

Australian Equity Research
 18 July 2017

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BUY

unchanged

PRICE TARGET A\$1.45↓

from A\$1.85

Price (19-Jul) A\$0.86

Ticker HFR-ASX

52-Week Range (A\$):	0.76 - 1.54
Avg Daily Vol (000s) :	312.1
Market Cap (A\$M):	277
Shares Out. (M) :	322.0
Dividend /Shr (AUC):	0.0
Dividend Yield (%) :	0.0
Net Debt (Cash) (A\$M):	(70)
Enterprise Value (A\$M):	207
Major Shareholders:	EMR Capital 26%

FYE Jun	2016A	2017E	2018E	2019E
Potash Production (000t)	0	0	0	0
Total Cash Cost (Potash) (US\$/t)	0	0	0	0
EBITDA (A\$M)	(14.1)	(8.2)↑	(10.0)↑	(2.8)↓
Previous	-	(9.9)	(11.1)	35.5
Net Income (A\$M)	(10.6)	(4.9)↑	(7.0)↑	(4.8)↓
Previous	-	(6.2)	(11.9)	15.3



Priced as of close of business 19 July 2017

Highfield Resources Ltd (HFR) is a potash development company. HFR holds 100% interest in three projects located within the Ebro Basin in northern Spain. The company's primary asset is the 100% owned Muga-Vipasca Potash Project in Spain.

Lowering Target Price

JunQ'17 report

HFR remains in a holding pattern, as it continues to progress its Muga potash project through the relevant environment approvals process in Spain. The company achieved an important milestone during the JunQ'17, submitting revised documentation pertaining to the Spanish government granting the Environmental Permit, which was subsequently reviewed and has come back to HFR for final clarification. HFR remains engaged with all key stakeholders, and continues to have strong resolve that the project will move forward. To that point, the company has announced that it intends to pursue a public exposition period for the project to refresh stakeholder input, commencing on 1 September 2017. While the additional consultation has pushed back our development timeline by six months, we believe the decision is a prudent one, and should be the final hurdle before granting of the Environmental Permit which we now expect in the 2H FY18. Our revised price target is A\$1.45/sh (previously A\$1.85/sh) and we maintain a BUY recommendation.

Balance sheet in good standing as spending scaled back. Engineering work slowed markedly during the JunQ'17, with many aspects of the project advanced as far as practical ahead of receipt of the Environmental and Mining permits. HFR is now focused on fine tuning key mining and input costs, which we see as a low cost process that should have beneficial impacts once the project is in operation. Data from a modest drill program, coupled with ongoing project and capital optimisation outcomes will form part of an updated Feasibility Study that will likely be released inline with the finalisation of Permits. We note that HFR has good optionality for capital savings, particularly with respect to mining equipment, which has been budgeted on an owner/operator basis. Stages 1 & 2 currently allows €80m for plant equipment, and if the company explores contract mining or vendor finance options, a considerable savings on the upfront outlay may be realised. HFR reported a cash balance of A\$69.6m at the end of the JunQ'17, down from A\$70m at the end of the MarQ'17.

Development assumptions pushed back. While we continue to see the Muga project supporting a 1.1Mtpa potash (K60) production profile at forecast total cash costs ~US \$150-160/t LOM, we have pushed back our development timeline to allow for the additional public consultation period. We envisage a staged ramp-up scenario, with initial production by SepQ'19 (ramping to 540ktpa), and nameplate (1.1Mtpa) by DecQ'20. At steady state, we forecast that the Muga project should generate EBITDA of +A\$200m, at margins of +50%.

Financing discussions ongoing. HFR is maintaining dialogue with the ~€185m (A \$270m) project finance syndicate, and remains confident of putting the debt in place following receipt of all approvals, to support a final investment decision and the commencement of construction. At this stage, we forecast the debt and equity (CG assume A\$140m) to be finalised by mid 2018, allowing for a ~15-18 month construction phase ahead of first production.

Valuation. Our A\$1.45/sh price target (previously A\$1.85/sh) has reduced, resultant of pushing back the development timeline by ~six months and also incorporating updated equity financing assumptions of A\$140m at A\$0.85/sh (previously A\$140m at A\$1.00/sh). The valuation is underpinned by Muga (NPV10%) and nominal development asset value, net of corporate and other adjustments.

FINANCIAL SUMMARY

Highfield Resources

ASX:HFR

Analyst: Tim McCormack
Date: 19/07/2017
Year End: June

Rating: **BUY**

Target price: **1.45**

Market Information

Share Price	A\$	0.86
Market Capitalisation (FD)	A\$m	294.3
12 Month Hi-Lo	A\$	1.89-0.96
Issued Capital	m	322.03
Options	m	49.58
ITM options	m	20.15
Fully Diluted (ITM options only)	m	342.18

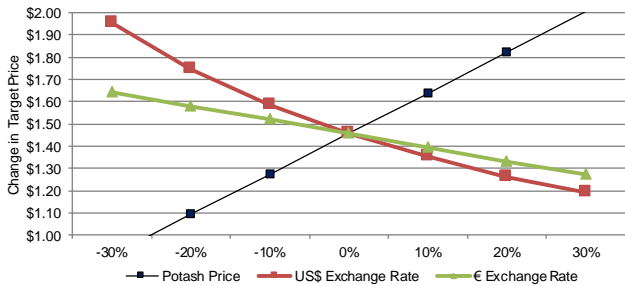
Valuation

	A\$m	Risk Adj.	A\$/share
Muga	NPV @ 10%	572.9	1.13
Expansion projects		100.0	0.20
Cash		69.5	0.14
Options (ITM only)		12.7	0.03
Less: Debt		-	-
Future Equity Raised		-	-
Less: Corporate & O'heads	(31.0)	(0.06)	(0.06)
TOTAL NAV	724.1		1.43
Price:NAV			0.60
Price Target			1.45

Assumptions

	2018e	2019e	2020e
Granular Potash Price (Euro\$/t CFR Europe)	295	295	295
Granular Potash Price (US\$/t CFR Brazil)	263	285	285
AUD:USD	0.76	0.75	0.75
Euro/US\$	1.06	1.08	1.10

Valuation Sensitivity



Production Metrics

	2018e	2019e	2020e
Muga			
Potash Production (kt)	0	0	378
Total Cash Operating Costs (US\$/t)	0	0	156

Reserves & Resources

	Mt	Grade (%)	Cont'd K2O
Reserves - Muga			
Proven	82	11.7%	9.6
Probable	172	11.4%	19.6
Total	254	11.5%	29
Resources - Muga			
M&I	224	13.4%	30
Inferred	39	13.8%	5
Total	264	11.5%	35
Resources - Sierra del Perdon			
M&I	42	10.7%	4
(Sylvinite resource only)			
Inferred	40	10.5%	4
Total	82	10.6%	9
Resources - Pintano			
M&I	-	-	-
Inferred	187	11.2%	21
Total	187	11.2%	21

Directors & Management

Name	Position
Derek Carter	NE Chairman
Peter Albert	Managing Director
Owen Hegarty	NE Director
Richard Crookes	NE Director
Pauline Carr	Independent NE Director
Jim Dietz	Independent NE Director

Substantial Shareholders (fully diluted basis)

	%
EMR Capital	26.0%

Source: HFR & Canaccord Genuity estimates

Company Description

Highfield Resources Limited (HFR:ASX) is an Australia potash exploration and development company focused on the development of five Spanish potash assets. Highfield acquired the Javier (now Muga), Pintano, Sierra del Perdon Projects in 2012 and has since expanded its portfolio to include Izaga in 2015.

Profit & Loss (A\$m)

	2016a	2017e	2018e	2019e	2020e
Revenue	0.0	0.0	0.0	0.0	144.1
Operating Costs	0.0	0.0	0.0	0.0	-72.1
Royalties	0.0	0.0	0.0	0.0	0.0
Corporate & O'heads	-14.1	-3.6	-9.0	-2.1	-2.1
Exploration (Expensed)	0.0	-4.6	-1.0	-0.8	-0.5
EBITDA	-14.1	-8.2	-10.0	-2.8	69.3
Dep'n	-0.0	0.0	0.0	0.0	-11.1
EBIT	-14.1	-8.2	-10.0	-2.8	58.2
Net Interest	0.0	0.0	-1.0	-4.9	-10.0
Tax	0.0	1.6	2.3	1.6	-12.3
NPAT	-10.6	-4.9	-7.0	-4.8	36.8
Abnormals	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	-10.6	-4.9	-7.0	-4.8	36.8

Cash Flow (A\$m)

	2016a	2017e	2018e	2019e	2020e
Cash Receipts	0.0	0.0	0.0	0.0	144.1
Cash paid to suppliers & employees	-4.3	-3.6	-2.0	-2.1	-74.3
Tax Paid	0.0	0.0	0.0	0.0	0.0
Net Interest	2.4	1.6	0.7	-3.5	-9.1
Operating Cash Flow	-0.8	-6.0	-1.3	-5.6	60.7
Exploration and Evaluation	-24.0	-18.4	-4.0	-3.0	-2.0
Capex	-0.5	0.0	-126.5	-214.7	-111.5
Other	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	-24.5	-18.4	-130.5	-217.7	-113.5
Debt Drawdown (repayment)	0.0	0.0	100.0	100.0	70.0
Share capital	0.4	0.0	140.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Financing Expenses	0.0	0.0	-7.0	0.0	0.0
Financing Cash Flow	0.4	0.0	233.0	100.0	70.0
Opening Cash	118.8	93.9	69.5	170.7	47.4
Increase / (Decrease) in cash	-24.9	-24.4	101.1	-123.2	17.2
FX Impact	0.0	0.0	0.0	0.0	0.0
Closing Cash	93.9	69.5	170.7	47.4	64.7

Balance Sheet (A\$m)

	2016a	2017e	2018e	2019e	2020e
Cash + S/Term Deposits	93.9	69.5	170.7	47.4	64.7
Other current assets	0.6	0.0	7.0	0.0	66.3
Current Assets	94.5	69.5	177.7	47.4	130.9
Property, Plant & Equip.	28.0	13.8	3.0	2.3	1.5
Exploration & Develop.	0.0	4.6	1.0	0.8	0.5
Other Non-current Assets	0.6	0.6	108.1	290.6	376.0
Payables	3.3	0.0	0.0	0.0	7.2
Short Term debt	0.0	30.0	85.0	100.0	45.0
Long Term Debt	0.0	-30.0	15.0	100.0	225.0
Other Liabilities	0.7	-2.3	2.4	-6.1	30.9
Net Assets	154.5	149.5	282.5	277.8	348.9
Shareholders Funds	166.4	166.4	306.4	306.4	306.4
Reserves	17.6	17.6	17.6	17.6	51.9
Retained Earnings	-29.5	-34.4	-41.4	-46.2	-9.3
Total Equity	154.5	149.5	282.5	277.8	348.9

Ratios & Multiples

	2016a	2017e	2018e	2019e	2020e
EBITDA Margin	nm	nm	nm	nm	48%
EV/EBITDA	nm	nm	nm	nm	9.0x
Op. Cashflow/Share	\$0.00	-\$0.02	\$0.00	-\$0.01	\$0.12
P/CF	nm	nm	nm	-75.3x	6.9x
EPS	-\$0.03	-\$0.02	-\$0.02	-\$0.01	\$0.08
EPS Growth	nm	nm	nm	nm	-875%
PER	-25.1x	-56.0x	-57.1x	-88.1x	11.4x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%	0%
ROE	-7%	-3%	-2%	-2%	11%
ROIC	-8%	-5%	-2%	0%	9%
Debt/Equity	0%	-20%	5%	36%	64%
Net Interest Cover	nm	nm	-10.2x	-0.6x	5.8x
Book Value/share	\$0.50	\$0.46	\$0.58	\$0.57	\$0.72
Price/Book Value	1.7x	1.9x	1.5x	1.5x	1.2x

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Investment Recommendation

Date and time of first dissemination: July 18, 2017, 22:25 ET

Date and time of production: July 18, 2017, 22:25 ET

Target Price / Valuation Methodology:

Highfield Resources Limited - HFR

The target price for HFR is set using a DCF (NPV) methodology for the two principal assets in combination with a sum of the parts NAV.

