

## Australian Equity Research

31 March 2016

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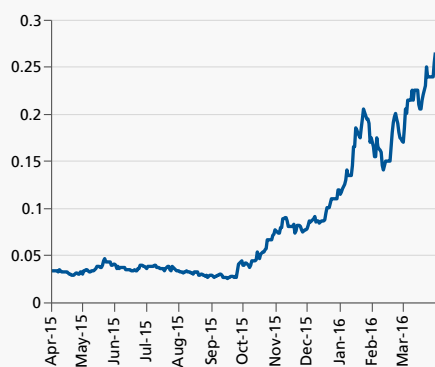
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## SPECULATIVE BUY

**PRICE TARGET** A\$0.30  
**Price (31-Mar)** A\$0.26  
**Ticker** GXY-ASX

52-Week Range (A\$): 0.02 - 0.27  
 Avg Daily Vol (000s): 7,526.99  
 Shares Out. (M): 1,264.4  
 Market Cap (A\$M): 335.1



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 (earning out to 50%), the Sale de Vida lithium brine development project in Argentina (100%) and the James Bay spodumene exploration project in Canada (earning out to 50%).

## Mt Cattlin enters commissioning

**Event:** Mt Cattlin enters commissioning**Highlights:**

- GXY has reported that it has received a commencement of production notice from project partner General Mining Corporation (GMM : ASX : A\$0.40 | SPEC BUY), in accordance with its earn in terms at Mt Cattlin. The milestones under the agreement include commencement of production at Mt Cattlin by 31 Mar'16, and cash payments totalling A\$18m over three years to GXY. The milestone now qualifies GMM for its initial 14% equity interest and 50% operating profit interest under the terms of the agreement.
- Mining and processing operations at Mt Cattlin have now commenced. As previously reported, the project will be sequentially commissioned and optimised over 2016, with initial stages including commissioning of the fines circuit, followed by subsequent commissioning of the crushing and coarse circuit by Jun'16. First product shipment remains scheduled for Jul/Aug'16.
- Initial plant feed is planned to comprised material from the existing crushed fine ore stockpile and recovered tailings. Recovery and stockpiling of previously blasted ore from the open pit has also commenced in preparation for commissioning of the coarse circuit later in 2016.
- Mt Cattlin is expected to produce up to 120ktpa of spodumene concentrate (+5.5% Li<sub>2</sub>O) at base case production rates. No formal production guidance has been provided by the project partners, but based on commitments under the recently announced off-take agreements, we anticipate CY16 production of +60kt of concentrate, increasing to 120kt in CY17. We currently model steady state production to be achieved in late CY16/early CY17.

**Impact on our view:**

- This is a significant milestone for GXY, with the project one of only two new sources of hard rock lithium to come on line globally in the coming 18-24 months. Commencement of production comes at a time of significant tightness in the lithium market with upward pressure on both mineral concentrate and refined lithium carbonate prices.
- We note that no update has been provided in relation to the US\$18m product pre-payment under the off-take agreement, which was previously expected to be completed by 31 Mar'16. However, we understand that this there is little risk to completion of the pre-payment, with an update expected in the coming days. Our estimates suggest that receipt of funds under the prepayment ensures the project is well funded through commissioning and ramp up. Looking forward, we expect Mt Cattlin to rapidly move into positive cashflow with first product shipment and sales expected in the SepQ.

**Maintain SPECULATIVE BUY rating; A\$0.30 target unchanged.**

## Appendix: Important Disclosures

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### 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.

General Mining Corporation Limited - GMM

To reach our A\$0.60/sh target price, we value GMM on a net asset valuation basis, comprising a 50% interest in our base case Mt Cattlin NPV<sub>10%</sub>, 50% of our nominal valuation for James Bay, 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.

