



Highfield Resources Ltd (HFR.ASX)

Updated DFS enhances confidence

Event:

- Updated DFS; Potash price upgrade; PT upgrade.

Investment Highlights:

- Updated DFS – only minor change to Muga NPV.** HFR's updated DFS for Muga resulted in NPV₈ (real) post-tax declining only -4% to €1.82b from €1.89b. Not unexpectedly, capex and operating costs increased 9% and 20% due to global inflation pressures, especially energy costs. However these were partially mitigated by higher potash prices and a lower Euro vs US\$. There were no material changes to technical parameters such as mine life and plan, processing, recovery, and production, and no change to marketing strategy.
- Greater confidence in capex estimates.** Since the previous December 2021 DFS, HFR has signed purchase contracts for all key components for process plant, and has progressed detailed engineering, contracting, and procurement. Consequently the updated DFS has more capex estimates derived from contracts and firm offers (76% vs 58% previously).
- Financiers satisfied with due diligence – credit approved.** HFR recently received senior secured debt approval for €320.6M (\$474M) recently as a result of extensive due diligence on Muga, including the updated DFS. We also expect it to provide greater confidence to potential equity and strategic partners.
- Remaining town hall construction licence edges closer.** This week the Navarra Government approved authorisation for building on non-urbanised land. This is a prerequisite for grant of the Sanguesa town hall construction licence approval which we expect soon.
- We estimate \$287M equity required to complement the \$474M debt package for funding Muga to first product in mid-FY25.** This should cover not only Phase 1 capex, but also working capital, corporate costs, other expenses including financing costs, and maintaining of an adequate cash buffer/reserve. HFR is negotiating with potential strategic partners which may comprise offtakers, potash and resource producers, commodity traders, and/or private equity for funding the major portion of equity.

Earnings and Valuation:

- We upgrade our HFR risked share valuation (0.4x NPV₁₀) to \$2.15 from \$1.67 on higher potash prices.** We have upgraded our long-term potash price by 36% to US\$442/t fob from US\$325/t. This has more than offset the higher capex and operating costs we have incorporated from the updated DFS in our model, as well as pushing back first product by six months to mid-FY25. Our valuation assumes dilutive impact from raising equity at near the current share price.

Recommendation:

- We maintain our Buy and lift our 12-month share price target to \$2.15 from \$1.67 based on our risked valuation.**
- Catalysts for the share price include:** 1) Award of Sanguesa town hall license; 2) Finalisation of Acciona construction contract; 3) Outcome of strategic process; 4) Equity funding; and 5) Commencement of plant and decline construction.

Disclosures

The analyst owns 33,607 HFR shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 33,607 HFR shares.
Cranport Pty Ltd owns 10,000 HFR shares.
Refer details end of report.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target	\$2.15			
Previous	\$1.67			
Share price (A\$)	\$ 0.85			
ASX code	HFR			
52 week low-high	\$0.495-\$1.30			
Valuation - risked (A\$/share)	\$ 2.15			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	365			
Market cap (A\$M)	310			
Net cash (debt) (A\$M)	11			
Options (M)	26			
Diluted EV (A\$M)	321			
Ave daily volume ('000)	323			
Earnings y/e Dec A\$M	FY21a	FY22e	FY23e	FY24e
Sales	0	0	0	0
EBITDA adj	-6	-6	-7	-7
NPAT reported	-7	-6	-7	-30
NPAT adj	-6	-6	-7	-30
EPS adj. \$*	-0.02	-0.02	-0.01	-0.04
EV/EBITDA x	nm	nm	nm	nm

* 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

* Adj =underlying

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Share price graph



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