



## Highfield Resources Ltd (HFR.ASX)

Still waiting

### Event:

- Quarterly review; Valuation and PT change.

### Investment Highlights:

- Final construction still outstanding.** HFR's quarterly revealed nothing materially new. The company is still awaiting its outstanding construction licence from the Town Hall of Sanguesa, which is taking longer than we – or the company – had expected. There has been progress - in November 2022 HFR received approval from the town's provincial government - Navarra - for authorised building on non-urbanised land, a significant pre-requisite. The company is hopefully expecting approval from Sanguesa this quarter.
- Strategic process also continuing.** This is also has been progressing longer than anticipated. The company has made progress on a number of steps to bolster the Muga project's readiness, including the updated DFS in November 2022 and definitive documentation for a €320.6M facility with its syndicate of lenders in December 2022.
- Potash prices begin to stabilise, spot still above LT forecast and DFS.** After a significant rally over 2021 and early 2022, global potash prices have fallen, the most dramatic being that of Brazil CFR spot which declined -59% from a peak of US\$1,225/t in April 2022 to a low of US\$500/t in December 2022. It since has ticked up slightly to US\$510/t, suggesting some stabilisation. NW Europe CFR has fallen 21% from its 2022 peak of €950/t to €750/t. However, we note that both prices still above our LT forecast of €371/t and the €449/t assumed in the updated DFS.
- Equity raising allows focus on processes and continuation of early works.** HFR raised \$13M in December 2022 at \$0.62/share, boosting its cash balance to \$19M end December 2022. It allows HFR to continue progressing relatively lower expenditure early works at Muga and to focus sharply on both finalising strategic process/funding and obtaining the Sanguesa Town Hall licence.

### Earnings and Valuation:

- Our risked valuation (0.34x NPV<sub>10</sub> nominal) falls to \$1.82 from \$2.15 on higher dilution.** This is mostly due to our assuming future equity raising or Muga to be at a lower share price than prior assumption (\$0.64 vs \$0.85), as well as incorporating the dilutive December equity raising.

### Recommendation:

- We maintain our Buy and reduce our 12-month share price target to \$1.82 from \$2.15 based on our lower 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, and 126,452 HFR options exercise \$0.93 expiry 16 June 2024.

Cranport Pty Ltd owns 10,000 HFR shares.

Refer details end of report.

**Foster Stockbroking acted as Co-Manager to the placement of 21M HFR shares at \$0.62 in December 2022, for which it received fees.**

<b>Recommendation</b>	Buy
Previous	Buy
Risk	High
<b>Price Target</b>	\$1.82
Previous	\$2.15
<b>Share price (A\$)</b>	\$ 0.65
ASX code	HFR
52 week low-high	\$0.57-\$1.30
<b>Valuation - risked (A\$/share)</b>	\$ 1.82
Methodology	risked NPV

### Capital structure

Shares on Issue (M)	387
Market cap (A\$M)	250
Net cash (debt) (A\$M)	19
Options (M)	34
Diluted EV (A\$M)	252
Ave daily volume ('000)	303

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	-6	-30
<b>NPAT adj</b>	<b>-6</b>	<b>-6</b>	<b>-6</b>	<b>-30</b>
<b>EPS adj. \$*</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.04</b>
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

### 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	0
Operating costs adj.	6	6	7	7
<b>EBITDA adj.</b>	<b>-6</b>	<b>-6</b>	<b>-7</b>	<b>-7</b>
D&A	0	0	0	0
<b>EBIT adj.</b>	<b>-6</b>	<b>-7</b>	<b>-7</b>	<b>-7</b>
Net Interest exp / (income)	0	0	0	23
<b>PBT adj.</b>	<b>-6</b>	<b>-6</b>	<b>-6</b>	<b>-30</b>
Tax exp / (benefit) adj.	0	0	0	0
<b>NPAT adj.</b>	<b>-6</b>	<b>-6</b>	<b>-6</b>	<b>-30</b>
Non-recurring items	0	0	0	0
<b>NPAT reported</b>	<b>-7</b>	<b>-6</b>	<b>-6</b>	<b>-30</b>

<b>EPS diluted adj. (\$)</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.04</b>
Wtd ave share diluted (M)	343	389	815	815

Cashflow A\$M	2021a	2022e	2023e	2024e
EBITDA adj.	-6	-6	-7	-7
Change in WC	1	0	2	-3
Net interest	0	0	0	-23
Tax	0	0	0	0
Share based expense	1	1	1	1
Other	0	0	0	0
<b>Operating Cashflow</b>	<b>-4</b>	<b>-6</b>	<b>-3</b>	<b>-32</b>

Purchase of PP&E	0	0	-290	-296
Acquisitions	0	0	0	0
Capitalised expenses	-11	-11	0	0
Investments	0	0	0	0
Other	0	0	0	0
<b>Investing Cashflow</b>	<b>-11</b>	<b>-11</b>	<b>-290</b>	<b>-296</b>

Equity issue	18	14	287	0
Debt proceeds	0	0	474	0
Debt repayments	0	0	0	0
Other	-1	-1	0	0
<b>Financing Cashflow</b>	<b>17</b>	<b>13</b>	<b>761</b>	<b>0</b>

<b>Net Cashflow</b>	<b>2</b>	<b>-3</b>	<b>467</b>	<b>-328</b>
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Balance Sheet A\$M	2021a	2022e	2023e	2024e
Cash	22	19	486	158
Receivables	1	1	1	0
Inventories	0	0	0	0
PPE	0	0	290	586
Capitalised expl'n	118	118	118	118
Intangibles	0	0	0	0
Other	0	11	11	11
<b>Total Assets</b>	<b>141</b>	<b>149</b>	<b>907</b>	<b>873</b>

Accounts payable	3	3	5	1
Provisions	0	0	0	0
Debt	0	0	474	474
Other	0	-1	-1	-1
<b>Total Liabilities</b>	<b>3</b>	<b>2</b>	<b>478</b>	<b>475</b>

Capital & reserves	218	233	520	521
Retained earnings	-80	-86	-92	-122
<b>Total Equity</b>	<b>139</b>	<b>147</b>	<b>428</b>	<b>399</b>

Valuation Multiples	2021a	2022e	2023e	2024e
P/E x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	-46.9

Financial metrics	2021a	2022e	2023e	2024e
Interest cover (EBIT/net interest) x	nm	nm	nm	nm
RoE average %	nm	nm	nm	-7%
RoA average %	nm	nm	nm	-1%
Gearing (ND/ND+E)	nm	nm	-3%	44%

Company Valuation	2021a	2022e	2023e	2024e
DCF, WACC 10% nominal				

Segment	Unrisked A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh
Muga	1,655	\$3.50	1,324	\$1.47
Sierra del Perdon	581	\$1.23	58	\$0.06
Pintano	103	\$0.22	10	\$0.01
Corporate & working capital	-114	-\$0.24	-91	-\$0.10
Future equity	287	\$0.61	287	\$0.32
Options in-money-at val'n	29	\$0.06	29	\$0.03
Net cash	19	\$0.04	19	\$0.02
<b>Total</b>	<b>2,560</b>	<b>\$5.41</b>	<b>1,636</b>	<b>\$1.82</b>
Shares now M	387		387	
Future equity M	53	issued at val	479	issued at near s'price
Options-in-money at val'n M	34		34	
<b>Fully diluted shares M</b>	<b>474</b>		<b>900</b>	

Commodity Assumptions	2021a	2022e	2023e	2024e	
<b>Prices:</b>					
Potash, MoP, Europe FOB	US\$/t	382	712	484	428
Salt vacuum	US\$/t	65	60	61	62
Salt de-icing	US\$/t	42	43	43	44
A\$	US\$	0.75	0.72	0.71	0.73
Euro	US\$	1.18	1.04	1.05	1.10