General Mining Corporation Limited - GMM

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### Distribution of Ratings:

#### Global Stock Ratings (as of 03/31/16)

| Rating          | Coverage Universe |        | IB Clients |
|-----------------|-------------------|--------|------------|
|                 | #                 | %      | %          |
| Buy             | 553               | 61.24% | 31.83%     |
| Hold            | 260               | 28.79% | 15.77%     |
| Sell            | 28                | 3.10%  | 3.57%      |
| Speculative Buy | 62                | 6.87%  | 61.29%     |
|                 | 903*              | 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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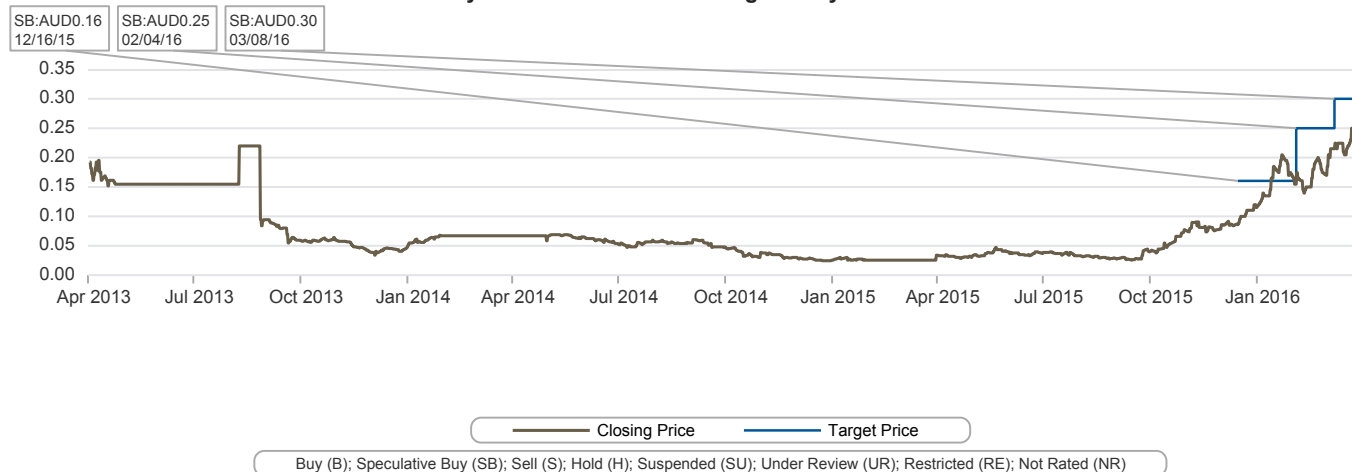
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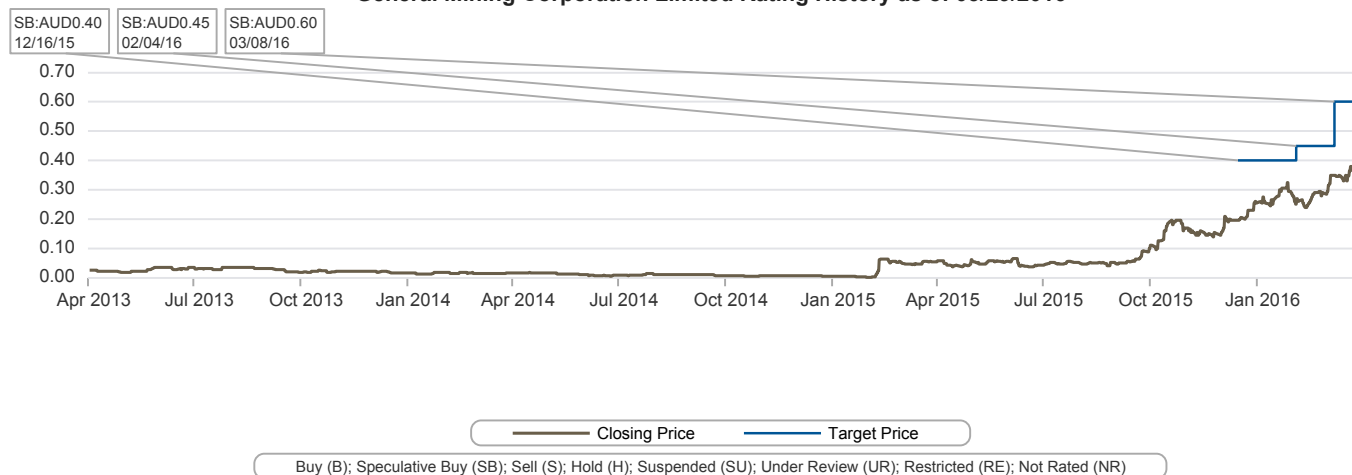
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## Galaxy Resources Limited Rating History as of 03/29/2016



## General Mining Corporation Limited Rating History as of 03/29/2016

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