



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

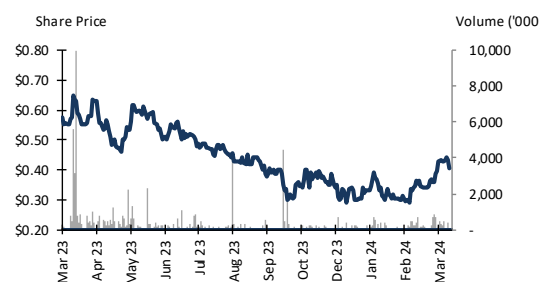
Substantial shareholders

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



Highfield Resources (HFR)

Full Year Ended 31 December

Profit and Loss A\$M	2022a	2023e	2024e	2025e
Revenue	0	0	0	0
Operating costs adj.	6	6	6	6
EBITDA adj.	-6	-6	-6	-6
D&A	0	0	0	0
EBIT adj.	-6	-6	-6	-6
Net interest exp / (income)	0	-2	-1	-5
PBT adj.	-6	-4	-5	-1
Tax exp / (benefit) adj.	0	0	0	0
NPAT adj.	-6	-4	-5	-1
Non-recurring items	0	0	0	0
NPAT reported	-6	-4	-5	-1

EPS diluted adj. (\$)	-0.02	-0.01	0.00	0.00
Wtd ave share diluted (M)	365	417	1,223	1,309

Cashflow A\$M	2022a	2023e	2024e	2025e
EBITDA adj.	-6	-6	-6	-6
Change in WC	1	-4	-4	0
Net interest	0	2	1	5
Tax	0	0	0	0
Share based expense	1	1	1	1
Other	0	0	0	0
Operating Cashflow	-4	-7	-9	-1

Purchase of PP&E	-3	-1	-71	-316
Acquisitions	0	0	0	0
Capitalised expenses	-9	-7	0	0
Investments	0	0	0	0
Other	0	0	0	0
Investing Cashflow	-12	-8	-71	-316

Equity issue	14	0	314	0
Debt proceeds	0	34	0	176
Debt repayments	0	0	0	0
Other	-1	-12	0	0
Financing Cashflow	13	22	314	176
Net Cashflow	-3	7	234	-141

Balance Sheet A\$M	2022a	2023e	2024e	2025e
Cash	19	26	260	119
Receivables	17	17	17	17
Inventories	0	0	0	0
PPE	5	6	77	393
Capitalised expl'n	127	127	127	127
Intangibles	0	0	0	0
Other	0	12	12	5
Total Assets	168	187	493	661

Accounts payable	9	5	1	1
Provisions	0	0	0	0
Debt	11	25	29	167
Other	0	13	9	2
Total Liabilities	20	43	39	170

Capital & reserves	233	234	549	588
Retained earnings	-86	-90	-95	-97
Total Equity	148	144	454	491

Company Valuation				
DCF, WACC 10% nominal				
Segment	Unrisked A\$M	Unrisked A\$/sh	Risked A\$M	Risked A\$/sh
Muga	1,735	\$3.07	1,388	\$1.05
Sierra del Perdon	610	\$1.08	61	\$0.05
Pintano	98	\$0.17	10	\$0.01
Corporate & working capital	-106	-\$0.19	-85	-\$0.06
Future equity	314	\$0.56	314	\$0.24
Options in-money-at val'n	26	\$0.05	26	\$0.02
Conversion of notes	34	\$0.06	34	\$0.03
Net cash end Dec. 2023	-12	-\$0.02	-12	-\$0.01
Total	2,699	\$4.78	1,736	\$1.31
Shares now M	392		392	
Future equity M*	65		838	
Conversion of notes M	77		63	
Options-in-money at val'n M	30		30	
Fully diluted shares M	565		1,323	

*Unrisked assumes raised at valuation, risked at near current shareprice.

Commodity Assumptions	2022a	2023e	2024e	2025e	
Prices:					
Potash, MoP, Europe FOB	US\$/t	799	456	443	411
Salt vacuum	US\$/t	60	61	62	64
Salt de-icing	US\$/t	43	43	44	45
A\$	US\$	0.70	0.66	0.68	0.69
Euro	US\$	0.95	0.93	1.08	1.08

Shipments:					
Potash, MoP	kt	0	0	0	0
Salt	kt	0	0	0	0

AISC	US\$/t	-	-	-	-
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Resources	Ore Mt	K ₂ O%	K ₂ O Mt
Muga	282	11.8%	33
Sierra del Perdon	82.1	10.6%	9
Pintano	71	11.9%	8
Total	435	11.6%	50

Reserves	Ore Mt	K ₂ O%	K ₂ O Mt
Muga	104	10.2%	11

Capital structure	M
Ordinary shares	392
Options	35
Fully diluted	427

Source: Company; Foster Stockbroking estimates

FOSTER STOCKBROKING DISCLOSURES

Name	Department	Phone	Email
Stuart Foster	Chief Executive Officer	+61 2 9993 8131	stuart.foster@fostock.com.au
James Gore	Institutional Sales	+61 2 9993 8121	james.gore@fostock.com.au
David Salmon	Institutional Sales - Perth	+61 2 9993 8168	david.salmon@fostock.com.au
Doc Cromme	Institutional Sales	+61 2 9993 8132	doc.cromme@fostock.com.au
Jason Lal	Institutional Sales	+61 2 9993 8144	jason.lal@fostock.com.au
Rob Telford	Head of Corporate - Perth	+61 2 9993 8132	rob.telford@fostock.com.au
Ellie Bedoyan	Corporate	+61 2 9993 8122	ellie.bedoyan@fostock.com.au
Mark Fichera	Head of Research	+61 2 9993 8162	mark.fichera@fostock.com.au
Hazmy Hazin	Research Analyst	+61 2 9993 8130	hazmy.hazin@fostock.com.au

Foster Stockbroking Pty Ltd
A.B.N. 15 088 747 148 AFSL No. 223687
Sydney: Level 9, 275 George St, Sydney, NSW 2000 Australia
Perth: Level 9, 66 St Georges Terrace, Perth WA 6000 Australia
General: +612 9993 8111 Equities: +612 9993 8100 Fax: +612 9993 8181
<http://www.fostock.com.au>
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP

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Research review. The report has been reviewed and checked by Hazmy Hazin, Research Analyst.

Disclosure review. All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance.