



Highfield Resources Ltd (HFR.ASX)

Progress on track as prices continue surge

Event:

- September quarterly report; Market update.

Investment Highlights:

- Muga purchase contracts now at 85%.** HFR reported that purchase orders for 85% of equipment were signed, important in ensuring that long-lead items can be secured within the timeline envisaged by the company. Key equipment includes screens and cyclones and the bolter miner. The balance of equipment required include dryers, separators, thickeners and flotation columns, the company expecting to formalise these orders during the current quarter.
- Construction licences being awaited.** HFR made submissions to both town halls in Navarra and Aragon for construction licenses re processing plant and mine. We see their award as major catalyst for project, and expect these by late 4QCY21e/early1QCY22e. Meanwhile HFR continued to negotiate its construction agreement and project implementation with its partner Acciona.
- DFS to be updated.** The Muga DFS, last revised two years ago in October 2019, will be updated by the company during the current quarter. We believe it will assist the company as it seeks to conclude negotiations with potential financiers of the project. Reserves will also be updated. We expect financing and FID to be concluded by end 1QCY22, if not earlier.
- Well-funded to FID.** The company ended September with \$26.5M cash and nil debt, which should be ample to conclude its updated DFS, finalise purchase orders, and complete negotiations with financiers, town halls, and contractor, prior to FID.
- Potash prices continue edging higher.** Brazil's President recently warned of the country's reliance on imports. Brazil is a key target market for HFR due to Muga's attractive location, from which it can enjoy higher netback than suppliers from Germany, Russia, Belarus, USA, and Canada. Prices are well up >100% this year. Latest US\$ reported prices are Brazil CFR \$700/t; USA \$710/t; SE Asia CFR \$520/t; Europe CFR \$490/t; and Vancouver FOB at \$550/t. Our long term price forecast is US\$319/t. Crop price rises have enhanced farmer economics.

Earnings and Valuation:

- No changes to earnings or our risked valuation of \$1.56/share.

Recommendation:

- We maintain our Buy recommendation and 12-month share price target of \$1.56, based on our risked valuation.
- Catalysts for the share price include:** 1) Award of construction licenses; 2) finalisation of contractor agreement; 3) Updated DFS; 4) 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 468,517 HFR shares.

Cranport Pty Ltd owns 1,500,000 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	\$1.56
Share price (A\$)	\$ 0.62
ASX code	HFR
52 week low-high	\$0.425-\$0.885
Valuation - risked (A\$/share)	\$ 1.56
Methodology	risked NPV

Capital structure

Shares on Issue (M)	364
Market cap (A\$M)	226
Net cash (debt) (A\$M)	27
Options (M)	25
Diluted EV (A\$M)	215
Ave daily volume ('000)	189

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	10%
Australian Super Pty Ltd	7%

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

Share price graph



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