

Highfield Resources Limited

Bulk Materials - Developer/Explorer

Australian Equity Research
28 July 2022

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Rating
SPECULATIVE BUY
unchanged

Price Target
A\$1.68 ↑
from A\$1.56

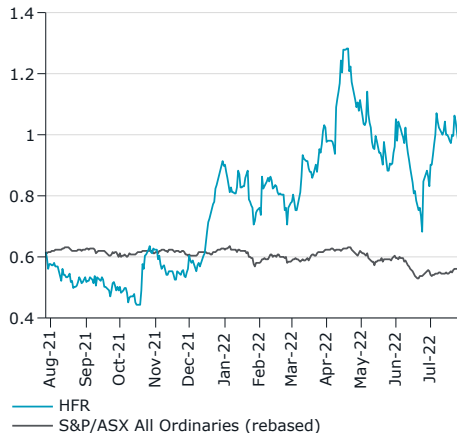
HFR-ASX

Price
A\$0.92

Market Data

52-Week Range (A\$) :	0.43 - 1.30
Avg Daily Vol (000s) :	312
Market Cap (A\$M) :	335.3
Shares Out. (M) :	364.4
Dividend /Shr (AUC) :	0.0
Dividend Yield (%) :	0.0
Net Debt (Cash) (A\$M) :	(12.7)
Enterprise Value (A\$M) :	378
NAV /Shr :	1.68
Net Cash :	28.5

FYE Jun	2021A	2022E	2023E	2024E
Sales (A\$M)	0.0	0.0	0.0	39.6↑
Previous	-	-	-	36.5
EBITDA (A\$M)	(6.7)	(5.8)↑	(6.5)↑	18.4↑
Previous	-	(7.6)	(7.6)	16.0



Priced as of close of business 27 July 2022

Highfield Resources Ltd (HFR) is a potash development company. HFR holds 100% interest in three projects located within the Ebro Basin in northern Spain. The company's primary asset is the 100% owned Muga-Vipasca Potash Project in Spain.

JunQ'22 - construction commences

Post the receipt of its construction licence from the Townhall of Undués de Lerda in Aragón, HFR commenced initial construction at Stage 1 of its Muga potash project in Spain. The final remaining major regulatory approval is the Townhall in Navarra, which we expect in the near term.

We retain our SPECULATIVE BUY rating and increase our price target to \$1.68 (from \$1.56) after updating our Euro forex, partially offset by higher cost assumptions. As food and nutrient security become increasingly important in the wake of Russia invading Ukraine (one of Europe's primary food bowls), the investment case for HFR only strengthens, in our view.

Potash prices remain elevated...

Belarus and Russia are historically responsible for ~38% of global potash supply and an even greater percentage of global exports. Europe, in contrast, produces only a trivial amount of potash and has been scrambling to secure additional supplies from the likes of Canada.

As a consequence of the invasion, YTD pricing has jumped over 240% this year, and while it has recently pulled back from its €1,000/t highs, the European benchmark price is still in the €850/t range. We continue to use a conservative LT price of US\$400/t for valuation and earnings purposes.

Increasing our inflation allowance

The cost estimates for Muga are quite contemporary, having been completed in December 2021, but clearly cost escalation has accelerated in recent times. As a consequence, we have increased our capex cost assumptions for Muga Stage 1 to €460mn, which is some 15% above the DFS, we have also increased our mine gate opex to €139/t (pre-salt by-product credits), which is 20% above the DFS.

The funding bridge is being built...

During the period HFR executed a mandate letter for a €300 million senior secured project financing facility and a €12.5 million standby cost overrun facility with BNP, ING, Natixis and SocGen (remains subject to DD and credit approval). The company also signed a

non-binding indicative term sheet for €23.3 million for an equipment operating lease facility with Macquarie.

...and strategics could play a large part

The funding gap, on our numbers, is ~€130mn. Given the current focus on security of supply, and the fact that Muga is the only advanced new potash development in Europe, we continue to believe that HFR will be able to secure strategic/offtaker support for project funding.

Closing in on a final investment decision, which should lead to increased news flow

HFR is targeting a final investment decision for Muga Stage 1 (0.5Mtpa) in the SepQ with first production by mid-to-late CY24. With this in mind, we expect to see the conclusion of the final regulatory approvals, debt financing and strategic/offtake process in the near term.

Figure 1: Financial summary

FY Dec 30	2020	2021	2022E	2023E	2024E		2020	2021	2022E	2023E	2024E
PROFIT & LOSS (A\$m)						KEY ASSUMPTIONS					
Revenue	0	0	0	0	40	MOP Benchmark (US\$/tonne)	360	360	393	397	401
Operational Costs	0	0	0	0	-15	NaCl Benchmark (US\$/tonne)	25	25	25	25	26
Royalty	0	0	0	0	0	A\$/US\$	0.75	0.75	0.75	0.75	0.75
Other Income	1	0	0	0	0	A\$/EUR	0.61	0.61	0.68	0.68	0.68
Business Devt & Expl	0	0	0	0	0	REALISED PRICES					
Corporate & Other	-25	-7	-6	-7	-7	MOP (\$/tonne)	0.0	0.0	0.0	0.0	627.8
EBITDA	-24	-7	-6	-7	18	PRODUCTION FORECASTS					
DD&A	0	0	0	0	-18	Mulga Phase 1 MOP (kt)	0	0	0	0	63
Other	0	0	0	0	0	Mulga Phase 2 MOP (kt)	0	0	0	0	0
EBIT	-24	-7	-6	-7	1	Total MOP (kt)	0	0	0	0	63
Net Financing	0	0	0	-12	-47	RESERVES AND RESOURCES					
NPBT	-24	-7	-6	-18	-46	Mulga Proved Reserve	45.3Mt @ 10.5% K2O				
Tax	0	0	1	5	14	Mulga Proved & Probable Reserve	104.3Mt @ 10.2% K2O				
Normalised NPAT	-24	-7	-4	-13	-32	PER SHARE DATA					
Sig Items, Discon Ops & Mins	0	0	0	0	0	Average Shares (Diluted, M)	330	356	514	564	564
Reported NPAT	-24	-7	-4	-13	-32	EOP Shares (Diluted, mn)	330	364	564	564	564
Effective income tax rate	0%	0%	23%	30%	30%	Normalised EPS (A¢/sh)	-7.4	-1.9	-0.9	-2.2	-5.7
CASHFLOW (A\$m)						CF PS (A¢/sh)	-1.0	-1.2	-1.1	-3.2	0.0
Cash receipts	-5	-5	0	0	40	FCF PS (A¢/sh)	-6.2	-4.2	-12.6	-70.8	0.0
Payments to suppliers	0	0	-6	-7	-21	RATIOS					
Interest received	0	0	0	0	0	Dividend Yield	0%	0%	0%	0%	0%
Interest paid	0	0	0	-12	-47	PE	n/a	n/a	n/a	n/a	n/a
Other	2	1	0	0	0	PCF (Debt Adj)	n/a	n/a	n/a	n/a	n/a
Operating Cashflow	-3	-4	-6	-18	-28	EV / EBITDA	n/a	n/a	n/a	n/a	75.4
Payments for PP&E	0	0	0	0	0	Gearing (ND / ND + E)	n/a	n/a	24%	79%	100%
Payments for Development	0	0	-59	-381	-384	Net Debt / EBITDA	n/a	n/a	-7x	-68x	47x
Payments for Exploration	-17	-11	0	0	0	Interest Cover	0.0x	0.0x	0.0x	-0.6x	0.0x
Asset Sales / (Purchases)	0	0	0	0	0	ROE (Reported Profit / Av Equity)	n/a	n/a	n/a	n/a	n/a
Other	0	0	0	0	0	ROIC	n/a	n/a	n/a	n/a	58%
Investing Cashflow	-17	-11	-59	-381	-384	ROACE	n/a	n/a	n/a	n/a	-10%
Share Issuance / (Buyback)	0	18	0	0	0	FCF Yield	-7%	-5%	-14%	-77%	0%
Drawdown / (Repayment) of Debt	0	0	55	399	412	DIVIDEND AND FRANKING					
Dividends	0	0	0	0	0	Dividend (A¢/sh)	0.0	0.0	0.0	0.0	0.0
Other	0	-1	0	0	0	Payout ratio	0%	0%	0%	0%	0%
Financing Cashflow	0	17	55	399	412	Franking Balance (A\$m)	0	0	0	0	0
Surplus / Defecit	-20	2	-10	0	0	VALUATION					
BALANCE SHEET (A\$m)						Risked		Unrisked			
Current Assets	20	22	13	13	13	Mulga Stage 1	0.96	1.60			
Non-Current Assets	113	119	178	559	926	Mulga Stage 2	0.67	2.22			
Total Assets	133	141	191	572	938	EV adjustments	0.05	0.05			
Current Liabilities	5	3	6	26	46	TOTAL	1.68	3.88			
Non-Current Liabilities	0	0	52	432	824	PREMIUM/(DISCOUNT)	0.0				
Total Liabilities	5	3	58	458	870	PRICE TARGET	1.68				
Net Assets	129	139	132	114	68						
Total Cash	20	22	13	13	13						
Total Debt	0	0	55	455	867						
Net Debt	-20	-22	43	442	854						

