

Australian Equity Research

15 December 2016

Reg Spencer | Analyst | Canaccord Genuity (Australia) Ltd. | reg.spencer@canaccord.com.au | +61.2.9263.2701

Larry Hill | Associate Analyst | Canaccord Genuity (Australia) Ltd. | larry.hill@canaccord.com.au | +61.2.9263.2745

BUY

unchanged

PRICE TARGET A\$0.60↑

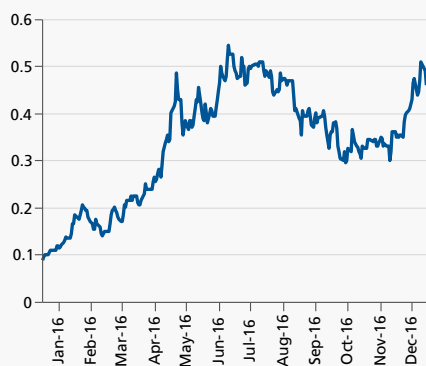
from A\$0.50

Price (15-Dec) A\$0.50

Ticker GXY-ASX

52-Week Range (A\$):	0.09 - 0.58
Avg Daily Vol (M) :	8.3
Market Cap (A\$M):	903
Shares Out. (M) :	1,806.7
Enterprise Value (A\$M):	924

FYE Dec	2015A	2016E	2017E	2018E
EBITDA (A\$M)	(9.4)↑	(1.4)↓	102.0↑	133.2↑
Previous	(9.5)	(0.8)	80.9	98.3
Net Income Adj (A\$M)	54.5	69.8↓	83.0↑	115.9↑
Previous	-	70.4	62.0	80.9
EV/EBITDA (x)	NM	NM	7.0	4.4
P/E (x)	9.8	9.1	10.9	7.9



Source: FactSet

Galaxy Resources Limited (ASX:GXY) is an Australian based, globally diversified lithium development company. Its primary assets are Mt Cattlin spodumene operation in WA, the Sal de Vida lithium brine development project in Argentina (100%) and the James Bay spodumene exploration project in Canada.

Raising Target Price

2017 Mt Cattlin pricing beats expectations

GXY has confirmed significantly stronger than expected pricing for 2017 for Mt Cattlin production, and with the recent commencement of continuous production (first shipment imminent) and ramp up from Q1'17, we now see the potential for a significant improvement in cashflow. GXY remains among our preferred lithium exposures, underscored by a strong pricing environment which in our view confirms the likelihood of an undersupplied market in 2017. Our revised target price implies ~20% upside (following a ~45% rally in the last month). BUY rating maintained.

2017 pricing finalised at a benchmark price of US\$905/t for 6% Li₂O: GXY has reported that it has sold 120kt of spodumene concentrate to contracted customers for US\$830/t FOB (min. 5.5% Li₂O). We highlight that customers have also agreed to pay an additional US\$15/t for every 0.1% improvement in concentrate grade to a maximum US\$905/t for a 6% Li₂O concentrate product.

Better concentrate grades = better pricing: GXY's current 2017 guidance is for production of 160kt concentrate (min 5.5% Li₂O), vs CGe of 164kt. We note commentary around the potential for improved concentrate grades (initial grades have ranged from 5.8% to 6.4% Li₂O), resulting from flow sheet design changes implemented as part of the production restart. We have revised our assumptions to average 5.7-5.8% Li₂O (from 5.5%), delivering higher pricing. We estimate a weighted average '17 price of US\$781/t (inc. contracted '16 deliveries of ~30-35kt at US\$600/t), versus our prior assumptions of US\$670/t.

Pricing confirms undersupplied market conditions in 2017 - price deck revisions:

In [Lithium Sector Update](#) (16/11/2016) we highlight that tight market conditions in 2016 (~8% deficit) are likely to remain over 2017/18. Revisions to our supply/demand model have driven material upgrades to our pricing forecasts - key near term changes include Li₂CO₃ prices in 2017 of US\$12,000/t (+60%), and +32% in '18 to US\$9,243/t. For spodumene concentrate (6% Li₂O benchmark), we now forecast prices of US\$904/t (+67%) and US\$745/t (+55%) for '17 and '18 respectively. LT forecasts (2025) remain mostly unchanged at US\$10,300/t and US\$727/t for carbonate and spodumene respectively.

