKBROKING DIRECTORY

Name	Title	Phone	Email
Stuart Foster	Chief Executive Officer	+61 2 9993 8131	stuart.foster@fostock.com.au
Chris Francis	Executive Director	+61 2 9993 8167	chris.francis@fostock.com.au
Martin Carolan	Executive Director	+61 2 9993 8168	martin.carolan@fostock.com.au
Mark Hinsley	Executive Director	+61 2 9993 8166	mark.hinsley@fostock.com.au
Mark Fichera	Executive Director	+61 2 9998 8163	mark.fichera@fostock.com.au
Haris Khaliqi	Executive Director	+61 2 9993 8152	haris.khaliqi@fostock.com.au
Marc Kennis	Research Analyst	+61 2 9993 8121	marc.kennis@fostock.com.au
Tolga Dokumcu	Trade Execution & Dealing	+61 2 9993 8144	tolga.dokumcu@fostock.com.au
George Mourtzouhos	Trade Execution & Dealing	+61 2 9993 8136	george.mourtzouhos@fostock.com.au

Foster Stockbroking Pty Limited A.B.N 15 088 747 148 AFSL 223687
 Level 25, 52 Martin Place, SYDNEY, NSW 2000 Australia
 T: +61 2 9993 8100 Fax: +61 2 9993 8181
 Email: contact@fostock.com.au
 PARTICIPANT OF ASX GROUP

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