Source: Company reports, Canaccord Genuity estimates

Figure 2: Our sum-of the parts valuation for HFR

Asset	Equity %	Net Capacity ktpa	NPV A\$m	Risking %	Riskd NPV A\$m	Riskd NPV A\$ps
PRODUCTION ASSETS		0	0	0%	0.0	0.00
Mulga Stage 1		500	584.7	60%	350.8	0.96
Mulga Stage 2		500	809.2	30%	242.8	0.67
DEVELOPMENT ASSETS		1000			593.6	1.63
RESOURCES		0			0.0	0.00
EXPLORATION		0			0.0	0.00
Net Debt, Balance sheet adj. & corp. overhead						0.05
Premium / (Discount)						0.00
Price Target						1.68

Source: Company reports, Canaccord Genuity estimates

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Investment Recommendation

Date and time of first dissemination: July 27, 2022, 16:30 ET

Date and time of production: July 27, 2022, 03:17 ET

Target Price / Valuation Methodology:

Highfield Resources Limited - HFR

Our valuation is based on a DCF analysis (NPV_{10%}) for the Muga potash project, plus nominal exploration value, net of corporate and other adjustments and is diluted for future equity requirements.

Risks to achieving Target Price / Valuation:

Highfield Resources Limited - HFR

Geological risk

The actual characteristics of an ore deposit may differ significantly from initial interpretations and expectations.

Financing risk

The ability for HFR to fund further exploration and resource drilling and the development of its projects should also be considered a key investment risk. Credit markets may prove to be not conducive to raising the required funds to commence construction of the project.

Permitting

Many of the licences held for all three projects are pending for approval for Investigation Permits. There are always unforeseen risks associated with permitting.

Capital expenditure and operating risk

The risk that capital and/or operating costs exceed budget and/or exhaust available funding before project completion and reduce the profitability and free cash generation of the project.

Commodity price and exchange rate risk

As with all mining and mineral exploration companies, commodity price and exchange rate risks should also be considered.

Distribution of Ratings:

Global Stock Ratings (as of 07/27/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	645	68.11%	34.57%
Hold	127	13.41%	14.96%
Sell	11	1.16%	18.18%
Speculative Buy	158	16.68%	39.87%
	947*	100.0%	

*Total includes stocks that are Under Review

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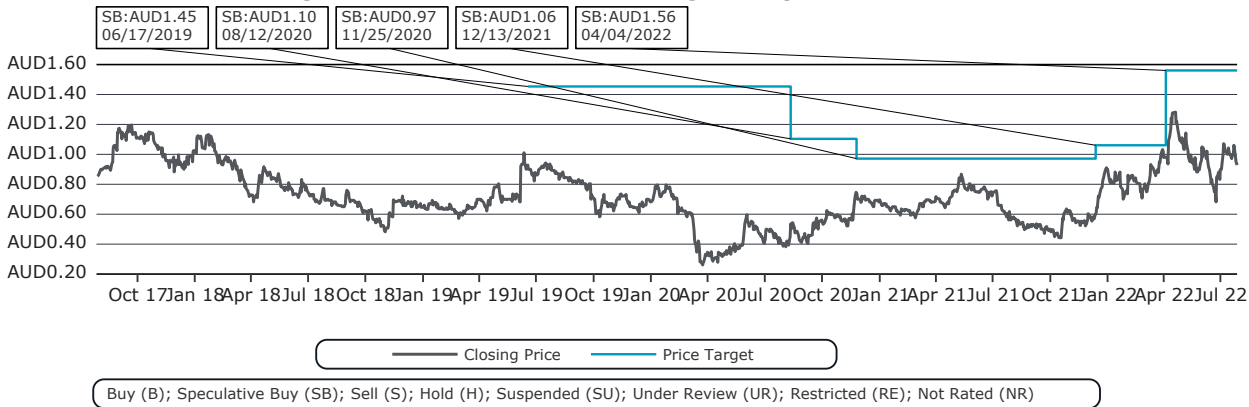
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Highfield Resources Limited Rating History as of 07/26/2022



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