Positive implications for financing Sal de Vida brine project: Based on revised pricing assumptions, we highlight a significant improvement in cashflow from Mt Cattlin versus prior forecasts. We now estimate FCF over 2017/18 could exceed A\$200m, providing a material contribution to development costs for Sal de Vida (2016 DFS estimated US\$376m for 25ktpa Li₂CO₃). Furthermore, having a cashflow producing asset could help attract lower cost debt funding, or put the company in a stronger position should it seek to negotiate a JV for development of the asset. We anticipate an FID on the project in Q1'17.

Valuation: Changes to our model relate mainly to pricing assumptions as described above, with our target price (NPV_{10%} for operating assets net of adjustments) increasing by 20% to A\$0.60/share (from A\$0.50/share).

FINANCIAL SUMMARY

Galaxy Resources Ltd

ASX:GXY

Analyst: Reg Spencer
Date: 15/12/2016
Year End: December

Rating:
Target Price:

BUY
\$0.60

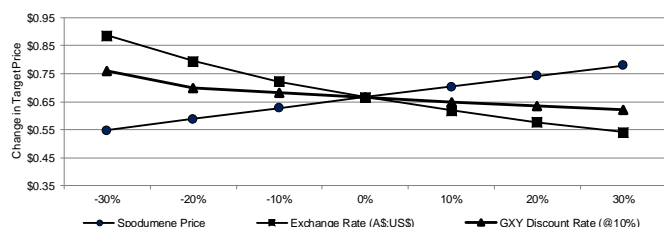
Market Information

Share Price	A\$	0.50
Market Capitalisation	A\$m	903.4
12 Month Hi	A\$	0.58
12 Month Lo	A\$	0.09
Issued Capital	m	1806.70
Options	m	65.00
Fully Diluted	m	1871.70

Valuation		A\$m	A\$/share
Mt Cattlin	NPV10%	689.8	0.36
Sal de Vida	Estimate	432.9	0.23
Exploration & Other	Estimate	100.0	0.05
Corporate		(37.5)	(0.02)
Cash		12.1	0.01
Debt		(45.7)	(0.02)
ITM options		15.1	0.01
TOTAL		1,166.7	0.61
Target Price		0.60	
P/NAV			0.82x

Assumptions	2015a	2016e	2017e	2018e
Lithium Carbonate (US\$/t)	6,000	8,091	12,000	9,243
Spodumene Concentrate (US\$/t)	402	562	769	683
Tantalum (US\$/lb)	75	66	60	60
AUD:USD	0.76	0.75	0.75	0.74

Valuation Sensitivity



Production Metrics	2015a	2016e	2017e	2018e
Mt Cattlin (100%)				
Spodumene concentrate (kt)	0.0	11.0	163.2	206.7
LCE production (kt)	0.0	1.5	23.2	29.0
Tantalum concentrate (Mlb)	0.0	0.0	9.0	9.0
AISC (A\$/tonne LCE)	0.0	1,279	305	278

Sal de Vida (100%)				
Lithium Carbonate (kt)	0.0	0.0	0.0	0.0
AISC (US\$/tonne LCE)	0.0	0.0	0.0	0.0

Reserves & Resources

Mt Cattlin	Mt	Grade (Li ₂ O)	Mt LCE	Ta2O5 (Mlbs)
Resources	16.4	1.08%	0.178	5.68
Reserves	10.0	1.04%	0.104	3.28

James Bay	Mt	Grade (Li ₂ O)	Mt LCE
Resources	22.2	1.25%	0.278

Sal de Vida	Vol (km ³)	Li (ppm)	Mt LCE
Resources	1.8	753	7.29
Reserves	0.4	489	1.14

Directors & Management

Name	Position
Martin Rowley	NE Chairman
Anthony Tse	Managing Director
Jian-Nan Zhang	Non-exec Director
Michael Fotios	Non-exec Director

Major Shareholders

Board & Management	%
	6.9%

Source: Factset, Company reports & Canaccord Genuity estimates

Company Description

Galaxy Resources Limited (ASX:GXY) is an Australian based, globally diversified lithium development and production company. Its primary assets are Mt Cattlin spodumene operation in WA, the Sal de Vida lithium brine development project in Argentina (100%) and the James Bay spodumene exploration project in Canada.

