



## Highfield Resources Ltd (HFR.ASX)

*Toiling quietly while worst likely over for potash*

### Event:

- June quarter and Interim result review; PT change.

### Investment Highlights:

- **Strategic \$25M investment.** During the June quarter HFR secured A\$25M for its short-term activities while continuing negotiating the strategic process and equity funding for Muga. The company received US\$12M (A\$18M) from EMR Capital Management and A\$7M from Tectonic Investment Management in the form of convertible notes with base conversion price \$0.515. The notes' maturity is two years and if outstanding on first debt drawdown from the senior debt facility, they mandatorily convert.
- **Should provide runway until financing.** HFR ended June with A\$21.8M after expending A\$11.6M during the quarter. The latter mostly comprised the balance of the mandated lead arrangers' fee (A\$6.0M), deposits for land access (A\$1.9M) and general administration costs (A\$2.7M). Given the first two aforementioned outflows were non-recurring, we expect markedly reduced outflow in the September quarter, the cash balance providing ample runway until the strategic and equity funding process for Muga is finalised.
- **Potash spot price – Brazil bounces off low.** The Brazil spot CFR price has demonstrated some positive action over the past couple of months – up 15% to US\$355/t from the US\$310/t year-low in June (see Figure 1). This most likely suggests that the destocking cycle that savaged the price over 2022 and early 2023 has largely run its course. Meanwhile major producer Nutrien paused its previously flagged ramp-up of potash production to 18M tons from 14-15M tons.
- **We now expect start of production in 2026.** We have rolled back our timeline expectations by a quarter: FID and financial close end 2023; Construction starting 2024, and first production beginning 2026.

### Earnings and Valuation:

- **No material changes to forecast NPAT.**
- **Our risked valuation (0.25x NPV<sub>10</sub> nominal) falls to \$1.43 from \$1.83,** from rollback of production and forecast higher future dilution due assuming current share price.

### Recommendation:

- **We maintain our Buy and reduce our 12-month share price target to \$1.43 from \$1.83,** based on our risked valuation.
- **Catalysts for the share price include:** 1) Completion of strategic process; 2) Financial closed and equity funding; 3) FID; 4) Commencement of construction; and 5) Improving potash prices.

### Disclosures

The analyst owns 33,607 HFR shares. Foster Stockbroking and other staff own 112,904 HFR options exercise price \$0.93 expiry 16 June 2024.

Refer details end of report.

Foster Stockbroking received fees for its role as Co-Manager to the placement of 21M HFR shares at \$0.62 in December 2022.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.43
Previous	\$1.83
Share price (A\$)	\$ 0.42
ASX code	HFR
52 week low-high	\$0.415-\$0.935
Valuation - risked (A\$/share)	\$ 1.43
Methodology	risked NPV

### Capital structure

Shares on Issue (M)	392
Market cap (A\$M)	165
Net cash (debt) (A\$M)	-3
Options (M)	34
Diluted EV (A\$M)	182
Ave daily volume ('000)	303

Earnings y/e	Dec A\$M	FY22a	FY23e	FY24e	FY25e
Sales		0	0	0	0
EBITDA adj		-6	-6	-6	-6
NPAT reported		-6	-6	-26	-32
<b>NPAT adj</b>		<b>-6</b>	<b>-6</b>	<b>-26</b>	<b>-32</b>
<b>EPS adj. \$*</b>		<b>-0.02</b>	<b>-0.01</b>	<b>-0.02</b>	<b>-0.03</b>

\* Adj =underlying

### Substantial shareholders

EMR Capital Investment (No.2) Pte Ltd	27%
WWB Investments Pty Ltd	10%

### Board

Paul Harris	Non-Executive Chairman
Ignacio Salazar	Managing Director
Pauline Carr	Non-Executive Director
Roger Davey	Non-Executive Director
Luke Anderson	Non-Executive Director

### Share price graph



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## Highfield Resources (HFR)

