

RECOMMENDATIONS

Rating	BUY ▲
Risk	High
Price Target	\$0.81
Share Price	\$0.57

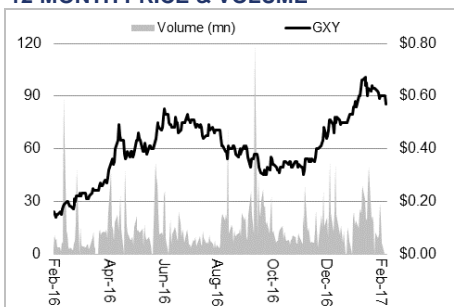
SNAPSHOT

Monthly Turnover	\$267.9mn
Market Cap	\$1,105mn
Shares Issued	1,857.5mn
52-Week High	\$0.70
52-Week Low	\$0.13
Sector	Materials

BUSINESS DESCRIPTION

Galaxy Resources is a developer and explorer of lithium minerals. The company started in the lithium industry in 2011 with production from Mt Cattlin and conversion of lithium in China at Jiangsu, production problems and costs led to its closure and subsequent divestment. GXY also acquired Lithium One in 2012 which led to it getting control of Sal de Vida and James Bay.

12-MONTH PRICE & VOLUME



RESEARCH ANALYST

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Disclosure

The author owns no shares in GXY.

Galaxy Resources (GXY)

COMPANY REPORT

Raising paves the way for project development & evaluation

- Equity issue raises \$61m:** GXY has placed 113m shares at 54cps with new and existing investors. The proceeds will be used to strengthen the balance sheet and to provide funding flexibility while the company studies the development options for Sal de Vida and James Bay. The strength in the share price and investor interest in lithium offered equity funding as an option rather than having to wait for project cash flow generated from Mt Cattlin or Joint Venturing out the properties.
- Project studies advancing:** Earlier this week, GXY announced the appointment of a development team at Sal de Vida, made up of four highly credentialed people (over 200 combined years' experience in the lithium industry) with expertise in Process plants. One specialises in engineering and construction with another focusing on Salar Hydro-geology. Starting in 1Q17 this team will be responsible for building a demonstration plant, bringing two production wells on-line, constructing 45ha of evaporation ponds, plus further exploration and technical studies. At James Bay, GXY has indicated that it will start a drill program in 1Q17 to enable the conversion of the 22Mt spodumene resource base to reserves in the lead up to revising the Project DFS by the end of CY17.
- Revised Target Price:** The cash raised in the placement, the acceleration of work on Sal de Vida and James Bay, and the successful shipments of concentrate from Mt Cattlin has led us to remove the discount, or risk, we had been applying to our asset valuation. Our NPV for GXY (including the new cash) has risen from 78cps to 84cps and we have increased our target price from 61cps to 81cps. Our BUY recommendation is retained.

INVESTMENT SUMMARY

Year End: 31 December	2014 (A)	2015 (A)	2016 (E)	2017 (E)	2018 (E)	
Revenue	\$mn	0	0	16	166	279
EBITDA	\$mn	-10.2	-9.4	7.0	94.6	173.1
EBIT	\$mn	-16.9	-9.8	3.5	86.8	165.0
Reported Profit	\$mn	-54.7	54.9	-0.4	58.5	114.5
Adjusted Profit	\$mn	-29.2	-15.6	-0.4	58.5	114.5
EPS (Reported)	¢	-5.1	4.3	0.0	3.0	6.0
EPS (Adjusted)	¢	-2.7	-1.2	0.0	3.0	6.0
EPS Growth	%	N/A	N/A	N/A	N/A	95.7
PER (Reported)	x	N/A	13.2	N/A	18.8	9.6
PER (Adjusted)	x	N/A	N/A	N/A	18.8	9.6
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial summary

Galaxy Resources

Analyst:	Warren Edney
Date:	08-Feb-17
Share Price (\$A):	\$0.57
Market Cap (\$A\$m):	\$1,030
EV (\$A\$m)	\$995
Year End:	30 June

Rating:	Buy
Price Target:	\$0.81
Upside/(Downside):	43%
Valuation:	\$0.84
Risk:	High