Profit & Loss (A\$m)	2015a	2016e	2017e	2018e
Revenue	0.02	11.51	179.55	218.05
Operating Costs	-3.6	-4.8	-70.6	-78.1
Corporate & O'heads	-5.5	-7.7	-6.1	-6.2
Exploration (Expensed)	-0.3	-0.4	-0.9	-0.6
EBITDA	-9.5	-1.4	102.0	133.2
Dep'n	-0.1	-1.2	-15.9	-16.6
EBIT	-9.6	-2.6	86.1	116.7
Net Interest	-8.7	-3.0	-2.3	3.0
Tax	0.0	0.0	0.0	0.0
NPAT	-18.3	-5.8	83.0	115.9
Abnormals	73.2	75.6	0.0	0.0
NPAT (reported)	54.9	69.8	83.0	115.9

Cash Flow (A\$m)	2015a	2016e	2017e	2018e
Cash Receipts	2.2	17.7	179.6	218.0
Cash paid to suppliers & employees	-7.2	-11.9	-76.7	-84.3
Tax Paid	0.0	0.0	0.0	0.0
Net Interest	-13.3	-2.7	-2.3	3.0
Operating Cash Flow	-18.3	3.1	100.6	136.8
Exploration and Evaluation	-1.8	-2.0	-3.0	-1.4
Capex	-0.0	-21.2	-3.8	-2.4
Other	87.2	5.7	0.0	0.0
Investing Cash Flow	85.3	-17.5	-6.8	-3.8
Debt Drawdown (repayment)	-78.6	20.7	-19.5	-26.8
Share capital	0.0	1.0	0.6	4.9
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	0.1	-0.3	0.0	0.0
Financing Cash Flow	-78.5	21.3	-18.9	-21.9
Opening Cash	13.6	4.7	12.1	87.0
Increase / (Decrease) in cash	-11.4	6.9	74.9	111.1
FX Impact	2.8	-0.2	0.0	0.0
Closing Cash	5.0	11.5	87.0	198.1

Balance Sheet (A\$m)	2015a	2016e	2017e	2018e
Cash + S/Term Deposits	4.7	12.1	87.0	198.1
Other current assets	1.8	8.3	44.9	54.5
Current Assets	6.5	20.4	131.9	252.6
Property, Plant & Equip.	1.7	21.6	9.6	-4.6
Mining, Expl'n & Develop.	124.0	200.8	202.9	203.8
Other Non-current Assets	1.5	16.8	4.8	4.8
Payables	1.4	6.6	14.4	17.4
Short Term debt	1.5	59.0	26.8	0.0
Long Term Debt	23.5	-13.3	-0.6	-0.6
Other Liabilities	4.6	25.9	43.5	53.9
Net Assets	102.8	181.4	265.0	385.8
Shareholders Funds	459.2	460.2	460.8	465.7
Reserves	-6.6	5.5	5.5	5.5
Retained Earnings	-354.0	-284.2	-201.2	-85.3
Total Equity	102.8	181.4	265.0	385.8

Ratios & Multiples	2015a	2016e	2017e	2018e
EBITDA Margin	nm	nm	57%	61%
EV/EBITDA	nm	nm	7.0x	4.4x
Op. Cashflow/Share	-\$0.01	\$0.00	\$0.05	\$0.07
P/CF	-49.3x	295.1x	9.1x	6.7x
EPS	\$0.05	\$0.05	\$0.05	\$0.06
EPS Growth	7%	-16%	38%	-15%
PER	9.8x	9.1x	10.9x	7.9x
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0%	0%	0%	0%
ROE	53%	38%	31%	30%
ROIC	-2%	-1%	19%	25%
Debt/Equity	23%	-7%	0%	0%
Net Interest Cover	-3.0x	-0.8x	110.8x	nm
Book Value/share	\$0.06	\$0.10	\$0.14	\$0.21
Price/Book Value	8.8x	5.0x	3.5x	2.4x

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Investment Recommendation

Date and time of first dissemination: December 15, 2016, 15:20 ET

Date and time of production: December 15, 2016, 15:20 ET

Target Price / Valuation Methodology:

Galaxy Resources Limited - GXY

To reach our target price, we value GXY on a NAV basis comprising our NPV10% for Mt. Cattlin, our blended DCF/market-based value for Sal de Vida, and exploration, net of corporate and other adjustments.