Full Year Ended 31 December

Profit and Loss A\$M	2022a	2023e	2024e	2025e
Revenue	0	0	0	0
Operating costs adj.	6	6	6	6
<b>EBITDA adj.</b>	<b>-6</b>	<b>-6</b>	<b>-6</b>	<b>-6</b>
D&A	0	0	0	0
<b>EBIT adj.</b>	<b>-6</b>	<b>-6</b>	<b>-6</b>	<b>-6</b>
Net Interest exp / (income)	0	0	20	26
<b>PBT adj.</b>	<b>-6</b>	<b>-6</b>	<b>-26</b>	<b>-32</b>
Tax exp / (benefit) adj.	0	0	0	0
<b>NPAT adj.</b>	<b>-6</b>	<b>-6</b>	<b>-26</b>	<b>-32</b>
Non-recurring items	0	0	0	0
<b>NPAT reported</b>	<b>-6</b>	<b>-6</b>	<b>-26</b>	<b>-32</b>

<b>EPS diluted adj. (\$)</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.02</b>	<b>-0.03</b>
Wtd ave share diluted (M)	365	417	1,197	1,197

Cashflow A\$M	2022a	2023e	2024e	2025e
EBITDA adj.	-6	-6	-6	-6
Change in WC	1	-4	-4	0
Net interest	0	0	-20	-26
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>-9</b>	<b>-29</b>	<b>-32</b>

Purchase of PP&E	-3	-1	-296	-296
Acquisitions	0	0	0	0
Capitalised expenses	-9	-5	0	0
Investments	0	0	0	0
Other	0	0	0	0
<b>Investing Cashflow</b>	<b>-12</b>	<b>-6</b>	<b>-296</b>	<b>-296</b>

Equity issue	14	295	0	0
Debt proceeds	0	497	0	0
Debt repayments	0	0	0	0
Other	-1	0	0	0
<b>Financing Cashflow</b>	<b>13</b>	<b>792</b>	<b>0</b>	<b>0</b>

<b>Net Cashflow</b>	<b>-3</b>	<b>777</b>	<b>-325</b>	<b>-327</b>
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Balance Sheet A\$M	2022a	2023e	2024e	2025e
Cash	19	796	472	144
Receivables	17	17	17	17
Inventories	0	0	0	0
PPE	5	6	301	597
Capitalised expl'n	127	127	127	127
Intangibles	0	0	0	0
Other	0	12	12	5
<b>Total Assets</b>	<b>168</b>	<b>958</b>	<b>929</b>	<b>890</b>

Accounts payable	9	5	1	1
Provisions	0	0	0	0
Debt	11	508	508	508
Other	0	7	7	0
<b>Total Liabilities</b>	<b>20</b>	<b>520</b>	<b>516</b>	<b>509</b>

Capital & reserves	233	529	530	530
Retained earnings	-86	-92	-117	-150
<b>Total Equity</b>	<b>148</b>	<b>437</b>	<b>412</b>	<b>381</b>

Company Valuation				
DCF, WACC 10% nominal				
Segment	Unrisked A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh
Muga	1,766	\$3.74	1,413	\$1.18
Sierra del Perdon	606	\$1.28	61	\$0.05
Pintano	95	\$0.20	10	\$0.01
Corporate & working capital	-108	-\$0.23	-86	-\$0.07
Future equity	295	\$0.63	295	\$0.25
Options in-money at val'n	24	\$0.05	24	\$0.02
Net cash	-3	-\$0.01	-3	\$0.00
<b>Total</b>	<b>2,675</b>	<b>\$5.67</b>	<b>1,713</b>	<b>\$1.43</b>
Shares now M	392		392	
Future equity M*	52		780	
Options-in-money at val'n M	27		27	
<b>Fully diluted shares M</b>	<b>472</b>		<b>1,200</b>	

\*Unrisked assumes raised at valuation, risked at near current shareprice.

