



Highfield Resources Ltd (HFR.ASX)

Debt term sheet a positive close to the quarter

Event:

- Financing term sheet; Potash markets; PT upgrade.

Investment Highlights:

- Non-binding indicative term sheet for €312.5M advances Muga.** HFR has closed the quarter with significant progress, capped off by yesterday's announcement on signing a non-binding indicative term sheet for €312.5M senior secured project debt, with a syndicate of major European banks, including Societe Generale, ING Banks, and Natixis. The size was in-line with the €300M the company had expected in December 2021, and above our model estimate of €266M.
- Ten year term and 2.5 year grace period.** Tenor of the debt is up to ten years, with a 2.5 year grace period which we understand applies to both interest and principal repayments, and begins from first drawdown of debt. We expect binding offtake a condition of debt drawdown, and equity funding to be utilised prior to debt. Debt is purely for Stage 1, representing ca. 79% of the €398M capex, and we understand cost to be attractive.
- Electricity licence award adds to fruitful week.** Earlier this week HFR was awarded the electricity licence for Muga after it applied to have it expedited ahead of the construction licence.
- We expect Muga FID mid-CY22.** The June quarter should result in further significant progress. We expect award of the construction licences, finalisation of contract with contractor Acciona, and finalisation of debt and equity funding by end of the June quarter. These should lead into FID soon after.
- Russia-Ukraine conflict raises concern over current and future potash supply.** Potash markets remain strong with prices high and farmer economics healthy on record crop prices. The Russia-Ukraine conflict and Belarus sanctions highlight the lack of diverse supply – ca. 40% of global potash exports were from Russia and Belarus, while Argus has forecast 40% of forecast new capacity in decade ahead is from Russia.
- Strategic partner potential.** Given the heightened risk of global supply and the attractiveness of Muga's economics, long mine life, location, and stable jurisdiction, we expect this could potentially attract a strategic in contributing part of the project's equity funding.

Earnings and Valuation:

- No material changes to our earnings forecasts.**
- Risked valuation increased to \$1.67 from \$1.43 on less future dilution.** Given 68% share price appreciation since our last report, we now forecast less equity dilution from future raising by HFR to part fund Muga. Risked valuation is now 0.5x NPV₁₀ (prior 0.4x), unrisked valuation being \$3.45.

Recommendation:

- We maintain our Buy and raise 12-month share price target to \$1.67 from \$1.43 based on our risked valuation.**
- Catalysts for the share price include:** 1) Award of town hall construction licenses; 2) Finalisation of Acciona construction contract; 3) Finalisation of debt; 4) FID; 5) Binding offtake; and 6) Commencement of construction.

Disclosures

The analyst owns 33,607 HFR shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 165,607 HFR shares.
Cranport Pty Ltd owns 587,499 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	\$1.67
Previous	\$1.43
Share price (A\$)	\$ 0.975
ASX code	HFR
52 week low-high	\$0.425-\$1.10
Valuation - risked (A\$/share)	\$ 1.67
Methodology	risked NPV

Capital structure

Shares on Issue (M)	364
Market cap (A\$M)	355
Net cash (debt) (A\$M)	22
Options (M)	25
Diluted EV (A\$M)	357
Ave daily volume ('000)	349

Earnings y/e Dec A\$M	FY21e	FY22e	FY23e	FY24e
Sales	0	0	0	140
EBITDA adj	-6	-6	-7	53
NPAT reported	-7	-6	-5	-96
NPAT adj	-6	-6	-5	-96
EPS adj. \$*	-0.02	-0.01	-0.01	-0.02
EV/EBITDA x	nm	nm	nm	7.0x

* Adj =underlying

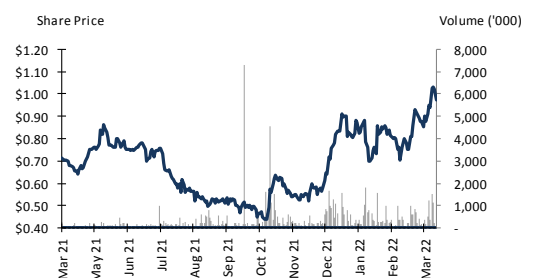
Substantial shareholders

EMR Capital Investment (No.2) Pte Ltd	29%
WWB Investments Pty Ltd	10%
Seven Group Holdings	7%

