



## Highfield Resources Ltd (HFR.ASX)

No material change for Muga

### Event:

- Updated feasibility study; PT change.

### Investment Highlights:

- DFS refresh.** HFR last week updated its feasibility study, which was previously reviewed in November 2022. The refresh was undertaken to address concerns of inflation which have roiled the global economy over the past 12 months.
- No change to Muga NPV.** The updated NPV<sub>8</sub> post-tax for Muga remains unchanged at €1.82b vs the prior DFS, with positive and negative changes to key parameters netting out each other. Major decrements were total capex up 11% to €735M from €662M, C1 costs up 19% to €108/t from €91/t, and LOM potash price down 3% to €436/t. The accrument was mostly due to higher potash prices and cost savings in the earlier years. IRR<sub>8</sub> post-tax declined to 21% from 23% due to the higher capex. Meanwhile the company stated it is aiming to finalise financing and FID such that Muga construction starts early 2024.
- First binding offtake another de-risking step.** HFR announced its first binding offtake agreement, with Spanish chemicals trader and supplier Padira Premium SLU/Maxisalt. It covers take-or-pay sales of a minimum 50ktpa and up to 75ktpa of Muga's vacuum salt by-product over five years, which is 20-30% of forecast Phase 1 production.
- Pushing back forecast production.** We have rolled back our timeline expectations by a quarter: FID and financial close in 1H 2024, construction starting 2H 2024, and – assuming 2.5 years construction - first production beginning 1H 2027.
- Potash prices stabilise.** In our previous HFR report (14 September 2023) we posited that the worst for potash prices may have passed, given a bounce off the lows in the benchmark Brazil spot price. Since then prices in Europe and Brazil have remained flattish, showing signs of stabilisation.

### Earnings and Valuation:

- Our risked valuation (0.27x NPV<sub>10</sub> nominal) falls to \$1.36 from \$1.43**, from rollback of production and higher capex and operating costs in-line with the updated DFS, partially offset by lowering our A\$ and € forecasts. We now expect maiden HFR NPAT in 2027 vs 2026 previously.

### Recommendation:

- We maintain our Buy and reduce our 12-month share price target to \$1.36 from \$1.43**, based on our risked valuation.
- Catalysts for the share price include:** 1) Completion of strategic process; 2) Financial closed and equity funding; 3) Binding offtakes; 4) FID; 5) Commencement of construction; and 6) 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.

Foster Stockbroking received fees for its role as Co-Manager to the \$13M placement of HFR shares at \$0.62 in December 2022.

Refer to details at end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.36
Previous	\$1.43
Share price (A\$)	\$ 0.38
ASX code	HFR
52 week low-high	\$0.275-\$0.90
Valuation - risked (A\$/share)	\$ 1.36
Methodology	risked NPV
<b>Capital structure</b>	
Shares on Issue (M)	392
Market cap (A\$M)	147
Net cash (debt) (A\$M)	-8
Options (M)	34
Diluted EV (A\$M)	168
Ave daily volume ('000)	390
<b>Earnings y/e Dec A\$M</b>	<b>FY22a</b> <b>FY23e</b> <b>FY24e</b> <b>FY25e</b>
Sales	0 0 0 0
EBITDA adj	-6 -6 -6 -6
NPAT reported	-6 -4 -6 -2
<b>NPAT adj</b>	<b>-6 -4 -6 -2</b>
<b>EPS adj. \$*</b>	<b>-0.02 -0.01 0.00 0.00</b>

\* Adj =underlying

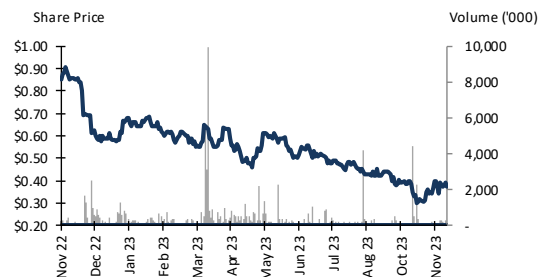
### Substantial shareholders

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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