Highfield plates up Muga

Highfield has begun construction of its Muga potash project in Spain

It might have been a relatively small piece of work compared to the breadth of activity that will follow, but Highfield Resources Ltd has made a seamless start to construction of its Muga potash mine in Spain.

Highfield officially pressed the button on construction of the Muga mine gate and declines after receiving the requisite licence from the Townhall of Undués de Lerda in Aragón on June 30. As this edition of **Paydirt** went to print, the company was preparing to conclude those preliminary works.

The start of construction has seemingly been a long time coming for Highfield after enduring an exhaustive period to have Muga fully permitted through the back half of the last decade. The final remaining regulatory hurdle to clear relates to a licence for the construction of the plant from the Townhall of Sangüesa and the Government of Navarra.

Highfield managing director Ignacio Salazar said the early construction works had been worthwhile, especially with the construction licence for the plant expected any day now.

"It was a few months of work that you need to do in any case because the ramps are on the critical path, so it was money worthwhile spent and time worthwhile spent to advance the project on that side of the border," Salazar said.

"We took advantage of the summer months which made the process a lot easier. It happened to be a very dry summer here in Spain so that helped us finalise the work very quickly and be ready with everything that is required around the mine gate. It has been a very good move."

Those preliminary construction works at Muga began less than three months after Highfield mandated a group of experienced European mining finance lenders – BNP Paribas, ING Bank, Natixis and Societe Generale – to provide a €312.5 million senior secured project financing package. The company also executed a non-binding term sheet for an accompanying €23.3 million equipment operating lease facility with a division of Macquarie Group.

Credit approval is expected imminently following completion of an intensive due diligence process by the lenders' consortium.

Last year's updated feasibility study flagged capex of €398 million for construction of the Phase 1 500,000 tpa operation at Muga. A further capital injection of €209 million is required for the Phase 2 uplift to 1 mtpa.

Salazar is confident the company won't encounter any major cost overruns despite ongoing global inflationary pressures.

"I know that Australia is especially sensitive about this at the moment and so are many other places in the world, but we have a couple of big advantages in Spain," he said.

"The situation is very different in Spain. There's still unemployment in the order of 50% so some of the pressures are not comparable to the ones that people are used to in Australia or elsewhere in Europe.

"You might remember we made a small equity raise [$18.1 million] last year and the main purpose of that was to contract the key plant equipment. That has now been contracted, the deposits have been made, and that at least freezes those costs for a while.

"We've also said 86% of the cost had already been contracted and was based on firm offers. There potentially is some inflation, but obviously this final round of due diligence will provide us with some final numbers that we will release soon just to keep everyone fully updated by the time we start the bulk of the construction works at Muga."

Australian-based Highfield chairman Paul Harris said the company had a much better line of sight on costs than 6-8 months ago when energy prices soared on the back of the Russian invasion in Ukraine.

"After the Russian invasion, there was a lot of ambiguity around costs because no one had a clear line of sight on energy costs, but I think that's changed now," Harris said.

"Certainly in Europe, the service providers that Ignacio and the team are speaking to, we've got locked in contracts so it's not a significant issue for us. It's a different story in Australia where some service providers couldn't provide rigid costs, particularly for companies releasing feasibility studies, because they couldn't get a view on energy costs.

"Fortunately, we didn't experience those same issues that we're still experiencing in Australia. I think we've got a more mature market over there in Spain, in particular with our service provider Acciona and the like. We're pretty comfortable with where things are at."

Similarly, Spain does not appear to be suffering from the same squeeze on labour which has crippled the Australian resources fraternity. Therefore, Salazar is not anticipating a shortage of potential workers when Highfield begins recruiting for the upcoming operational phase.

Based on current timelines, Highfield expects to deliver the first muriate-of-potash (MoP) product from Muga by mid-2024.

"We have a very developed labour market and I think we can categorically say that it is a very different environment to the one Australia has at the moment," Salazar said.

"The next 2.5 years, the burden is not on the company during construction which is mostly contractors and service providers. We have plenty of time to prepare ourselves for the operational phase. We are relatively comfortable with the strategy and the ability to get the people to do the work."

Salazar said the local communities around Muga had reacted positively to construction works starting at the project, although he hinted many were yet to realise the full scale and size of the proposed operation.

"I think people realise when you spend a few minutes going through the project, the penny drops that this is going to be very significant," he said.

"There used to be a couple of potash mines in Navarra, but Muga is a very different type of mining project to those running many years ago, and not many people are actually aware of that history. But, there is a clear understanding that this is going to be very special for the region.

"Within the potash environment, we are not actually a huge project, but compared to other mining projects this will have a significant impact on the local communities. If nothing else, over the two phases we will have 100 people employed in the company, let alone the indirect jobs that will be created."

Muga is also expected to fill a small but important gap in the MoP market opened up by sanctions on Russia and Belarus, which traditionally controlled about 3.5 mtpa, or 50% of global production.

Highfield investor relations manager Olivier Vadillo said offtake negotiations with potential customers of Muga product were escalating.

"We are in a very agricultural-intensive region in the northern part of Spain and the southern part of France where there's a huge amount of corn grain already being produced, but a lot of the region has been buying and importing potash from Russia and Belarus," Vadillo explained.

"The idea of having a potash supplier within trucking distance has always been very attractive for a lot of people, but obviously with everything that's going on in the world, that desire has only been exacerbated. It's much more important for them now to be able to secure that supply. We know all the buyers and the conversations have definitely increased."

The updated Muga feasibility study forecasts NPV of €1.89 billion and IRR of 25% over the 30-year mine life. At full production of 1 mtpa, annual EBITDA is estimated at €400 million.

Harris, who succeeded Richard Crookes as chairman earlier this year, believes Highfield remains undervalued, perhaps in part due to the travails of the besieged West Australian sulphate-of-potash (SoP) group of companies.

"I actually find it quite extraordinary that even at long-term prices, let alone spot prices, we have a project with NPV of excess of $3 billion and yet that's not reflected in where our stock is trading," Harris said.

"I think the Australian markets have missed Highfield because of the dire situation of some of the WA sulphates, and they've gone through some real troubles, but this is a mine that is a hard rock mine. It's not beneath an aquifer like Janssen in the US or any of those Canadian potash mines. It's fairly shallow and we've started the decline, we've started the box cut and we're not far off some fairly significant announcements in relation to our final approval at Navarra, but also our final credit approvals with the banks.

"This is a potash opportunity that is undoubtedly going to be a target for some of the larger potash companies globally, let alone the strategic thinkers, be it diversified miners, be it private equity, etc. It does beggar belief because by early next year, we'll be completely de-risked. Most projects at this stage of our project life are trading at a third of our NPV and we're trading nowhere near that."

– Michael Washbourne

Preliminary construction activities at Muga involved mostly earthmoving works for preparation of the mine gate and declines