



Highfield Resources Ltd (HFR.ASX)

No material change for Muga

Event:

- Updated feasibility study; PT change.

Investment Highlights:

- DFS refresh.** HFR last week updated its feasibility study, which was previously reviewed in November 2022. The refresh was undertaken to address concerns of inflation which have roiled the global economy over the past 12 months.
- No change to Muga NPV.** The updated NPV₈ post-tax for Muga remains unchanged at €1.82b vs the prior DFS, with positive and negative changes to key parameters netting out each other. Major decrements were total capex up 11% to €735M from €662M, C1 costs up 19% to €108/t from €91/t, and LOM potash price down 3% to €436/t. The accrument was mostly due to higher potash prices and cost savings in the earlier years. IRR₈ post-tax declined to 21% from 23% due to the higher capex. Meanwhile the company stated it is aiming to finalise financing and FID such that Muga construction starts early 2024.
- First binding offtake another de-risking step.** HFR announced its first binding offtake agreement, with Spanish chemicals trader and supplier Padira Premium SLU/Maxisalt. It covers take-or-pay sales of a minimum 50ktpa and up to 75ktpa of Muga's vacuum salt by-product over five years, which is 20-30% of forecast Phase 1 production.
- Pushing back forecast production.** We have rolled back our timeline expectations by a quarter: FID and financial close in 1H 2024, construction starting 2H 2024, and – assuming 2.5 years construction - first production beginning 1H 2027.
- Potash prices stabilise.** In our previous HFR report (14 September 2023) we posited that the worst for potash prices may have passed, given a bounce off the lows in the benchmark Brazil spot price. Since then prices in Europe and Brazil have remained flattish, showing signs of stabilisation.

Earnings and Valuation:

- Our risked valuation (0.27x NPV₁₀ nominal) falls to \$1.36 from \$1.43**, from rollback of production and higher capex and operating costs in-line with the updated DFS, partially offset by lowering our A\$ and € forecasts. We now expect maiden HFR NPAT in 2027 vs 2026 previously.

Recommendation:

- We maintain our Buy and reduce our 12-month share price target to \$1.36 from \$1.43**, based on our risked valuation.
- Catalysts for the share price include:** 1) Completion of strategic process; 2) Financial closed and equity funding; 3) Binding offtakes; 4) FID; 5) Commencement of construction; and 6) 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.

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

Refer to details at end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.36
Previous	\$1.43
Share price (A\$)	\$ 0.38
ASX code	HFR
52 week low-high	\$0.275-\$0.90
Valuation - risked (A\$/share)	\$ 1.36
Methodology	risked NPV
Capital structure	
Shares on Issue (M)	392
Market cap (A\$M)	147
Net cash (debt) (A\$M)	-8
Options (M)	34
Diluted EV (A\$M)	168
Ave daily volume ('000)	390
Earnings y/e Dec A\$M	FY22a FY23e FY24e FY25e
Sales	0 0 0 0
EBITDA adj	-6 -6 -6 -6
NPAT reported	-6 -4 -6 -2
NPAT adj	-6 -4 -6 -2
EPS adj. \$*	-0.02 -0.01 0.00 0.00

* Adj =underlying

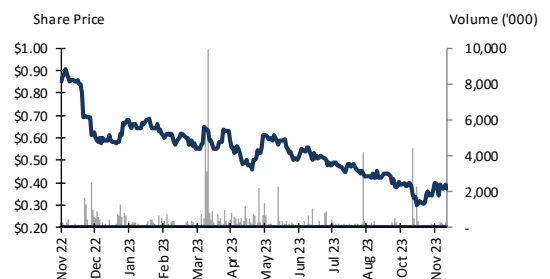
Substantial shareholders

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



Analyst: Mark Fichera
mark.fichera@fostock.com.au

+612 9993 8162



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
EBITDA adj.	-6	-6	-6	-6
D&A	0	0	0	0
EBIT adj.	-6	-6	-6	-6
Net Interest exp / (income)	0	-2	0	-4
PBT adj.	-6	-4	-6	-2
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	-6	-4	-6	-2
Non-recurring items	0	0	0	0
NPAT reported	-6	-4	-6	-2

