



Highfield Resources Ltd (HFR.ASX)

At last!

Event:

- Award of final town hall construction licence; PT change.

Investment Highlights:

- Final construction licence awarded.** HFR this week received the outstanding construction licence from the Townhall of Sanguesa for its Muga project.
- Muga construction now fully permitted.** The licence from Sanguesa follows the previous construction licence that was received from the Townhall of Undues de Lerda back in June 2022. While that licence mostly covered construction of the mine, the Sanguesa licence covers build of the process plant. Muga is now fully permitted to be developed. To expedite the award of the licence, a small parcel of land was excised. However this will not impact construction and HFR expects it be included later.
- All focus now on financing.** With permitting finalised, the company is now fully focussing on the last piece to enable construction to proceed – financing. While HFR has already secured €320.6M debt facility with a syndicate of banks, the outstanding piece is equity funding, of which it is seeking some form of contribution from a strategic partner – such as corporate or private equity group.
- Potash spot price falling, but still above LT forecast and DFS.** After a significant rally over 2021 and early 2022, global potash prices have fallen in late 2022 and 2023: Brazil CFR spot is down -63% from a peak of US\$1,225/t in April 2022 to US\$450/t, and NW Europe CFR has fallen 21% from its 2022 peak of €950/t to €700/t. However the most relevant to HFR – NW Europe – is still above our LT forecast of €399/t and the €449/t assumed in the updated DFS.
- Forecast currency changes.** We have downgraded both our long-term Euro:US\$ to 1.13 from 1.19 and A\$:US\$ to \$0.73 from \$0.74. Our long-term potash price forecast remain unchanged (long-term US\$451/t).
- We still expect production mid-CY25e.** We expect FID and financial close by mid-CY2023e, with a two-year construction period commencing 2HCY23e, and first production in 2HCY25e.

Earnings and Valuation:

- Near-term earnings are unchanged (FY23-24e)**, while longer-term earnings are up on lower A\$ and Euro.
- Our risked valuation (0.33x NPV₁₀ nominal) rises to \$1.83 from \$1.82.** This is due to both weaker long-term Euro and A\$ partially offset by forecast higher equity funding dilution.

Recommendation:

- We maintain our Buy and increase our 12-month share price target to \$1.83 from \$1.82**, based on our risked valuation.
- Catalysts for the share price include:** 1) Finalisation of Acciona construction contract; 2) Outcome of strategic process; 3) Financial closed and equity funding; 4) FID; 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 182,904 HFR options exercise \$0.93 expiry 16 June 2024.

Cranport Pty Ltd does not own 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.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.83
Previous	\$1.82
Share price (A\$)	\$ 0.64
ASX code	HFR
52 week low-high	\$0.50-\$1.30
Valuation - risked (A\$/share)	\$ 1.83
Methodology	risked NPV

Capital structure

Shares on Issue (M)	387
Market cap (A\$M)	249
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	-31
NPAT adj	-6	-6	-6	-31
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

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
EBITDA adj.	-6	-6	-7	-7
D&A	0	0	0	0
EBIT adj.	-6	-7	-7	-7
Net Interest exp / (income)	0	0	0	24
PBT adj.	-6	-6	-6	-31
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	-6	-6	-6	-31
Non-recurring items	0	0	0	0
NPAT reported	-7	-6	-6	-31

EPS diluted adj. (\$)	-0.02	-0.02	-0.01	-0.04
Wtd ave share diluted (M)	343	389	825	825

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	-24
Tax	0	0	0	0
Share based expense	1	1	1	1
Other	0	0	0	0
Operating Cashflow	-4	-6	-3	-33

Purchase of PP&E	0	0	-301	-306
Acquisitions	0	0	0	0
Capitalised expenses	-11	-11	0	0
Investments	0	0	0	0
Other	0	0	0	0
Investing Cashflow	-11	-11	-301	-306

Equity issue	18	14	293	0
Debt proceeds	0	0	493	0
Debt repayments	0	0	0	0
Other	-1	-1	0	0
Financing Cashflow	17	13	786	0

Net Cashflow	2	-3	481	-339
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Balance Sheet A\$M	2021a	2022e	2023e	2024e
Cash	22	19	500	161
Receivables	1	1	1	0
Inventories	0	0	0	0
PPE	0	0	301	607
Capitalised expl'n	118	118	118	118
Intangibles	0	0	0	0
Other	0	12	12	12
Total Assets	141	150	933	898

Accounts payable	3	3	5	1
Provisions	0	0	0	0
Debt	0	0	493	493
Other	0	0	0	0
Total Liabilities	3	3	498	494

Capital & reserves	218	233	527	528
Retained earnings	-80	-86	-92	-123
Total Equity	139	147	435	404

Valuation Multiples	2021a	2022e	2023e	2024e
P/E x	nm	nm	nm	nm
EV/EBITDA x	nm	nm	nm	-49.2

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	-2%	45%

Company Valuation

DCF, WACC 10% nominal

Segment	Unrisked A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh
Muga	1,732	\$3.65	1,386	\$1.48
Sierra del Perdon	581	\$1.22	58	\$0.06
Pintano	109	\$0.23	11	\$0.01
Corporate & working capital	-114	-\$0.24	-91	-\$0.10
Future equity	293	\$0.62	293	\$0.31
Options in-money-at val'n	29	\$0.06	29	\$0.03
Net cash	19	\$0.04	19	\$0.02
Total	2,650	\$5.58	1,705	\$1.83
Shares now M	387		387	
Future equity M	54	issued at val	513	issued at near s'price
Options-in-money at val'n M	34		34	
Fully diluted shares M	475		934	

Commodity Assumptions

Prices:		2021a	2022e	2023e	2024e
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\$/t	0.75	0.72	0.69	0.70
Euro	US\$/t	1.18	1.04	1.06	1.09

Shipments:

Potash, MoP	kt	0	0	0	0
Salt	kt	0	0	0	0

AISC	US\$/t	-	-	-	-
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Resources

	Ore Mt	K ₂ O%	K ₂ O Mt
Muga	282	11.8%	33
Sierra del Perdon	82.1	10.6%	9
Pintano	71	11.9%	8
Total	435	11.6%	50

Reserves

	Ore Mt	K ₂ O%	K ₂ O Mt
Muga	104	10.2%	11

Capital structure

	M
Ordinary shares	387
Options	34
Fully diluted	421

Source: Company; Foster Stockbroking estimates



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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 disclosure: Foster Stockbroking acted as Co-Lead Manager to the \$13M placement of 21M HFR shares at \$0.62 in December 2022, for which it received fees.

Specific disclosures: As of close of business 30 March 2023, Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 33,607 HFR shares and 182,904 HFR options exercise \$0.93 expiry 16 June 2024. Cranport Pty Ltd does not own HFR securities. 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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