



## Highfield Resources Ltd (HFR.ASX)

All systems are go – Muga Mining Concession granted

### Event:

- Muga Mining Concession grant; potash market update.

### Investment Highlights:

- Mining Concession granted.** HFR today announced it was granted the Mining Concession for Muga, signed and approved by both Federal government (Madrid) and the two provincial governments (Aragon and Navarra). The key milestone allows HFR to accelerate its construction, financing, and FID which could not fully progress previously.
- Pre-construction activities the immediate focus.** HFR stated it will expedite pre-construction activities, including initiating long-lead miner bolter construction, completing agreement with its preferred contractor, and securing construction licenses.
- Financing to progress – options available in positive environment.** HFR can now accelerate financing activities, examining both debt and equity. We believe these include bank syndicates, potential offtakers, and strategics. Given the Tier 1 nature of the project and strong potash markets, we believe HFR lies in a favourable negotiating position. We assume A\$600M to fund Phase 1 capex, working capital, financing, and corporate.
- Offtake – a seller's market.** HFR has non-binding MoUs for offtake but since these were signed the potash market has strengthened considerably (see below). We expect the company occupies a strong position to finalise attractive terms with existing and/or new offtakers.
- Project recap – lowest cost quartile MoP producer, 30 year mine life.** Muga is scheduled to produce 1Mtpa MoP over 30-years. Nil royalties; shaftless mining; shallow, thick and continuous seams; local workforce; proximity to power; and salt by-product contribute to it being in the lowest cost quartile. Muga is advantaged in pricing with relative short shipping distance to major ex-Southern Europe markets (USA, Brazil, Northern Europe, and Africa) vs competing supply.
- MoP prices up between 40% and 100% in CY21.** Major price indices (US NOLA, Brazil, Vancouver, Saskatchewan, NW Europe) are up between 40% and 100% year-to-date due to fierce tailwinds: 1) Tight supply – e.g. Mosaic reducing production by 1Mt (2% of global supply) to March 2022 and Jansen now unlikely before 2029/30; 2) High crop prices; and 3) Geopolitical risks such as EU and US tariffs on Belarus which accounts for 20% of MoP supply.

### Earnings and Valuation:

- No changes to forecast earnings.** We forecast first revenues in CY2023e, and maiden earnings in CY2025e. We expect first full year of Phase 2 production in CY2027e, forecasting A\$258M EBITDA and A\$195M NPAT.
- We value HFR at \$1.34/share (unchanged), based on 0.7x NPV<sub>10</sub>.** We assume 50:50 debt:equity funding of pre-production capex.

### Recommendation:

- We maintain our Buy recommendation and unchanged \$1.34/share 12-month price target based on our risked valuation
- Catalysts for the share price include:** 1) Binding offtake agreements; 2) Finalisation of financing; 3) FID; and 4) Commencement of construction.

### Disclosures

The analyst owns 33,607 HFR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 33,607 HFR shares.

Cranport Pty Ltd does not own HFR securities.

Refer details end of report.

**Foster Stockbroking provides corporate advisory services to HFR, for which it may receive fees.**

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.34
Previous	\$1.34
Share price (A\$)	\$ 0.76
ASX code	HFR
52 week low-high	\$0.38-\$0.885
Valuation - risked (A\$/share)	\$ 1.34
Methodology	risked NPV
Capital structure	
Shares on Issue (M)	330
Market cap (A\$M)	249
Net cash (debt) (A\$M)	20
Options (M)	35
Diluted EV (A\$M)	256
Ave daily volume ('000)	90

Earnings y/e Dec A\$M	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	63
EBITDA adj	-6	-7	-8	18
NPAT reported	-24	-7	-4	-72
NPAT adj	-6	-7	-4	-72
EPS adj. \$*	-0.02	-0.01	-0.01	-0.09
EV/EBITDA x	nm	nm	nm	22.3x

\* Adj =underlying

### Substantial shareholders

EMR Capital Investment (No.2) Pte Ltd	32%
WWB Investments Pty Ltd	11%
Australian Super Pty Ltd	5%

### Board

Richard Crookes	Non-Executive Chairman
Pauline Carr	Non-Executive Director
Roger Davey	Non-Executive Director
Brian Jamieson	Non-Executive Director
Isaac Querub	Non-Executive Director

### Share price graph



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**Highfield Resources (HFR)**

Full Year Ended 31 December

Profit and Loss A\$M	2020a	2021e	2022e	2023e
Revenue	0	0	0	63
Operating costs adj.	6	7	8	45
<b>EBITDA adj.</b>	<b>-6</b>	<b>-7</b>	<b>-8</b>	<b>18</b>
D&A	0	0	0	72
<b>EBIT adj.</b>	<b>-6</b>	<b>-7</b>	<b>-8</b>	<b>-54</b>
Net Interest exp / (income)	0	0	-4	18
<b>PBT adj.</b>	<b>-6</b>	<b>-7</b>	<b>-4</b>	<b>-72</b>
Tax exp / (benefit) adj.	0	0	0	0
<b>NPAT adj.</b>	<b>-6</b>	<b>-7</b>	<b>-4</b>	<b>-72</b>
Non-recurring items	-18	0	0	0
<b>NPAT reported</b>	<b>-24</b>	<b>-7</b>	<b>-4</b>	<b>-72</b>
<b>EPS diluted adj. (\$)</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.09</b>
Wtd ave share diluted (M)	330	737	737	842

Cashflow A\$M	2020a	2021e	2022e	2023e
EBITDA adj.	-6	-7	-8	18
Change in WC	1	0	0	-10
Net interest	0	0	4	-18
Tax	0	0	0	0
Share based expense	2	2	2	2
Other	0	0	0	0
<b>Operating Cashflow</b>	<b>-3</b>	<b>-5</b>	<b>-2</b>	<b>-8</b>

Purchase of PP&E	0	-100	-293	-194
Acquisitions	0	0	0	0
Capitalised expenses	-17	0	0	0
Investments	0	0	0	0
Other	0	0	0	0
<b>Investing Cashflow</b>	<b>-17</b>	<b>-100</b>	<b>-293</b>	<b>-194</b>

Equity issue	0	289	0	75
Debt proceeds	0	0	289	75
Debt repayments	0	0	0	0
Other	0	0	0	0
<b>Financing Cashflow</b>	<b>0</b>	<b>289</b>	<b>289</b>	<b>150</b>

**Net Cashflow** -20 185 -6 -52

Balance Sheet A\$M	2020a	2021e	2022e	2023e
Cash	20	205	199	147
Receivables	1	1	1	10
Inventories	0	0	0	5
PPE	0	100	393	514
Capitalised expl'n	112	112	112	112
Intangibles	0	0	0	0
Other	0	4	2	0
<b>Total Assets</b>	<b>133</b>	<b>422</b>	<b>707</b>	<b>789</b>

Accounts payable	5	5	5	4
Provisions	0	0	0	2
Debt	0	0	289	364
Other	0	6	6	9
<b>Total Liabilities</b>	<b>5</b>	<b>10</b>	<b>299</b>	<b>378</b>

Capital & reserves	202	491	491	566
Retained earnings	-73	-80	-84	-155
<b>Total Equity</b>	<b>129</b>	<b>411</b>	<b>408</b>	<b>411</b>

Valuation Multiples	2020a	2021e	2022e	2023e
P/E x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	22.3

**Company Valuation**

DCF, WACC 10% nominal				
Segment	Unrisked A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh
Muga	871	\$0.99	697	\$0.79
Sierra del Perdon	363	\$0.41	182	\$0.21
Pintano	50	\$0.06	15	\$0.02
Corporate	-72	-\$0.08	-58	-\$0.07
Future equity	364	\$0.42	292	\$0.33
Options in-money-at val'n	35	\$0.04	28	\$0.03
Net cash	20	\$0.02	20	\$0.02
<b>Total</b>	<b>1,632</b>	<b>\$1.86</b>	<b>1,175</b>	<b>\$1.34</b>
Shares now M	330			
Future equity M	513			
Options-in-money at val'n M	34			
<b>Fully diluted shares M</b>	<b>877</b>			

**Commodity Assumptions**

	2020a	2021e	2022e	2023e
<b>Prices:</b>				
Potash, MoP, NW Europe FOB	US\$/t 257	280	288	295
Salt wtd ave. (de-icing & vacuum)	US\$/t 35	33	33	34
A\$	US\$ 0.71	0.73	0.75	0.75
Euro	US\$ 1.14	1.17	1.18	1.18
<b>Shipments:</b>				
Potash, MoP	kt 0.0	0.0	0.0	144
Salt	kt 0.0	0.0	0.0	127
<b>AISC</b>	US\$/t -	-	-	108

Resources	Ore Mt	K <sub>2</sub> O%	K <sub>2</sub> O Mt
Muga	267	12.4%	33
Sierra del Perdon	82.1	10.6%	9
Pintano	71	11.9%	8
<b>Total</b>	<b>420</b>	<b>12.0%</b>	<b>50</b>

Reserves	Ore Mt	K <sub>2</sub> O%	K <sub>2</sub> O Mt
Muga	109	10.2%	11

Exploration Targets	Ore Mt	K <sub>2</sub> O%	K <sub>2</sub> O Mt
Vipasca - base	1,160	13%	154
Sierra del Perdon - midpoint	250	11%	28

Capital structure	M
Ordinary shares	330
Options	34
<b>Fully diluted</b>	<b>364</b>

Source: Company; Foster Stockbroking estimates



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