EPS diluted adj. (\$)	-0.02	-0.01	0.00	0.00
Wtd ave share diluted (M)	365	417	1,174	1,222

Cashflow A\$M	2022a	2023e	2024e	2025e
EBITDA adj.	-6	-6	-6	-6
Change in WC	1	-4	-4	0
Net interest	0	2	0	4
Tax	0	0	0	0
Share based expense	1	1	1	1
Other	0	0	0	0
Operating Cashflow	-4	-7	-9	-1

Purchase of PP&E	-3	-1	-69	-309
Acquisitions	0	0	0	0
Capitalised expenses	-9	-7	0	0
Investments	0	0	0	0
Other	0	0	0	0
Investing Cashflow	-12	-8	-69	-309

Equity issue	14	0	295	0
Debt proceeds	0	25	0	181
Debt repayments	0	0	0	0
Other	-1	-12	0	0
Financing Cashflow	13	13	295	181

Net Cashflow -3 -2 218 -128

Balance Sheet A\$M	2022a	2023e	2024e	2025e
Cash	19	17	235	107
Receivables	17	17	17	17
Inventories	0	0	0	0
PPE	5	6	74	383
Capitalised expl'n	127	127	127	127
Intangibles	0	0	0	0
Other	0	12	12	5
Total Assets	168	179	465	638

Accounts payable	9	5	1	1
Provisions	0	0	0	0
Debt	11	25	28	181
Other	0	5	1	22
Total Liabilities	20	34	30	205

Capital & reserves	233	234	530	531
Retained earnings	-86	-90	-95	-97
Total Equity	148	144	435	434

Company Valuation

DCF, WACC 10% nominal				
Segment	Unrisked A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh
Muga	1,759	\$3.35	1,407	\$1.11
Sierra del Perdon	606	\$1.15	61	\$0.05
Pintano	99	\$0.19	10	\$0.01
Corporate & working capital	-106	-\$0.20	-85	-\$0.07
Future equity	295	\$0.56	295	\$0.23
Options in-money-at val'n	24	\$0.05	24	\$0.02
Conversion of notes	25	\$0.05	25	\$0.02
Net cash end Sep. 2023	-8	-\$0.02	-8	-\$0.01
Total	2,693	\$5.13	1,728	\$1.36
Shares now M	392		392	
Future equity M*	58		788	
Conversion of notes M	48		66	
Options-in-money-at val'n M	27		27	
Fully diluted shares M	525		1,273	

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

Commodity Assumptions

	2022a	2023e	2024e	2025e	
Prices:					
Potash, MoP, Europe FOB	US\$/t	799	484	428	411
Salt vacuum	US\$/t	60	61	62	64
Salt de-icing	US\$/t	43	43	44	45
A\$	US\$	0.70	0.69	0.70	0.70
Euro	US\$	0.95	0.93	1.07	1.07
Shipments:					
Potash, MoP	kt	0	0	0	0
Salt	kt	0	0	0	0
AISC	US\$/t	-	-	-	-

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	392
Options	35
Fully diluted	427

Source: Company; Foster Stockbroking estimates

DFS UPDATE

NPV unchanged

- HFR last week updated its definitive feasibility study (DFS), which was previously reviewed in November 2022. The refresh was undertaken to address concerns of inflation which have roiled the global economy over the past 12 months.
- NPV₈ post-tax for Muga remains unchanged at €1.82b vs the prior DFS, with positive and negative changes to key parameters netting out each other. Major decrements were total capex up 11% to €735M from €662M, C1 costs up 19% to €108/t from €91/t, and LOM potash price down 3% to €436/t. Accruelements were mostly higher potash prices and cost savings in the earlier years. IRR₈ post-tax declined to 21% from 23% due to the higher capex. Meanwhile the company stated it is aiming to complete financing and FID such that construction can start in early 2024.