KEY RATIOS	FY16E	FY17E	FY18E	FY19E	FY20E
NPAT - Reported	-0.4	58.5	114.5	97.4	59.7
NPAT - Attributable	-0.4	58.5	114.5	97.4	59.7
EPS - Adjusted	-0.1	3.0	6.0	5.1	3.1
EPS Growth (%)	(96%)	(5,319%)	96%	(15%)	(39%)
P/E (x)	(975.9)	18.7	9.6	11.2	18.3
CFPS (A Cents)	0.4	3.6	6.5	5.9	7.0
P/CF (x)	156.1	15.7	8.8	9.7	8.1
DPS (A Cents)	-	-	-	-	-
Franking (%)	0%	0%	0%	0%	0%
Dividend Yield (%)	-	-	-	-	-
Payout Ratio (%)	-	-	-	-	-
FCF Yield (%)	-2%	3%	9%	-23%	1%
EV/EBIT (x)	506.0	20.4	10.7	12.1	15.4
EV/EBITDA (x)	252.7	18.7	10.2	11.5	11.0

ASSUMPTIONS	FY16E	FY17E	FY18E	FY19E	FY20E
Australian Dollar (AUD/USD)	0.74	0.73	0.73	0.75	0.75
Spodumene conc (US\$/t)	600	773	791	770	699
Spodumene conc (A\$/t)	806	1,058	1,088	1,034	932
LiCO (US\$/t)	9,000	7,500	7,500	7,750	8,000
Tantalite (US\$/t)	60	65	70	75	80
Tantalite (A\$/t)	81	89	96	101	107

PRODUCTION & COSTS	FY16E	FY17E	FY18E	FY19E	FY20E
Mt Cattlin - spodumene (kt)	18	135	224	224	224
Mt Cattlin - tantalite (t)	9	97	167	167	167
Spodumene - FOB Cost A\$/t	474	526	469	507	444
Sal de Vida - LCE (kt)	0.0	0.0	0.1	0.8	7.5
LCE - FOB cost US\$/t after credits	0	0	0	0	6,680

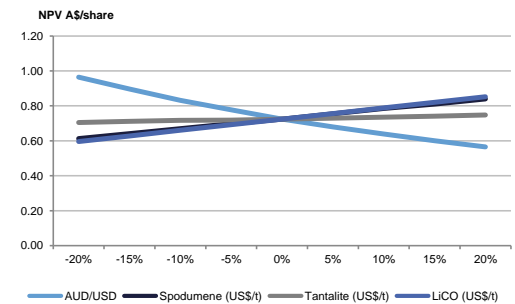
PROFIT & LOSS (\$A\$m)	FY16E	FY17E	FY18E	FY19E	FY20E
Operating Revenue	16.1	166.3	279.2	268.7	328.1
Other Revenue	-	-	-	-	-
Total Revenue	16.1	166.3	279.2	268.7	328.1
Operating Expenses	(9)	(71)	(105)	(114)	(166)
Corporate/Other Expenses	(1)	(1)	(1)	(1)	(1)
EBITDA	7	95	173	154	161
Depreciation & Amortisation	(4)	(8)	(8)	(8)	(46)
Exploration/write-offs	(0)	-	-	-	-
EBIT	4	87	165	146	115
Net Interest / (Expense)	(3)	(3)	(1)	(7)	(30)
NPBT	0	84	164	139	85
Income Tax Expense	(1)	(25)	(49)	(42)	(26)
NPAT - Adjusted	(0)	59	115	97	60
Significant Items	-	-	-	-	-
NPAT - Reported	(0)	59	115	97	60

CASH FLOW (\$A\$m)	FY16E	FY17E	FY18E	FY19E	FY20E
Cash Flow from Ops	7	70	124	112	135
Capex - Development & Sustaining	(32)	(41)	(33)	(350)	(124)
Free Cash Flow	(25)	29	91	(238)	11
Cash Flow From Investing	(292)	(40)	(29)	(342)	(117)
Cash Flow From Financing	267	67	15	227	24
Net Cash Flow	(18)	97	110	(2)	42