<b>Shipments:</b>					
Potash, MoP	kt	0	0	0	0
Salt	kt	0	0	0	0

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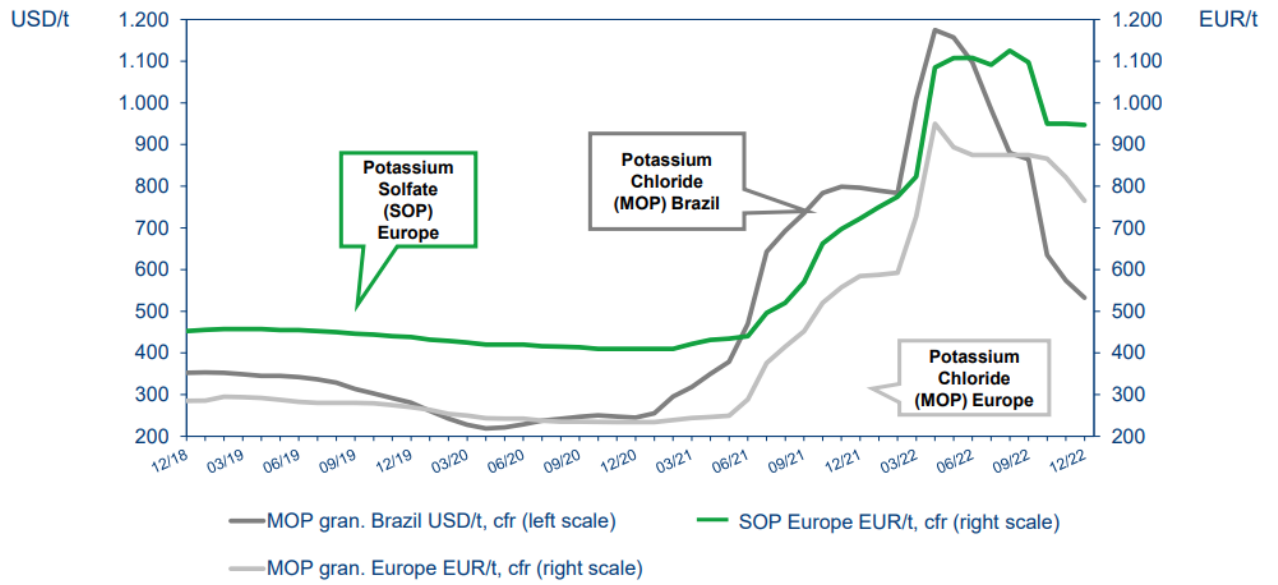
Resources	Ore Mt	K <sub>2</sub> O%	K <sub>2</sub> O Mt
Muga	282	11.8%	33
Sierra del Perdon	82.1	10.6%	9
Pintano	71	11.9%	8
<b>Total</b>	<b>435</b>	<b>11.6%</b>	<b>50</b>

Reserves	Ore Mt	K <sub>2</sub> O%	K <sub>2</sub> O Mt
Muga	104	10.2%	11

Capital structure	M
Ordinary shares	387
Options	34
<b>Fully diluted</b>	<b>421</b>



### SPOT POTASH PRICES



Source: K+S; FMB Argus Potash.



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**Specific disclosure:** The analyst owns 33,607 HFR shares at the time of this report. Diligent care has been taken care by the analyst to maintain honesty and fairness in writing the report and making the recommendation.

**Specific disclosures:** As of close of business 14 November 2022, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) owned 33,607 HFR shares, and Cranport Pty Ltd owned 10,000 HFR shares. The position may change at any time and without notice, including on the day that this report has been released. Foster Stockbroking and its employees may from time to time own shares that are subject of the report, and trade them in ways different from those discussed in research. Foster Stockbroking may also make a market in securities discussed in the report, including buying and selling securities on behalf of clients.

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