



Highfield Resources Ltd (HFR.ASX)

Placement keeps path to construction as potash prices rise

Event:

- Potash, earnings and PT upgrades; Share placement; Spot scenario analysis.

Investment Highlights:

- \$15M placement completed, \$4M SPP to follow.** HFR completed a \$15M equity share placement at \$0.52, with a \$4M share purchase plan to follow. Together with June cash balance of \$12.6M, the \$31.6M will provide funds for the company to progress pre-construction works at Muga.
- Major activities in progress.** Funds will be used to advance long-lead item orders (including the bolter miner); power supply; negotiating financing of project corporate costs; and working capital costs. HFR is also finalising its construction agreement with preferred contractor Acciona, and securing local town hall construction licences.
- Potash prices rise as farmers enjoy wealth effect.** High crop prices have fuelled farmer economics in 2021, allowing affordability of rising potash prices. Major potash producers have noted low crop stocks to use ratios which are sustaining prices. All potash indices have continued rising, with Brazil MOP cfr price now US\$650/t and Europe MOP cfr price €380/t (US\$445/t).

Earnings and Valuation:

- Upgrading our potash price forecast.** We have increased our potash MOP forecasts, including our long-term price up 7% to US\$319/t (prior US\$299/t). We have also made minor revisions to currency forecasts.
- Earnings upgraded on back of higher potash prices.** For our 1Mt/tpa Muga case we now forecast annual HFR revenue of \$473M, EBITDA \$292M, and NPAT of \$188M, up 10%, 18%, and 33%. We now expect first revenues in FY24e (previously FY23e), in-line with recent company guidance, with finalisation of project financing and start of major construction by beginning FY22e.
- Risked share valuation (0.4x NPV₁₀) increases to \$1.56 from \$1.34 as a result of our upgraded earnings from higher potash prices.** This more than offsets our push back of earnings and dilution from the recent placement.
- Running spot prices in our model shows further upside, yielding annual HFR EBITDA of \$499M, NPAT \$295M, and NPV₁₀ of \$2.7b at 1Mt/tpa case.** Using spot Brazil and Europe potash prices, assuming 50%/25%/25% sales mix to Southern Europe/Northern Europe/Brazil, results in average net-back of US\$484/t vs our base case US\$306/t. Risked NPV₁₀ increases to \$2.89/share from our base case \$1.56/share. We estimate each US\$10/t change in potash price adds \$11M and \$13M to HFR NPAT and EBITDA, and \$110M to NPV.

Recommendation:

- We maintain our Buy recommendation and increase our 12-month share price target to \$1.56 from \$1.34 based on our risked valuation.
- Catalysts for the share price include: 1) Binding offtake agreements; 2) Finalisation of financing; 3) FID; and 4) 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 owns 1,298,077 HFR shares.

Refer details end of report.

Foster Stockbroking acted as Joint Lead Manager to the \$15M placement of 28.8M HFR shares at \$0.52 in August 2021, and received fees for the service.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.56
Previous	\$1.34
Share price (A\$)	\$ 0.53
ASX code	HFR
52 week low-high	\$0.40-\$0.885
Valuation - risked (A\$/share)	\$ 1.56
Methodology	risked NPV

Capital structure

Shares on Issue (M)*	367
Market cap (A\$M)*	195
Net cash (debt) (A\$M)*	32
Options (M)	20
Diluted EV (A\$M)*	173
Ave daily volume ('000)	100

*Pro-forma assuming \$4M SPP.

Earnings y/e Dec A\$M	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	0
EBITDA adj	-6	-7	-8	-9
NPAT reported	-24	-7	-7	-5
NPAT adj	-6	-7	-7	-5
EPS adj. \$*	-0.02	-0.02	-0.01	-0.01

* Adj =underlying

Substantial shareholders

EMR Capital Investment (No.2) Pte Ltd	29%
WWB Investments Pty Ltd	11%
Australian Super Pty Ltd	5%

Board

Richard Crookes	Non-Executive Chairman
Ignacio Salazar	Managing Director
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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