



## Highfield Resources Ltd (HFR.ASX)

*End of permitting process in sight for low cost project*

### Event:

- We initiate research coverage on Highfield Resources (HFR).

### Investment Highlights:

- HFR is an emerging potash producer, its flagship asset the Muga MoP (muriate of potash, KCl) project in Spain.** Following receipt of environmental approval last year, updated DFS, and offtake MoUs, the company is currently awaiting grant of mining concession. We expect it by end CY2020/ beginning CY2021.
- Production of 1Mtpa MoP.** DFS projects Muga producing 1Mtpa MoP in Phase 2 (Phase 1 0.5Mtpa) over 30 years, underpinned mostly by JORC Reserves. Pre-production capex is €368M which is >30% lower capital intensity vs other greenfield projects.
- Muga forecast to be lowest quartile MoP producer.** DFS estimates Muga's C1 costs of US\$95/t and AISC US\$104/t. An independent report commissioned by European banks found Muga to be in the lowest global cash cost quartile. The project is advantaged by a number of attributes: nil government royalties; shallow, thick, and continuous seams; local workforce; proximity to port; and relative short shipping distance to major ex-Southern Europe markets (USA, Brazil, Northern Europe, and Africa) vs competitors.
- Salt by-product adds revenue, reduces waste.** The key change in Muga's updated DFS was altering the processing circuit to produce salt. This provides a two-fold benefit – the addition of by-product credit and reduction of waste. Muga is located close to key de-icing markets and higher purity vacuum salt will also be produced for industrial applications.
- Potash price recovering.** Having hit a four-year low mid-CY2020, potash prices have since recovered on draw-down of China stockpiles and improving demand in Brazil, USA, and South East Asia, as well as reduced production. Potash prices have held above US\$200/t over past decade, attributed to disciplined industry response when markets are unfavourable.
- Potash deficit in Europe bodes well for offtake.** HFR has secured over 0.5Mtpa (>Phase 1) MoP offtake. We see little risk in placing the balance under contracts. Western Europe alone is currently a net importer of potash and its deficit is forecast to increase from 3Mtpa over the next decade to 5Mtpa.

### Earnings and Valuation:

- We forecast Muga commissioning and first revenues in CY2023e, and maiden earnings in CY2025e.** We expect first full year of Phase 2 production in CY2027, forecasting A\$258M EBITDA and A\$195M NPAT.
- We value HFR at \$1.34/share, based on 0.7x unrisks NPV, using 10% WACC on nominal cash flows.** Our valuation assumes 50:50 debt:equity funding of pre-production capex, with equity raised at current share price.

### Recommendation:

- We initiate with **Buy** recommendation and **\$1.34/share 12-month price target** based on our risked valuation
- Catalysts for the share price include:** 1) Grant of mining concession; 2) Binding offtake agreements; 3) Financing of Muga; 4) Commencement of construction; and 5) Rising potash prices.

### Disclosures

The analyst does not own HFR securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own HFR securities. Cranport Pty Ltd does not own HFR securities. Refer details end of report.

Recommendation	Buy
Previous	n/a
Risk	High
Price Target	\$1.34
Previous	n/a
Share price (A\$)	\$ 0.70
ASX code	HFR
52 week low-high	\$0.24-\$0.82
Valuation - risked (A\$/share)	\$ 1.34
Methodology	risked NPV

### Capital structure

Shares on Issue (M)	330
Market cap (A\$M)	231
Net cash (debt) (A\$M)	25
Options (M)	35
Diluted EV (A\$M)	231
Ave daily volume ('000)	104

Earnings y/e Dec A\$M	FY19a	FY20e	FY21e	FY22e
Sales	0	0	0	0
EBITDA adj	-7	-7	-7	-8
NPAT reported	-8	-24	-7	-4
NPAT adj	-7	-7	-7	-4
EPS adj. \$*	-0.02	-0.02	-0.01	-0.01

\* Adj =underlying

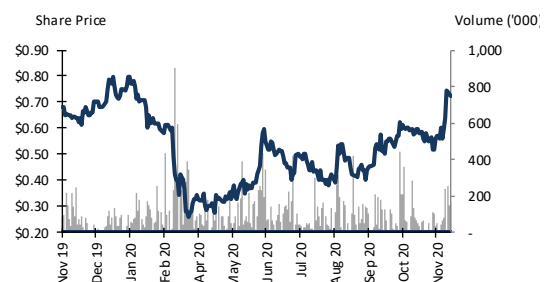
### Substantial shareholders

EMR Capital Investment (No.2) Pte Ltd	32%
WWB Investments Pty Ltd	11%
Australian Super Pty Ltd	5%

### Board

Richard Crookes	Non-Executive Chairman
Pauline Carr	Non-Executive Director
Roger Davey	Non-Executive Director
Jim Dietz	Non-Executive Director
Brian Jamieson	Non-Executive Director
Isaac Querub	Non-Executive Director

### Share price graph



Analyst: Mark Fichera  
[mark.fichera@fostock.com.au](mailto:mark.fichera@fostock.com.au)

+612 9993 8162