

EQUITY RESEARCH

Materials

14 September 2023

Highfield Resources Ltd (HFR.ASX)

Toiling quietly while worst likely over for potash

Event:

June quarter and Interim result review; PT change.

Investment Highlights:

- Strategic \$25M investment. During the June quarter HFR secured A\$25M for its short-term activities while continuing negotiating the strategic process and equity funding for Muga. The company received US\$12M (A\$18M) from EMR Capital Management and A\$7M from Tectonic Investment Management in the form of convertible notes with base conversion price \$0.515. The notes' maturity is two years and if outstanding on first debt drawdown from the senior debt facility, they mandatorily convert.
- Should provide runway until financing. HFR ended June with A\$21.8M after expending A\$11.6M during the quarter. The latter mostly comprised the balance of the mandated lead arrangers' fee (A\$6.0M), deposits for land access (A\$1.9M) and general administration costs (A\$2.7M). Given the first two aforementioned outflows were non-recurring, we expect markedly reduced outflow in the September quarter, the cash balance providing ample runway until the strategic and equity funding process for Muga is finalised.
- Potash spot price Brazil bounces off low. The Brazil spot CFR price has demonstrated some positive action over the past couple of months - up 15% to US\$355/t from the US\$310/t year-low in June (see Figure 1). This most likely suggests that the destocking cycle that savaged the price over 2022 and early 2023 has largely run its course. Meanwhile major producer Nutrien paused its previously flagged ramp-up of potash production to 18M tons from 14-15M tons.
- We now expect start of production in 2026. We have rolled back our timeline expectations by a quarter: FID and financial close end 2023; Construction starting 2024, and first production beginning 2026.

Earnings and Valuation:

- No material changes to forecast NPAT.
- Our risked valuation (0.25x NPV10 nominal) falls to \$1.43 from \$1.83, from . rollback of production and forecast higher future dilution due assuming current share price.

Recommendation:

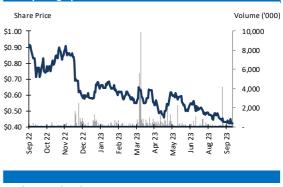
- We maintain our Buy and reduce our 12-month share price target to \$1.43 from \$1.83, based on our risked valuation.
- Catalysts for the share price include: 1) Completion of strategic process; 2) Financial closed and equity funding; 3) FID; 4) Commencement of construction; and 5) Improving potash prices.

Disclosures

The analyst owns 33,607 HFR shares. Foster Stockbroking and other staff own 112,904 HFR options exercise price \$0.93 expiry 16 June 2024. Refer details end of report.

Foster Stockbroking received fees for its role as Co-Manager to the placement of 21M HFR shares at \$0.62 in December 2022.

III DECEMBER 2022.					
Recommendation				Buy	
Previous				Buy	
Risk				High	
Price Target				\$1.43	
Previous				\$1.83	
Share price (A\$)				\$ 0.42	
ASX code			HFR		
52 week low-high		\$0.415-\$0.935			
Valuation - risked (A\$/share)		\$ 1.43			
Methodology		risked NPV			
Capital structure					
Shares on Issue (M)				392	
Market cap (A\$M)				165	
Net cash (debt) (A\$M)				-3	
Options (M)				34	
Diliuted EV (A\$M)				182	
Ave daily volume ('000)				303	
Earnings y/e Dec A\$M	FY22a	FY23e	FY24e	FY25e	
Sales	0	0	0	0	
EBITDA adj	-6	-6	-6	-6	
NPAT reported	-6	-6	-26	-32	
NPAT adj	-6	-6	-26	-32	
EPS adj. \$*	-0.02	-0.01	-0.02	-0.03	
* Adj =underlying					
Substantial shareholders	;				
EMR Capital Investment (No.2) Pte Ltd				27%	
WWB Investments Pty Ltd				10%	
Board					
Paul Harris		Non-Executive Chairman			
Ignacio Salazar	Managing Director				
Pauline Carr		Non-Executive Director			
Roger Davey		Non-Executive Director			
Luke Anderson Share price graph		Non-I	Executive	Director	



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