Figure 1: Updated DFS Changes

Item	Unit	Nov-22	Nov-23	Chng
Production:				
LOM	yrs	30	30	0%
Ore processed LOM average	Mtpa	5.8	5.8	0%
Production potash K60 LOM average	Mtpa	0.917	0.917	0%
K recovery	%	91%	91%	0%
Head grade K ₂ O	%	10.5%	10.5%	0%
Vacuum salt production	ktpa	530	530	0%
De-icing salt production	ktpa	283	283	0%
Costs:				
Capex pre-production Phase 1	€M	436	449	3%
Capex Phase 2	€M	226	286	27%
Capex total	€M	662	735	11%
Operating C1	€/t	91	108	19%
Price and forex:				
Potash price LOM	€/t	449	436	-3%
Euro €	US\$	1.07	1.08	1%
Financials:				
IRR ₈ post-tax	%	23%	21%	-9%
NPV₈ post-tax	€b	1.82	1.82	0%
NPV₈ post-tax	US\$b	1.95	1.97	1%

Source: Company; Foster Stockbroking estimates.

- Given the work undertaken over the past 12 months, the company cited a higher level of confidence in capex with 93% based on contract plus firm offers compared to 76% in 2022. A key change in minimising the Phase 1 capex increase was the deferring the compacting and glazing unit for granular potash production to the Phase 2 expansion.

FIRST BINDING OFFTAKE

- HFR announced its first binding offtake agreement, with Spanish chemical trader and supplier Padira Premium SLU/Maxisalt. It covers take-or-pay sales of a minimum 50ktpa and up to 75ktpa of Muga's vacuum salt by-product over five years, which is 20-30% of forecast Phase 1 production. We see this as another derisking stage of the project.

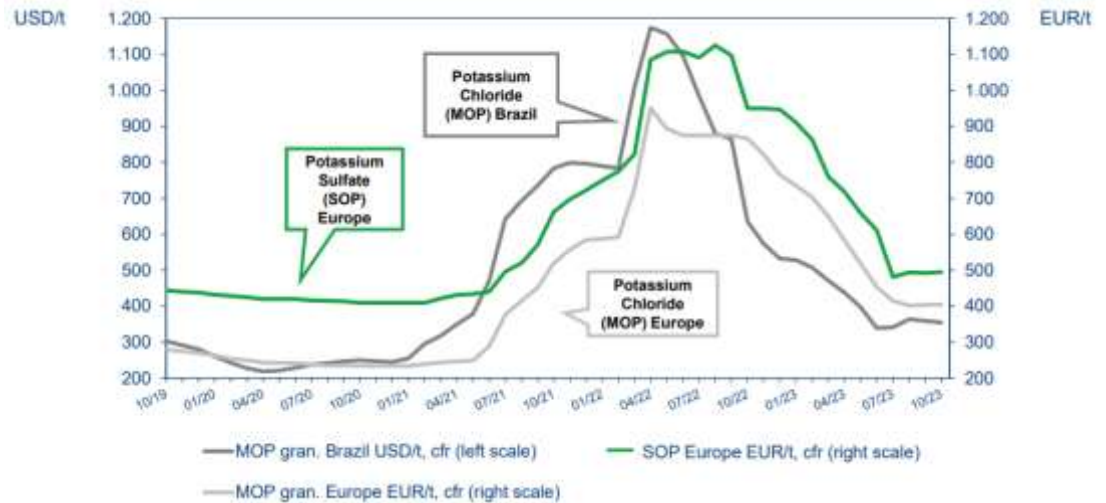


POTASH PRICES

Stabilising after the fall

- In our previous HFR report of 14 September 2023, we posited that the worst for potash prices may have passed, given a bounce off the lows in the benchmark Brazil spot price. Since then prices have remained flattish, showing signs of stabilisation. We expect this is encouraging for HFR as it seeks to close out its financing.

Figure 2: Select potash prices



Source: K+S.

CURRENCY CHANGES

- We reduce our long-term A\$ forecast to US\$0.70 from US\$0.73, and long-term € to 1.07 from 1.13. Our potash and salt price forecasts remain unchanged.