Commodity Assumptions	2022a	2023e	2024e	2025e	
<b>Prices:</b>					
Potash, MoP, Europe FOB	US\$/t	712	484	428	411
Salt vacuum	US\$/t	60	61	62	64
Salt de-icing	US\$/t	43	43	44	45
A\$	US\$	0.72	0.69	0.71	0.71
Euro	US\$	1.04	1.07	1.07	1.07

<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	392
Options	35
<b>Fully diluted</b>	<b>427</b>

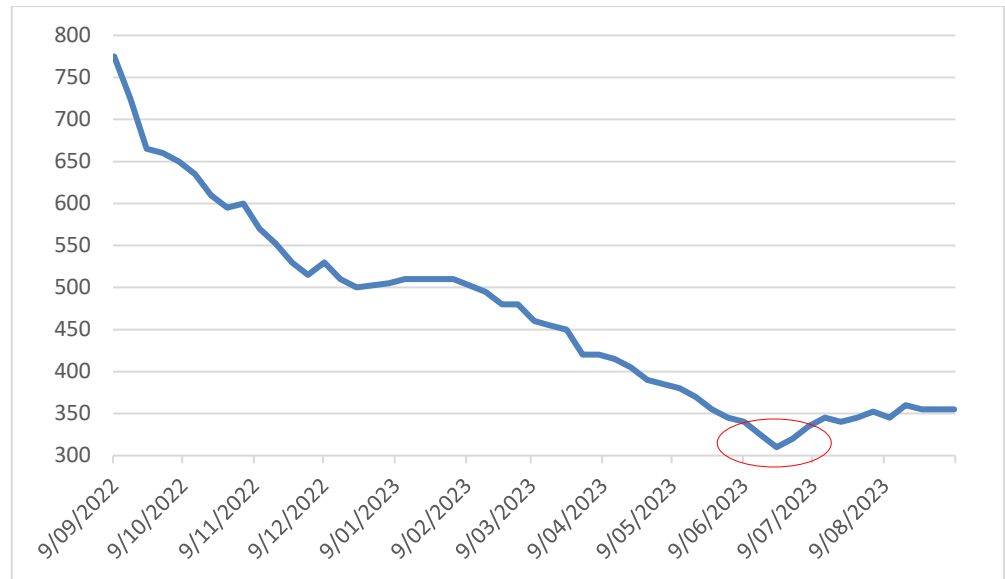
Source: Company; Foster Stockbroking estimates



### KEY CHARTS

#### Potash price - turning the corner

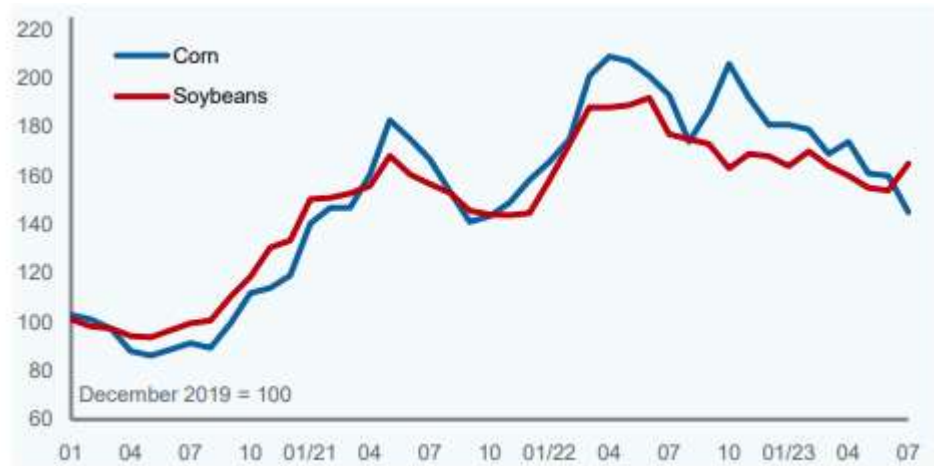
Figure 1: Brazil Granular Potash Price CFR, US\$/t



Source: Bloomberg; Foster Stockbroking estimates.

#### Crop prices ensure farmers still making hay

Figure 2: Farmer Economics Index



Source: K+S, World Bank.

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**Specific disclosure:** Foster Stockbroking received for its role as Co-Lead Manager to the \$13M placement of HFR shares at \$0.62 in December 2022.

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**Research review.** The report has been reviewed and checked by Hazmy Hazin, Research Analyst.

**Disclosure review.** All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance.