



Highfield Resources Ltd (HFR.ASX)

Mining Concession document now sent for legal review

Event:

- **Muga permitting progress; Potash market update.**

Investment Highlights:

- **Mining Concession text sent for legal review - final step prior to its award.** HFR today stated that the Mining Concession document has now been sent to the Central Madrid Government for legal review. The company understands that the legal review is the final step prior to grant of the Concession.
- **Follows successful reviews by all authorities.** HFR announced that on 10 May, the Aragon Environmental Department delivered a positive report to the mining Authorities of Madrid, Aragon and Navarra on section 5 of the Mining Concession document. This brought to a successful conclusion the review of all five sections of the documentation by various government entities and departments, enabling it now to be sent for legal review.
- **We expect Mining Award approximately mid-CY21e.** While no definitive timeline has been provided, the reasonable progress in permitting achieved year to date gives us confidence that the legal review and subsequent grant could be completed by end 2Qe/early 3Q CY21e.
- **Project recap – lowest cost quartile MoP producer, 30 year mine life.** Muga is an attractive potash project scheduled to produce 1Mtpa MoP over 30-years. Nil royalties; shaftless mining; shallow, thick and continuous seams; local workforce; proximity to power; and salt by-product contribute to it being in the lowest cost quartile. Muga is also advantaged in pricing with relative short shipping distance to major ex-Southern Europe markets (USA, Brazil, Northern Europe, and Africa) vs most competing supply.
- **MoP prices up ca. 30% in CY21.** Potash prices have staged a strong rally across all regions in CY21 to date, with MoP prices up 30% overall, with strong China demand, rising crop prices (e.g. US corn up 138% YoY), and tight North American supply that remains disciplined (e.g. Nutrien). Despite higher freight rates, netback prices for higher-cost Canadian producers have still risen. US NOLA fob YTD price is up 50% to US\$360/t, Brazil cif up 50% to US\$380/t, SE Asia cif up 20% to US\$275/t, and Vancouver fob up 20% to US\$240/t.

Earnings and Valuation:

- **No changes to forecast earnings.** We forecast first revenues in CY2023e, and maiden earnings in CY2025e. We expect first full year of Phase 2 production in CY2027e, 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.

Recommendation:

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

Disclosures

The analyst owns 33,607 HFR shares.
Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 33,607 HFR shares.
Cranport Pty Ltd does not own HFR securities.
Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.34
Previous	\$1.34
Share price (A\$)	\$ 0.80
ASX code	HFR
52 week low-high	\$0.38-\$0.885
Valuation - risked (A\$/share)	\$ 1.34
Methodology	risked NPV
Capital structure	
Shares on Issue (M)	330
Market cap (A\$M)	264
Net cash (debt) (A\$M)	20
Options (M)	35
Diluted EV (A\$M)	272
Ave daily volume ('000)	104

Earnings y/e Dec A\$M	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	63
EBITDA adj	-6	-7	-8	18
NPAT reported	-24	-7	-4	-72
NPAT adj	-6	-7	-4	-72
EPS adj. \$*	-0.02	-0.01	-0.01	-0.09
EV/EBITDA x	nm	nm	nm	11.8x

* Adj =underlying

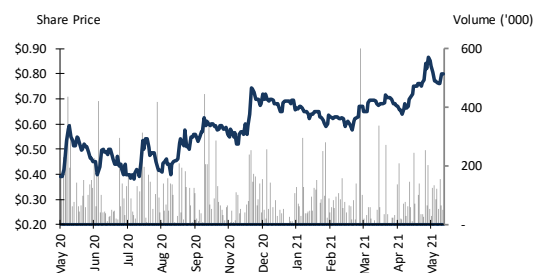
Substantial shareholders

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
Brian Jamieson	Non-Executive Director
Isaac Querub	Non-Executive Director

Share price graph



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