



## Highfield Resources Ltd (HFR.ASX)

Placement keeps path to construction as potash prices rise

### Event:

- Potash, earnings and PT upgrades; Share placement; Spot scenario analysis.

### Investment Highlights:

- \$15M placement completed, \$4M SPP to follow.** HFR completed a \$15M equity share placement at \$0.52, with a \$4M share purchase plan to follow. Together with June cash balance of \$12.6M, the \$31.6M will provide funds for the company to progress pre-construction works at Muga.
- Major activities in progress.** Funds will be used to advance long-lead item orders (including the bolter miner); power supply; negotiating financing of project corporate costs; and working capital costs. HFR is also finalising its construction agreement with preferred contractor Acciona, and securing local town hall construction licences.
- Potash prices rise as farmers enjoy wealth effect.** High crop prices have fuelled farmer economics in 2021, allowing affordability of rising potash prices. Major potash producers have noted low crop stocks to use ratios which are sustaining prices. All potash indices have continued rising, with Brazil MOP cfr price now US\$650/t and Europe MOP cfr price €380/t (US\$445/t).

### Earnings and Valuation:

- Upgrading our potash price forecast.** We have increased our potash MOP forecasts, including our long-term price up 7% to US\$319/t (prior US\$299/t). We have also made minor revisions to currency forecasts.
- Earnings upgraded on back of higher potash prices.** For our 1Mtpa Muga case we now forecast annual HFR revenue of \$473M, EBITDA \$292M, and NPAT of \$188M, up 10%, 18%, and 33%. We now expect first revenues in FY24e (previously FY23e), in-line with recent company guidance, with finalisation of project financing and start of major construction by beginning FY22e.
- Risked share valuation (0.4x NPV<sub>10</sub>) increases to \$1.56 from \$1.34 as a result of our upgraded earnings from higher potash prices.** This more than offsets our push back of earnings and dilution from the recent placement.
- Running spot prices in our model shows further upside, yielding annual HFR EBITDA of \$499M, NPAT \$295M, and NPV<sub>10</sub> of \$2.7b at 1Mtpa case.** Using spot Brazil and Europe potash prices, assuming 50%/25%/25% sales mix to Southern Europe/Northern Europe/Brazil, results in average net-back of US\$484/t vs our base case US\$306/t. Risked NPV<sub>10</sub> increases to \$2.89/share from our base case \$1.56/share. We estimate each US\$10/t change in potash price adds \$11M and \$13M to HFR NPAT and EBITDA, and \$110M to NPV.

### Recommendation:

- We maintain our Buy recommendation and increase our 12-month share price target to \$1.56 from \$1.34 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 552,839 HFR shares.

Cranport Pty Ltd owns 1,298,077 HFR shares.

Refer details end of report.

**Foster Stockbroking acted as Joint Lead Manager to the \$15M placement of 28.8M HFR shares at \$0.52 in August 2021, and received fees for the service.**

| Recommendation                 | Buy            |
|--------------------------------|----------------|
| Previous                       | Buy            |
| Risk                           | High           |
| Price Target                   | \$1.56         |
| Previous                       | \$1.34         |
| Share price (A\$)              | \$ 0.53        |
| ASX code                       | HFR            |
| 52 week low-high               | \$0.40-\$0.885 |
| Valuation - risked (A\$/share) | \$ 1.56        |
| Methodology                    | risked NPV     |
| Capital structure              |                |
| Shares on Issue (M)*           | 367            |
| Market cap (A\$M)*             | 195            |
| Net cash (debt) (A\$M)*        | 32             |
| Options (M)                    | 20             |
| Diluted EV (A\$M)*             | 173            |
| Ave daily volume ('000)        | 100            |

\*Pro-forma assuming \$4M SPP.

| Earnings y/e Dec A\$M | FY20a | FY21e | FY22e | FY23e |
|-----------------------|-------|-------|-------|-------|
| Sales                 | 0     | 0     | 0     | 0     |
| EBITDA adj            | -6    | -7    | -8    | -9    |
| NPAT reported         | -24   | -7    | -7    | -5    |
| NPAT adj              | -6    | -7    | -7    | -5    |
| EPS adj. \$*          | -0.02 | -0.02 | -0.01 | -0.01 |

\* Adj =underlying

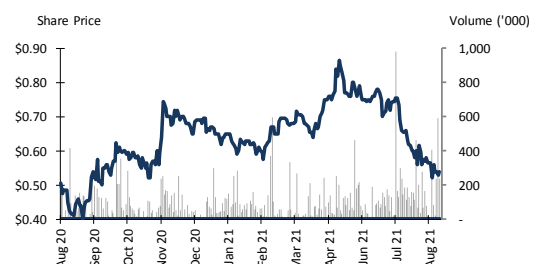
### Substantial shareholders

|                                       |     |
|---------------------------------------|-----|
| EMR Capital Investment (No.2) Pte Ltd | 29% |
| WWB Investments Pty Ltd               | 11% |
| Australian Super Pty Ltd              | 5%  |