Risks to achieving Target Price / Valuation:

Galaxy Resources Limited - GXY

The key investment risks for GXY include:

Funding risk

As a pre-production company with no material income, GXY is reliant on equity and debt markets to fund feasibility studies and development of various projects. We can make no assurances that accessing these markets will be done without further dilution to shareholders.

Exploration risks

Exploration is subject to a number of risks and can require a high rate of capital expenditure. Risks can also be associated with conversion of inferred resources and lack of accuracy in the interpretation of geochemical, geophysical, drilling and other data. No assurances can be given that exploration will delineate further minable reserves.

Operating risks

Once in production, the company will be subject to risks such as plant/equipment breakdowns, metallurgical (meeting design recoveries within a complex flowsheet), materials handling and other technical issues. An increase in operating costs could reduce the profitability and free cash generation from the operating assets considerably and negatively impact valuation. Further, the actual characteristics of an ore deposit may differ significantly from initial interpretations which can also materially impact forecast production from original expectations.

Commodity price and currency fluctuations

As with any mining company, GXY is directly exposed to commodity price and currency fluctuations. Commodity price fluctuations are driven by many macroeconomic forces including inflationary pressures, interest rates and supply and demand factors. These factors could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:**Global Stock Ratings (as of 12/15/16)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	582	61.20%	35.57%
Hold	276	29.02%	18.12%
Sell	29	3.05%	20.69%
Speculative Buy	64	6.73%	73.44%
	951*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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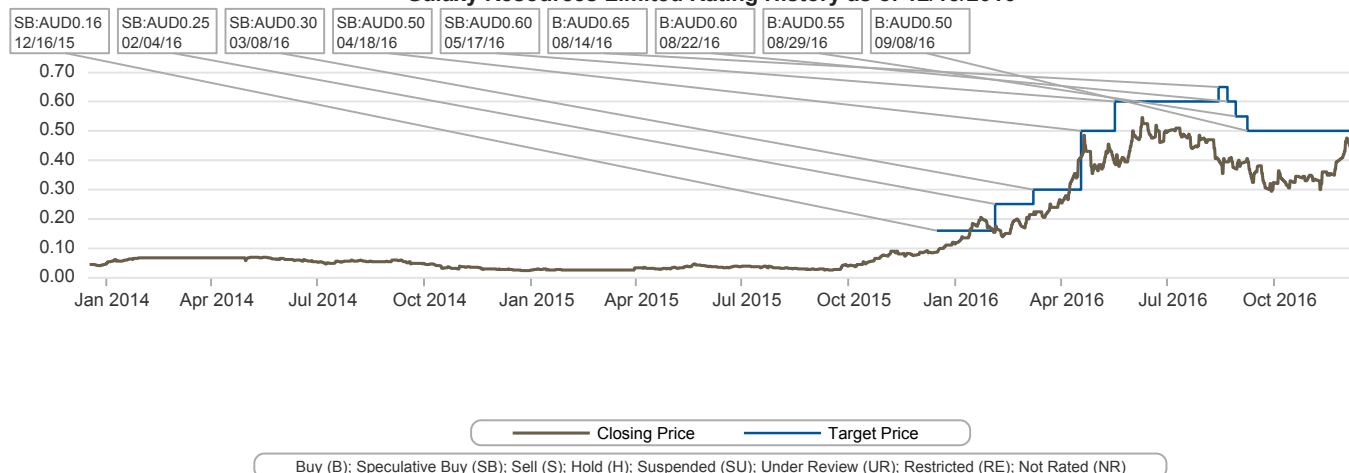
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Galaxy Resources Limited Rating History as of 12/13/2016

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