Risks to achieving Target Price / Valuation:

Highfield Resources Limited - HFR

- **Geological risk** – the actual characteristics of an ore deposit may differ significantly from initial interpretations and expectations.
- **Financing risk** – the ability for HFR to fund further exploration and resource drilling and the development of its projects should also be considered a key investment risk. Credit markets may prove to be not conducive to raising the required funds to commence construction of the project.
- **Permitting** – many of the licenses held for all three projects are pending for approval for Investigation Permits. Once an Investigation Permit is allocated, HFR would then need to apply and receive a Mining Concession before commencement of construction and mining. There are always unforeseen risks associated with permitting.
- **Capital expenditure & operating risk** – the risk that capital and/or operating costs exceed budget and/or exhaust available funding before project completion, and reduce the profitability and free cash generation of the project.
- **Commodity price & exchange rate risk** – as with all mining and mineral exploration companies, commodity price and exchange rate risks should also be considered.

Distribution of Ratings:

Global Stock Ratings (as of 07/18/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	578	60.46%	40.14%
Hold	276	28.87%	21.74%
Sell	25	2.62%	12.00%
Speculative Buy	77	8.05%	71.43%
	956*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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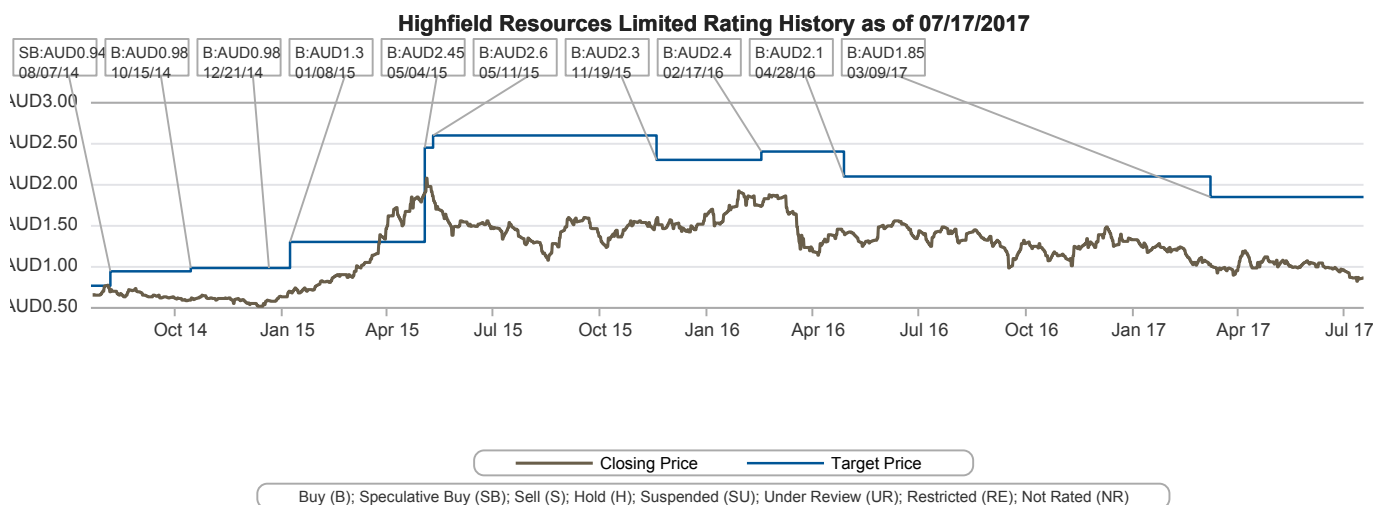
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