### Board

|                 |                        |
|-----------------|------------------------|
| Richard Crookes | Non-Executive Chairman |
| Ignacio Salazar | Managing Director      |
| 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            | 0            |
| Operating costs adj.         | 6            | 7            | 8            | 9            |
| <b>EBITDA adj.</b>           | <b>-6</b>    | <b>-7</b>    | <b>-8</b>    | <b>-9</b>    |
| D&A                          | 0            | 0            | 0            | 0            |
| <b>EBIT adj.</b>             | <b>-6</b>    | <b>-7</b>    | <b>-8</b>    | <b>-9</b>    |
| Net Interest exp / (income)  | 0            | 0            | -1           | -4           |
| <b>PBT adj.</b>              | <b>-6</b>    | <b>-7</b>    | <b>-7</b>    | <b>-5</b>    |
| Tax exp / (benefit) adj.     | 0            | 0            | 0            | 0            |
| <b>NPAT adj.</b>             | <b>-6</b>    | <b>-7</b>    | <b>-7</b>    | <b>-5</b>    |
| Non-recurring items          | -18          | 0            | 0            | 0            |
| <b>NPAT reported</b>         | <b>-24</b>   | <b>-7</b>    | <b>-7</b>    | <b>-5</b>    |
| <b>EPS diluted adj. (\$)</b> | <b>-0.02</b> | <b>-0.02</b> | <b>-0.01</b> | <b>-0.01</b> |
| Wtd ave share diluted (M)    | 330          | 368          | 942          | 942          |

| Cashflow A\$M             | 2020a     | 2021e     | 2022e     | 2023e     |
|---------------------------|-----------|-----------|-----------|-----------|
| EBITDA adj.               | -6        | -7        | -8        | -9        |
| Change in WC              | 1         | 0         | 0         | -3        |
| Net interest              | 0         | 0         | 1         | 4         |
| 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>-5</b> | <b>-6</b> |

|                           |            |          |             |             |
|---------------------------|------------|----------|-------------|-------------|
| Purchase of PP&E          | 0          | 0        | -143        | -293        |
| 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>0</b> | <b>-143</b> | <b>-293</b> |

|                           |          |           |            |            |
|---------------------------|----------|-----------|------------|------------|
| Equity issue              | 0        | 19        | 300        | 0          |
| Debt proceeds             | 0        | 0         | 0          | 300        |
| Debt repayments           | 0        | 0         | 0          | 0          |
| Other                     | 0        | 0         | 0          | 0          |
| <b>Financing Cashflow</b> | <b>0</b> | <b>19</b> | <b>300</b> | <b>300</b> |

|                     |            |           |            |          |
|---------------------|------------|-----------|------------|----------|
| <b>Net Cashflow</b> | <b>-20</b> | <b>14</b> | <b>152</b> | <b>1</b> |
|---------------------|------------|-----------|------------|----------|

| Balance Sheet A\$M       | 2020a      | 2021e      | 2022e      | 2023e      |
|--------------------------|------------|------------|------------|------------|
| Cash                     | 20         | 34         | 186        | 187        |
| Receivables              | 1          | 1          | 1          | 0          |
| Inventories              | 0          | 0          | 0          | 0          |
| PPE                      | 0          | 0          | 143        | 436        |
| 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>152</b> | <b>444</b> | <b>735</b> |
| Accounts payable         | 5          | 5          | 5          | 1          |
| Provisions               | 0          | 0          | 0          | 0          |
| Debt                     | 0          | 0          | 0          | 300        |
| Other                    | 0          | 6          | 6          | 5          |
| <b>Total Liabilities</b> | <b>5</b>   | <b>10</b>  | <b>10</b>  | <b>306</b> |
| Capital & reserves       | 202        | 221        | 521        | 521        |
| Retained earnings        | -73        | -80        | -87        | -92        |
| <b>Total Equity</b>      | <b>129</b> | <b>141</b> | <b>434</b> | <b>429</b> |

