Highfield whets construction appetite

An artist's impression of Highfield's Muga project post construction

Highfield Resources Ltd has taken a giant stride towards starting construction at its Muga potash project in Spain after signing the remaining purchase contracts for all critical process plant equipment.

Amid the growing threat of both price inflation and supply disruptions, Highfield is looking to finalise an agreement with construction partner Acciona as early as this quarter after recently inking a €2.9 million contract with Metso Outotec to provide the process plant's thickeners, and a separate €2.6 million deal with TEMA Process BV for the potash and salt dryers.

Both purchases follow a previously announced €1.1 million contract with Eriez Flotation Division Canada Inc to source the column cells required for secondary flotation to increase the potassium chloride concentrate grade.

Speaking to **Paydirt** from the company's Pamplona base, Highfield managing director Ignacio Salazar said the purchase of key long-lead items was an important step to mitigate potential future inflationary risk.

"With the relatively small amount of money we are paying for these contracts, we essentially protect the project because we now have all the key equipment for the plant," he said.

"In this current environment, after the pandemic, with inflation kicking up and these supply disruptions, it's important to have all these contracts in place. It also gives us the specific detail engineering of all the equipment that we will integrate into the full engineering of the plant.

"I think it is common sense and a reasonable step to do to advance and de-risk the project."

Highfield is understood to be on the cusp of formalising a construction agreement with Acciona, with the first contracts to soon be awarded following a joint tendering process.

While several containers of key equipment have arrived in Spain, no preliminary construction works can begin until the requisite licences have been received from the local townhalls of Navarra and Aragon. The main regulatory approval for the project, the mining concession, was granted in July 2021.

Highfield has asked that the Navarra administration split the electricity works from the main construction licence for the process plant. Although the move is not considered essential to the overall construction of the project, the company believes connecting to the grid prior to starting the main build will reduce both costs and lower carbon emissions.

"We want to see this electricity line, not only because it allows us to do this work, it also provides quite a bit of free assurance to the market and to ourselves that things are running according to plan," Salazar said.

"Permitting takes time, sometimes it's a bit frustrating, but that's okay because things are moving and we have the support of the Government to get the project moving as quickly as possible."

Project financing arrangements for Muga could also be known this quarter with the company now seeking a debt package of circa €300 million for Phase 1 construction works following positive feedback on a draft term sheet by a potential syndicate of lenders.

"The company 3-4 years ago ran a similar process and was able to secure €185 million of project finance but we wanted to send the signal that clearly the project has evolved significantly since then," Salazar said.

"Our cash flows are more robust, and the project has been significantly de-risked in the last couple of years from all the work that we've been doing. So, in that sense, we are now targeting in the order of €300 million from the feedback and discussions with our financial advisor, Endeavour Financial, and the early discussions we are having with the banks.

"If you add to that the efforts we are putting in with strategic investors, the gap to be covered by equity is potentially very feasible and something that is within our reach, so that provides quite a bit of comfort to us on the way forward."

Following the grant of the mining concession and environmental approval last year, Highfield published an updated feasibility study on Muga which forecast a NPV of €1.9 million and IRR of 25% over a 30-year mine life. At full production, EBITDA is around €400 million a year.

Sensitivity analysis using current flat real spot prices for the whole life-of-mine results in an increased post-tax NPV of €2.8 billion and IRR of 42%.

At the time of print, Highfield's stock was nearing a three-year high on the back of prices for the muriate-of-potash (MOP) which Muga will produce doubling over the preceding 12 months. Coupled with around one-third of global MOP production currently under threat due to various sanctions on Russia and Belarus amid the war on Ukraine, the company is lapping up the extra attention.

"With the situation in Russia, it is only highlighting the strategic relevance of our project in South Europe, I think it's becoming obvious to everybody," Salazar said.

"I don't think there is doubt the Muga project, which will be the next European mine and will become one of two Southern European mines in a few years, is absolutely strategic now, especially with Europe in deficit of potash. We are getting a lot of additional interest and the timing is good for us as we move through this process to get the international strategic investors and also the support of European banks and other investors."

– Michael Washbourne