



## Highfield Resources Ltd (HFR.ASX)

Still waiting

### Event:

- Quarterly review; Valuation and PT change.

### Investment Highlights:

- Final construction still outstanding.** HFR's quarterly revealed nothing materially new. The company is still awaiting its outstanding construction licence from the Town Hall of Sanguesa, which is taking longer than we – or the company – had expected. There has been progress - in November 2022 HFR received approval from the town's provincial government - Navarra - for authorised building on non-urbanised land, a significant pre-requisite. The company is hopefully expecting approval from Sanguesa this quarter.
- Strategic process also continuing.** This is also has been progressing longer than anticipated. The company has made progress on a number of steps to bolster the Muga project's readiness, including the updated DFS in November 2022 and definitive documentation for a €320.6M facility with its syndicate of lenders in December 2022.
- Potash prices begin to stabilise, spot still above LT forecast and DFS.** After a significant rally over 2021 and early 2022, global potash prices have fallen, the most dramatic being that of Brazil CFR spot which declined -59% from a peak of US\$1,225/t in April 2022 to a low of US\$500/t in December 2022. It since has ticked up slightly to US\$510/t, suggesting some stabilisation. NW Europe CFR has fallen 21% from its 2022 peak of €950/t to €750/t. However, we note that both prices still above our LT forecast of €371/t and the €449/t assumed in the updated DFS.
- Equity raising allows focus on processes and continuation of early works.** HFR raised \$13M in December 2022 at \$0.62/share, boosting its cash balance to \$19M end December 2022. It allows HFR to continue progressing relatively lower expenditure early works at Muga and to focus sharply on both finalising strategic process/funding and obtaining the Sanguesa Town Hall licence.

### Earnings and Valuation:

- Our risked valuation (0.34x NPV<sub>10</sub> nominal) falls to \$1.82 from \$2.15 on higher dilution.** This is mostly due to our assuming future equity raising or Muga to be at a lower share price than prior assumption (\$0.64 vs \$0.85), as well as incorporating the dilutive December equity raising.

### Recommendation:

- We maintain our Buy and reduce our 12-month share price target to \$1.82 from \$2.15 based on our lower risked valuation.**
- Catalysts for the share price include:** 1) Award of Sanguesa town hall license; 2) Finalisation of Acciona construction contract; 3) Outcome of strategic process; 4) Equity funding; and 5) Commencement of plant and decline construction.

### Disclosures

The analyst owns 33,607 HFR shares.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 33,607 HFR shares, and 126,452 HFR options exercise \$0.93 expiry 16 June 2024.

Cranport Pty Ltd owns 10,000 HFR shares.

Refer details end of report.

**Foster Stockbroking acted as Co-Manager to the placement of 21M HFR shares at \$0.62 in December 2022, for which it received fees.**

<b>Recommendation</b>	Buy
Previous	Buy
Risk	High
<b>Price Target</b>	\$1.82
Previous	\$2.15
<b>Share price (A\$)</b>	\$ 0.65
ASX code	HFR
52 week low-high	\$0.57-\$1.30
<b>Valuation - risked (A\$/share)</b>	\$ 1.82
Methodology	risked NPV

### Capital structure

Shares on Issue (M)	387
Market cap (A\$M)	250
Net cash (debt) (A\$M)	19
Options (M)	34
Diluted EV (A\$M)	252
Ave daily volume ('000)	303

Earnings y/e Dec A\$M	FY21a	FY22e	FY23e	FY24e
Sales	0	0	0	0
EBITDA adj	-6	-6	-7	-7
NPAT reported	-7	-6	-6	-30
<b>NPAT adj</b>	<b>-6</b>	<b>-6</b>	<b>-6</b>	<b>-30</b>
<b>EPS adj. \$*</b>	<b>-0.02</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.04</b>
EV/EBITDA x	nm	nm	nm	nm

\* Adj =underlying

### Substantial shareholders

EMR Capital Investment (No.2) Pte Ltd	29%
WWB Investments Pty Ltd	10%
Seven Group Holdings	7%

### Board

Paul Harris	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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