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

| Company Valuation                        |              |               |              |               |
|--|--------------|---------------|--------------|---------------|
| DCF, WACC 10% nominal                    |              |               |              |               |
| Segment                                  | Unrisked     | Unrisked      | Risked       | Risked        |
|  | A\$M         | A\$/sh        | A\$M         | A\$/sh        |
| Muga                                     | 990          | \$2.15        | 792          | \$0.94        |
| Sierra del Perdon                        | 541          | \$1.18        | 271          | \$0.32        |
| Pintano                                  | 57           | \$0.12        | 17           | \$0.02        |
| Corporate                                | -73          | -\$0.16       | -58          | -\$0.07       |
| Future equity                            | 300          | \$0.65        | 240          | \$0.29        |
| Options in-money-at val'n                | 16           | \$0.03        | 13           | \$0.02        |
| Net cash pro-forma*                      | 32           | \$0.07        | 32           | \$0.04        |
| <b>Total</b>                             | <b>1,863</b> | <b>\$4.05</b> | <b>1,306</b> | <b>\$1.56</b> |
| Shares now pro-forma M*                  | 367          |               | 367          |               |
| Future equity M                          | 74           |               | 453          |               |
| Options-in-money at val'n M              | 20           |               | 20           |               |
| <b>Fully diluted shares pro-forma M*</b> | <b>460</b>   |               | <b>839</b>   |               |

\*Assumes \$4M SPP

| Commodity Assumptions             | 2020a  | 2021e | 2022e | 2023e |      |
|-----------------------------------|--------|-------|-------|-------|------|
| <b>Prices:</b>                    |        |       |       |       |      |
| Potash, MoP, Europe FOB           | US\$/t | 265   | 343   | 313   | 312  |
| Salt wtd ave. (de-icing & vacuum) | US\$/t | 36    | 33    | 33    | 34   |
| A\$                               | US\$   | 0.69  | 0.77  | 0.76  | 0.76 |
| Euro                              | US\$   | 1.14  | 1.19  | 1.18  | 1.21 |

|                   |    |     |     |     |   |
|-------------------|----|-----|-----|-----|---|
| <b>Shipments:</b> |    |     |     |     |   |
| Potash, MoP       | kt | 0.0 | 0.0 | 0.0 | 0 |
| Salt              | kt | 0.0 | 0.0 | 0.0 | 0 |

|             |        |   |   |   |   |
|-------------|--------|---|---|---|---|
| <b>AISC</b> | US\$/t | - | - | - | - |
|-------------|--------|---|---|---|---|

| 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                  |

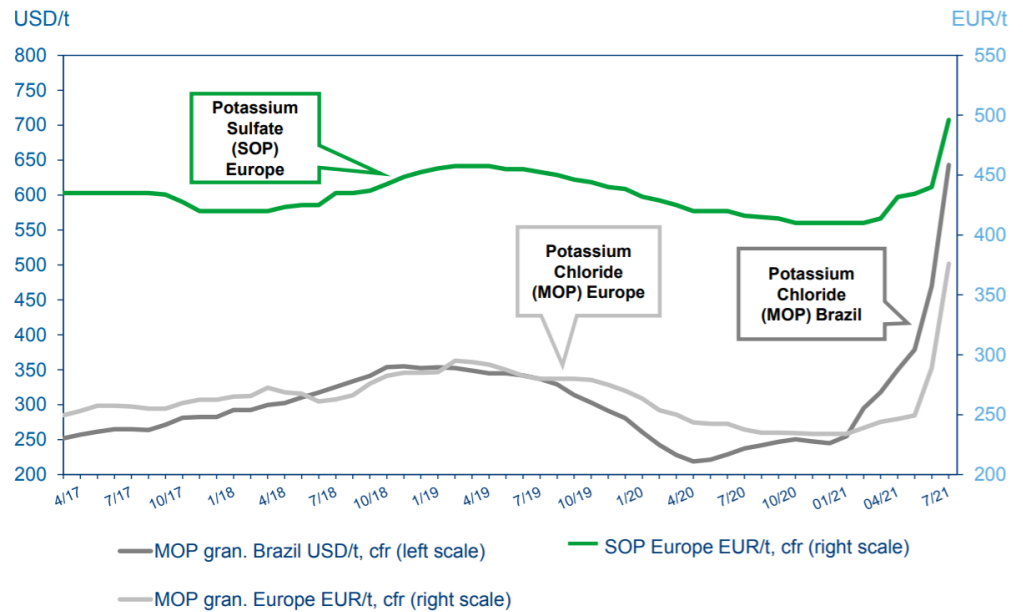
| Capital structure               | M          |
|---------------------------------|------------|
| Ordinary shares pro-forma*      | 367        |
| Options                         | 20         |
| <b>Fully diluted pro-forma*</b> | <b>387</b> |

\*Assumes \$4M SPP.

Source: Company; Foster Stockbroking estimates

## POTASH PRICES ON RISE

Figure 1: Potash Prices on Rise in 2021



Source: K+S; FMB Argus Potash.

## UPGRADING OUR POTASH PRICE FORECASTS

- We have upgraded our potash MOP price forecast, including long-term by 7% to US\$319/t. Currency revision are minor.

Figure 2: Commodity Revisions

|                        |            | FY20a       | FY21e       | FY22e       | FY23e       | FY24e       | LT          |
|------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Potash MoP fob, US\$/t | <b>New</b> | <b>265</b>  | <b>343</b>  | <b>313</b>  | <b>312</b>  | <b>322</b>  | <b>319</b>  |
|                        | Old        | 257         | 280         | 288         | 295         | 299         | 299         |
|                        | Chng       | 3%          | 22%         | 9%          | 6%          | 8%          | 7%          |
| €:US\$                 | <b>New</b> | <b>1.14</b> | <b>1.19</b> | <b>1.18</b> | <b>1.21</b> | <b>1.22</b> | <b>1.22</b> |
|                        | Old        | 1.14        | 1.17        | 1.18        | 1.18        | 1.18        | 1.18        |
|                        | Chng       | 0%          | 2%          | 0%          | 3%          | 3%          | 3%          |
| US\$:A\$               | <b>New</b> | <b>0.69</b> | <b>0.77</b> | <b>0.76</b> | <b>0.76</b> | <b>0.75</b> | <b>0.74</b> |
|                        | Old        | 0.705       | 0.73        | 0.75        | 0.75        | 0.75        | 0.75        |
|                        | Chng       | -2%         | 5%          | 2%          | 1%          | 0%          | -1%         |

Source: Foster Stockbroking estimates.

**EARNINGS AND VALUATION CHANGES**

- Post our potash and currency revisions, our earnings for HFR have increased, with averages shown in Figure 3 for the 1Mtpa case. Our risked NPV<sub>10</sub> share valuation has risen to \$1.56 from \$1.34.

**Figure 3: HFR Long-Term Annual Earnings and Valuation at 1Mtpa**

| Metric                          | New    | Old    | Chng |
|---------------------------------|--------|--------|------|
| Potash MOP fob US\$/t           | 319    | 299    | 7%   |
| Sales \$M                       | 473    | 430    | 10%  |
| EBITDA \$M                      | 292    | 247    | 18%  |
| NPAT \$M                        | 188    | 141    | 33%  |
| Risked NPV <sub>10</sub> /share | \$1.56 | \$1.34 | 16%  |

Source: Foster Stockbroking estimates.

**SPOT PRICE SCENARIO SHOWS FURTHER UPSIDE**

- We have run our HFR model at current spot potash prices and currencies, assuming a weighted average sales mix of 50% Southern Europe; 25% Northern Europe; and 25% Brazil at the 1Mtpa case.

**Figure 4: Spot price scenario on HFR metrics, 1Mtpa case**

|                                 | Unit   | Base case | Spot   | Chng |
|---------------------------------|--------|-----------|--------|------|
| <b>Commodity:</b>               |        |           |        |      |
| Potash, netback to mine gate    | US\$/t | 306       | 484    | 58%  |
| A\$                             | US\$   | 0.74      | 0.73   | -1%  |
| €                               | US\$   | 1.22      | 1.18   | -3%  |
| <b>HFR financials:</b>          |        |           |        |      |
| EBITDA                          | A\$M   | 292       | 499    | 71%  |
| NPAT                            | A\$M   | 188       | 295    | 57%  |
| Valuation NPV <sub>10</sub>     | A\$M   | 1,563     | 2,704  | 73%  |
| Risked NPV <sub>10</sub> /share | \$     | \$1.56    | \$2.89 | 85%  |

Source: Foster Stockbroking estimates.

**POTASH PRICE SENSITIVITY****Figure 5: HFR Sensitivity to US\$10/t change in potash price**

| HFR Metric                      | Change A\$M  |
|---------------------------------|--------------|
| EBITDA                          | 13           |
| NPAT                            | 11           |
| Valuation NPV <sub>10</sub>     | 110          |
| Risked NPV <sub>10</sub> /share | \$0.11/share |

Source: Foster Stockbroking estimates



## FOSTER STOCKBROKING DISCLOSURES

| Name               | Department                  | Phone           | Email  |
|--------------------|-----------------------------|-----------------|--|
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**Specific disclosure:** Foster Stockbroking acted as Joint Lead Manager to the \$15M placement of 28.8M HFR shares at \$0.52 in August 2021, and received fees for the service.

**Specific disclosures:** As of close of business 16 August 2021, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) owned 552,839 HFR shares, and Cranport Pty Ltd owned 1,298,077 HFR shares. The position may change at any time and without notice, including on the day that this report has been released. Foster Stockbroking and its employees may from time to time own shares that are subject of the report, and trade them in ways different from those discussed in research. Foster Stockbroking may also make a market in securities discussed in the report, including buying and selling securities on behalf of clients.

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**Disclosure review.** All the disclosures in the report have been reviewed and checked by Rob Telford, Corporate.