



## 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 NPV<sub>10</sub> 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.

| 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  |
| Diluted 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          |
| <b>NPAT adj</b>     |          | <b>-6</b>    | <b>-6</b>    | <b>-26</b>   | <b>-32</b>   |
| <b>EPS adj. \$*</b> |          | <b>-0.02</b> | <b>-0.01</b> | <b>-0.02</b> | <b>-0.03</b> |

\* 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   | Non-Executive Director |

### Share price graph



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