



Highfield Resources Ltd (HFR.ASX)

Progress on track as prices continue surge

Event:

- September quarterly report; Market update.

Investment Highlights:

- Muga purchase contracts now at 85%.** HFR reported that purchase orders for 85% of equipment were signed, important in ensuring that long-lead items can be secured within the timeline envisaged by the company. Key equipment includes screens and cyclones and the bolter miner. The balance of equipment required include dryers, separators, thickeners and flotation columns, the company expecting to formalise these orders during the current quarter.
- Construction licences being awaited.** HFR made submissions to both town halls in Navarra and Aragon for construction licenses re processing plant and mine. We see their award as major catalyst for project, and expect these by late 4QCY21e/early1QCY22e. Meanwhile HFR continued to negotiate its construction agreement and project implementation with its partner Acciona.
- DFS to be updated.** The Muga DFS, last revised two years ago in October 2019, will be updated by the company during the current quarter. We believe it will assist the company as it seeks to conclude negotiations with potential financiers of the project. Reserves will also be updated. We expect financing and FID to be concluded by end 1QCY22, if not earlier.
- Well-funded to FID.** The company ended September with \$26.5M cash and nil debt, which should be ample to conclude its updated DFS, finalise purchase orders, and complete negotiations with financiers, town halls, and contractor, prior to FID.
- Potash prices continue edging higher.** Brazil's President recently warned of the country's reliance on imports. Brazil is a key target market for HFR due to Muga's attractive location, from which it can enjoy higher netback than suppliers from Germany, Russia, Belarus, USA, and Canada. Prices are well up >100% this year. Latest US\$ reported prices are Brazil CFR \$700/t; USA \$710/t; SE Asia CFR \$520/t; Europe CFR \$490/t; and Vancouver FOB at \$550/t. Our long term price forecast is US\$319/t. Crop price rises have enhanced farmer economics.

Earnings and Valuation:

- No changes to earnings or our risked valuation of \$1.56/share.

Recommendation:

- We maintain our Buy recommendation and 12-month share price target of \$1.56, based on our risked valuation.
- Catalysts for the share price include:** 1) Award of construction licenses; 2) finalisation of contractor agreement; 3) Updated DFS; 4) 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 468,517 HFR shares.

Cranport Pty Ltd owns 1,500,000 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	\$1.56
Share price (A\$)	\$ 0.62
ASX code	HFR
52 week low-high	\$0.425-\$0.885
Valuation - risked (A\$/share)	\$ 1.56
Methodology	risked NPV

Capital structure

Shares on Issue (M)	364
Market cap (A\$M)	226
Net cash (debt) (A\$M)	27
Options (M)	25
Diluted EV (A\$M)	215
Ave daily volume ('000)	189

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	10%
Australian Super Pty Ltd	7%

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

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
EBITDA adj.	-6	-7	-8	-9
D&A	0	0	0	0
EBIT adj.	-6	-7	-8	-9
Net Interest exp / (income)	0	0	-1	-4
PBT adj.	-6	-7	-7	-5
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	-6	-7	-7	-5
Non-recurring items	-18	0	0	0
NPAT reported	-24	-7	-7	-5
EPS diluted adj. (\$)	-0.02	-0.02	-0.01	-0.01
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
Operating Cashflow	-3	-5	-5	-6

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
Investing Cashflow	-17	0	-143	-293

Equity issue	0	19	300	0
Debt proceeds	0	0	0	300
Debt repayments	0	0	0	0
Other	0	0	0	0
Financing Cashflow	0	19	300	300

Net Cashflow	-20	14	152	1
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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
Total Assets	133	152	444	735
Accounts payable	5	5	5	1
Provisions	0	0	0	0
Debt	0	0	0	300
Other	0	6	6	5
Total Liabilities	5	10	10	306
Capital & reserves	202	221	521	521
Retained earnings	-73	-80	-87	-92
Total Equity	129	141	434	429

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 A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh
Muga	1,028	\$2.23	823	\$0.98
Sierra del Perdon	531	\$1.15	266	\$0.32
Pintano	53	\$0.11	16	\$0.02
Corporate	-84	-\$0.18	-67	-\$0.08
Future equity	300	\$0.65	240	\$0.29
Options in-money-at val'n	16	\$0.03	13	\$0.02
Net cash	27	\$0.06	27	\$0.03
Total	1,871	\$4.07	1,316	\$1.56
Shares now M	364		367	
Future equity M	74		453	
Options-in-money at val'n M	22		22	
Fully diluted shares M	460		841	

Commodity Assumptions	2020a	2021e	2022e	2023e	
Prices:					
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

Shipments:					
Potash, MoP	kt	0.0	0.0	0.0	0
Salt	kt	0.0	0.0	0.0	0
AISC	US\$/t	-	-	-	-

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

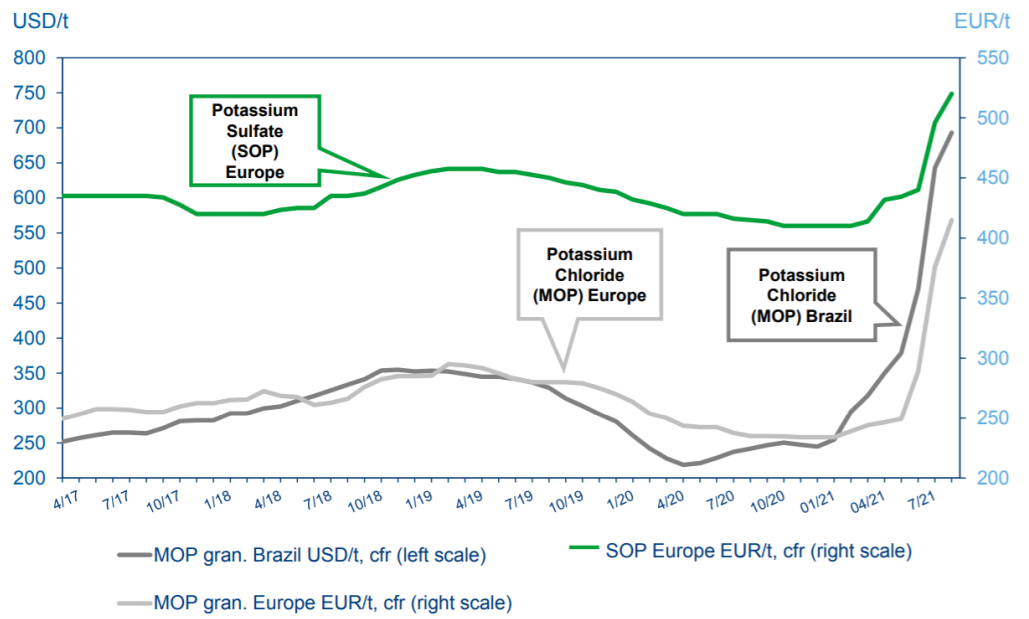
Reserves	Ore Mt	K ₂ O%	K ₂ O Mt
Muga	109	10.2%	11

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

Capital structure	M
Ordinary shares	364
Options	25
Fully diluted	389

Source: Company; Foster Stockbroking estimates

Figure 1: Potash Prices



Source: K+S; FMB Argus Potash.



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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.

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Disclosure review. All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance.