



Highfield Resources Ltd (HFR.ASX)

Revised DFS brings minor changes but enhances confidence

Event:

- Revised DFS; PT change.

Investment Highlights:

- Updated Muga DFS only had minor changes to key metrics, with NPV €1.89b and IRR 25% (-4% and 0% vs 2019 DFS).** The DFS revision was prompted by further derisking of Muga, post the grant of mine licence and ahead of finalising financing and requisite due diligence. At full production the DFS stated Muga could deliver EBITDA of €400M p.a.
- Lower average LOM potash production by -9% (917ktpa vs 1,300ktpa)** was major reason for lower NPV due to both lower recovery (91% vs 94% prior) and K₂O grade (10.5% vs 10.7%). There was also a rise in capex (up 5%), a reduction in potash production (-9%) and decline in C1 costs (-7%).
- Quality of Muga Mining Inventory improved, even though contained K₂O declined.** The inventory now contains less proportion of Exploration Target and Inferred Resources as part of the total (33% vs 44%) and higher Reserves and Measured and Indicated (67% vs 56%). This should improve confidence in the projects DFS. Project life remains unchanged at 30 years.
- Stage 1 capex has increased by €30M to €398M.** However 86% of estimate is now based on signed contracts (mostly for process plant equipment), firm offers, and updated prices vs 59% for 2019 DFS, improving confidence in the figure. Phase 2 capex is up only €1M to €209M.
- C1 cost reduced to €76/t from €82/t,** with higher salt credits offsetting higher mining and processing costs, keeping the project's position in lowest quartile of the MoP margin curve. Salt prices assumed are now €36/t for de-icing and €55/t for vacuum, based on Argus, vs €27/t and ca. €40/t previously.
- Construction expected to start 1HCY22.** Key preparatory steps remain construction contract; procurement of long-lead items; award of local town hall construction licenses; and finalisation of debt package. HFR states that following feedback on a draft term sheet by potential lending syndicate, it is targeting debt of around €300M, compared to €185M previously in 2017. The increase is a function of the derisking of Muga with updated studies, regulatory approvals, and positive potash markets.

Earnings and Valuation:

- Our risked share valuation (0.4x NPV₁₀) of HFR reduces to \$1.43 from \$1.56 previously.** This is due to reduction in Muga MoP production, higher capex, and lower valuation of Sierra del Perdon project, offset partially by higher salt credits and less dilutive equity raising, as we now assume 2/3 debt: 1/3 equity financing vs 50:50 previously. Our risked valuation assumes equity raised near current shareprice, while unrisked valuation of \$3.48 (1.0x NPV₁₀) assumes equity raised without dilution.

Recommendation:

- We maintain our Buy recommendation and reduce our 12-month share price target to \$1.43 from \$1.56 based on our risked valuation.**
- Catalysts for the share price include:** 1) Finalisation of financing; 2) Award of town hall construction licenses; 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 645,217 HFR shares.

Cranport Pty Ltd owns 1,542,271 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	\$1.43			
Previous	\$1.56			
Share price (A\$)	\$ 0.58			
ASX code	HFR			
52 week low-high	\$0.425-\$0.885			
Valuation - risked (A\$/share)	\$ 1.43			
Methodology	risked NPV			
Capital structure				
Shares on Issue (M)	364			
Market cap (A\$M)	211			
Net cash (debt) (A\$M)	27			
Options (M)	25			
Diluted EV (A\$M)	199			
Ave daily volume ('000)	211			
Earnings y/e Dec A\$M				
	FY20a	FY21e	FY22e	FY23e
Sales	0	0	0	0
EBITDA adj	-6	-6	-6	-7
NPAT reported	-24	-6	-6	-5
NPAT adj	-6	-6	-6	-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%
BCI Minerals	7%
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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