Board

Paul Harris	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	2021a	2022e	2023e	2024e
Revenue	0	0	0	140
Operating costs adj.	6	6	7	87
EBITDA adj.	-6	-6	-7	53
D&A	0	0	0	122
EBIT adj.	-6	-7	-7	-69
Net Interest exp / (income)	0	0	-2	27
PBT adj.	-6	-6	-5	-96
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	-6	-6	-5	-96
Non-recurring items	0	0	0	0
NPAT reported	-7	-6	-5	-96

EPS diluted adj. (\$)	-0.02	-0.01	-0.01	-0.15
Wtd ave share diluted (M)	343	638	638	638

Cashflow A\$M	2021a	2022e	2023e	2024e
EBITDA adj.	-6	-6	-7	53
Change in WC	1	0	2	-1
Net interest	0	0	2	-27
Tax	0	0	0	0
Share based expense	1	1	1	1
Other	0	0	0	0
Operating Cashflow	-4	-6	-2	26

Purchase of PP&E	0	-153	-313	-163
Acquisitions	0	0	0	0
Capitalised expenses	-11	0	0	0
Investments	0	0	0	0
Other	0	0	0	0
Investing Cashflow	-11	-153	-313	-163

Equity issue	18	218	0	0
Debt proceeds	0	0	442	0
Debt repayments	0	0	0	0
Other	-1	0	0	0
Financing Cashflow	17	218	442	0

Net Cashflow	2	60	127	-137
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Balance Sheet A\$M	2021a	2022e	2023e	2024e
Cash	22	82	209	72
Receivables	1	1	1	12
Inventories	0	0	0	6
PPE	0	153	466	506
Capitalised expl'n	118	118	118	118
Intangibles	0	0	0	0
Other	0	2	0	0
Total Assets	141	356	794	714

Accounts payable	3	3	5	14
Provisions	0	0	0	4
Debt	0	0	442	442
Other	0	3	1	4
Total Liabilities	3	6	449	465

Capital & reserves	218	436	436	436
Retained earnings	-80	-86	-91	-187
Total Equity	139	350	345	249

Valuation Multiples	2021a	2022e	2023e	2024e
P/E x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	7.0

Financial metrics	2021a	2022e	2023e	2024e
Interest cover (EBIT/net interest) x	nm	nm	nm	nm
RoE average %	nm	nm	nm	-32%
RoA average %	nm	nm	nm	-9%
Gearing (ND/ND+E)	nm	nm	40%	60%

Company Valuation

DCF, WACC 10% nominal				
Segment	Unrisked		Risked	
	A\$M	A\$/sh	A\$M	A\$/sh
Muga	926	\$2.05	741	\$1.16
Sierra del Perdon	370	\$0.82	92	\$0.14
Pintano	60	\$0.13	15	\$0.02
Corporate	-56	-\$0.12	-45	-\$0.07
Future equity	218	\$0.48	218	\$0.34
Options in-money-at val'n	20	\$0.04	20	\$0.03
Net cash	22	\$0.05	22	\$0.03
Total	1,561	\$3.45	1,064	\$1.67
Shares now M	364		364	
Future equity M	63	issued at val	248	issued at near s'price
Options-in-money at val'n M	25		25	
Fully diluted shares M	453		638	

Commodity Assumptions

Prices:	2021a	2022e	2023e	2024e
Potash, MoP, Europe FOB	US\$/t	382	313	312
Salt vacuum	US\$/t	65	65	68
Salt de-icing	US\$/t	42	43	44
A\$	US\$	0.75	0.75	0.75
Euro	US\$	1.18	1.15	1.18

Shipments:				
Potash, MoP	kt	0	0	278
Salt	kt	0	0	226

AISC	US\$/t	-	-	87
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Resources	Ore Mt	K ₂ O%	K ₂ O Mt
Muga	282	11.8%	33
Sierra del Perdon	82.1	10.6%	9
Pintano	71	11.9%	8
Total	435	11.6%	50

Reserves	Ore Mt	K ₂ O%	K ₂ O Mt
Muga	104	10.2%	11

Capital structure	M
Ordinary shares	364
Options	25
Fully diluted	389

Source: Company; Foster Stockbroking estimates



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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.