Figure 3: Commodity price forecast changes

Commodity	Unit	2022a	2023e	2024e	2025e	2026e	2027e	LT	LT real 2023
Potash Europe fob US\$/t	New	799	484	428	411	442	451	460	417
	Old	799	484	428	411	442	451	460	417
	Chng	0%	0%	0%	0%	0%	0%	0%	0%
Vacuum salt fob US\$/t	New	60	61	62	64	65	66	68	61
	Old	60	61	62	64	65	66	68	61
	Chng	0%	0%	0%	0%	0%	0%	0%	0%
De-icing salt fob US\$/t	New	43	43	44	45	46	47	48	43
	Old	43	43	44	45	46	47	48	43
	Chng	0%	0%	0%	0%	0%	0%	0%	0%
€:US\$	New	0.95	0.93	1.07	1.07	1.07	1.07	1.07	1.07
	Old	0.95	1.06	1.09	1.11	1.13	1.13	1.13	1.13
	Chng	0%	-12%	-2%	-4%	-5%	-5%	-5%	-5%
US\$:A\$	New	0.70	0.69	0.70	0.70	0.70	0.70	0.70	0.70
	Old	0.70	0.69	0.70	0.71	0.73	0.72	0.73	0.73
	Chng	0%	0%	0%	-1%	-4%	-3%	-4%	-4%

Source: Foster Stockbroking estimates.

**VALUATION****HFR valuation falls to \$1.36 from \$1.43**

- Our HFR share valuation reduces to \$1.36 from \$1.43 mostly due higher capital and operating costs in-line with the updated DFS, and rolling back our start of production from end 2026 to beginning 2027, which assumes FID and financing 1H 2024, and a 2.5 years construction period beginning 2H 2024. This has been partially offset by lowering of our A\$ and € forecasts.

Figure 4: HFR valuation

Segment	Unrisked		Risked		Risk Factor
	A\$M	A\$/share	A\$M	A\$/share	
Muga	1,759	\$3.35	1,407	\$1.11	80%
Sierra del Perdon	606	\$1.15	61	\$0.05	10%
Pintano	99	\$0.19	10	\$0.01	10%
Corporate & working capital	-106	-\$0.20	-85	-\$0.07	80%
Future equity	295	\$0.56	295	\$0.23	100%
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Conversion of notes	25	\$0.05	25	\$0.02	100%
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Shares now M	392		392		
Future equity M*	58		788		
Conversion of notes M	48		63		
Options-in-money at val'n M	27		27		
Fully diluted shares M	525		1,270		

*Unrisked assumes future equity issued at valuation, risked at current share price.

Source: Foster Stockbroking estimates

FOSTER STOCKBROKING DISCLOSURES

Name	Department	Phone	Email
Stuart Foster	Chief Executive Officer	+61 2 9993 8131	stuart.foster@fostock.com.au
James Gore	Institutional Sales	+61 2 9993 8121	james.gore@fostock.com.au
David Salmon	Institutional Sales - Perth	+61 2 9993 8168	david.salmon@fostock.com.au
Doc Cromme	Institutional Sales	+61 2 9993 8132	doc.cromme@fostock.com.au
Jason Lal	Institutional Sales	+61 2 9993 8144	jason.lal@fostock.com.au
Rob Telford	Head of Corporate - Perth	+61 2 9993 8132	rob.telford@fostock.com.au
Ellie Bedoyan	Corporate	+61 2 9993 8122	ellie.bedoyan@fostock.com.au
Mark Fichera	Head of Research	+61 2 9993 8162	mark.fichera@fostock.com.au
Hazmy Hazin	Research Analyst	+61 2 9993 8130	hazmy.hazin@fostock.com.au

Foster Stockbroking Pty Ltd
A.B.N. 15 088 747 148 AFSL No. 223687
Sydney: Level 9, 275 George St, Sydney, NSW 2000 Australia
Perth: Level 9, 66 St Georges Terrace, Perth WA 6000 Australia
General: +612 9993 8111 Equities: +612 9993 8100 Fax: +612 9993 8181
<http://www.fostock.com.au>
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP

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Specific disclosure: Foster Stockbroking received fees 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.