

Highfield Resources Ltd (HFR.ASX)

Underground works awarded

Event:

- **Muga progress; markets update.**

Investment Highlights:

- **Underground work awarded in-line with DFS.** HFR's Muga project advanced further last week with HFR awarding a €48M construction contract for the declines and underground mining infrastructure, equating to 11% of the €449M Phase 1 capex. It was in-line with that estimated in the updated DFS, no surprise given HFR was then in advanced talks with the contractor on cost.
- **Experienced in both underground and region.** The contractor is a Portuguese-Spanish JV between EPOS-Empresa Portuguesa de Obras Subterraneas (EPOS) and TUNELAN-Obras Subterraneas (TUNELAN). Both are specialists in underground works, each with over 20 years' experience, and include EPOS's mine development for majors AngloGold Ashanti (Cuiaba, Brazil), Lundin Mining (Neves Corvo, Portugal), and Sandfire (Matsa Aguas, Spain).
- **Further progress towards FID.** HFR stated it has made further progress on funding FID which it still expects in 1H 2024, and the signing of EPOS-TUNELAN represents a step to be construction-ready. We expect the civil works and urbanisation contract the next package to be finalised.
- **Potash markets – price stabilisation and production cuts.** Prices have generally stabilised during the current quarter, with Saskatchewan and Brazil prices up in past few weeks, and US NOLA flat. Last month, Mosaic shut down production from its 2.1Mtpa Colonsay mine (ca. 3% of global MoP production) as a response to market conditions. Meanwhile China recently restricted production from a major potash basin because of environmental concerns.
- **Reports of peer corporate activity.** Last month *Bloomberg* reported that Thailand listed Italian-Thai Development Company (IDT, market cap A\$190M) received interest from potential investors of US\$500M for its 90% interest in the Udon Thani potash project (ca. A\$840M for 100%). Udon Thani has 108Mt Reserves, and expected to produce 2.1Mtpa MoP over 21-year mine life. It has a mining licence but is yet to be developed, with an estimated construction period of three years. The share price of IDT rose 32% on the news.
- **Implies value upside for HFR.** Although IDT confirmed interest in its project but not the figure, it does highlight the rarity value in regulatory approved and derisked independent greenfield-ready potash projects outside the stranglehold of China/Russia/Canpotex. We value Muga at A\$1,388M.

Earnings and Valuation:

- **Risked share valuation (0.3x NPV₁₀ nominal) cut to \$1.31 from \$1.36**, from slight upgrade of Euro forecasts and inclusion of December 2023 convertible notes, which we assume convert upon when project debt is eventually drawn.

Recommendation:

- **We maintain our Buy and reducing our 12-month share price target to \$1.31 from \$1.36**, 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 staff (excluding analyst) own 112,904 HFR options exercise price \$0.93 expiry 16 June 2024. Refer details end of report.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target	\$1.31
Previous	\$1.36
Share price (A\$)	\$ 0.41
ASX code	HFR
52 week low-high	\$0.275-\$0.80
Valuation - risked (A\$/share)	\$1.31
Methodology	risked NPV

Capital structure

Shares on Issue (M)	392
Market cap (A\$M)	159
Net cash (debt) (A\$M)	-12
Options (M)	30
Diluted EV (A\$M)	183
Ave daily volume ('000)	350

Earnings y/e Dec A\$M	FY22a	FY23e	FY24e	FY25e
Sales	0	0	0	0
EBITDA adj	-6	-6	-6	-6
NPAT reported	-6	-4	-6	-2
NPAT adj	-6	-4	-6	-2
EPS adj. \$*	-0.02	-0.01	0.00	0.00

* 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



Analyst: Mark Fichera
mark.fichera@fostock.com.au

+612 9993 8162