BALANCE SHEET (\$A\$m)	FY16E	FY17E	FY18E	FY19E	FY20E
Cash	-13.5	83.2	192.9	190.8	233.1
PP&E/Development/Exploration	154.1	187.0	212.3	554.3	633.2
Assets	149.8	279.4	414.5	754.3	875.5
Debts	38.3	48.3	68.9	311.2	412.8
Liabilities	46.9	56.9	77.5	319.8	421.3
Equity	362.8	482.3	596.9	694.3	754.0
Net Debt / (Cash)	51.8	-34.9	-124.1	120.5	179.6
Gearing (%) - Net Debt / (Net Debt + Equity)	12%	-8%	-26%	15%	19%

VALUATION SUMMARY	WACC	8.9%	A\$m	A\$/Share	Risked
Mt Cattlin			916	0.48	0.48
Sal de Vida			567	0.30	0.30
James Bay			109	0.06	0.03
Operations			1,592	0.83	0.80
Corporate			(9)	(0.00)	(0.00)
Exploration			-	-	-
Net Cash / (Debt)			35	0.02	0.02
Total Valuation			1,619	0.84	0.81

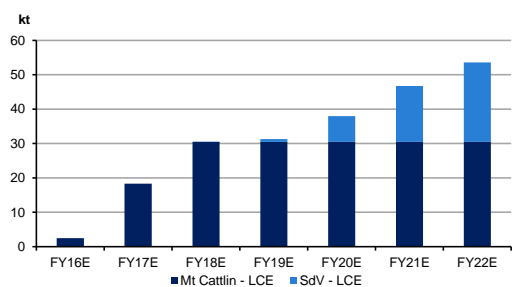
VALUATION SENSITIVITY



EARNINGS SENSITIVITY

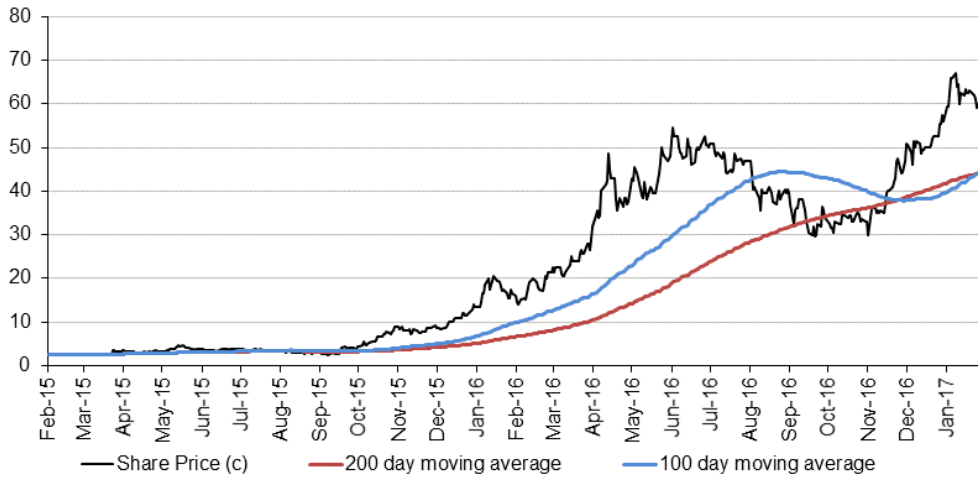
AUD/USD		FY16E	FY17E	FY18E	FY19E
NPAT A\$m		-0.4	58.5	114.5	97.4
10%		-0.9	-9.6	-16.3	-15.5
+1c		-0.1	-1.3	-2.2	-2.1
Spodumene		FY16E	FY17E	FY18E	FY19E
NPAT A\$m		-0.4	58.5	114.5	97.4
10%		0.9	9.3	15.8	15.4
\$100/t		1.5	12.1	19.9	20.0
LiCO		FY16E	FY17E	FY18E	FY19E
NPAT A\$m		-0.4	58.5	114.5	97.4
10%		0.0	0.0	0.0	0.0
\$100/t		0.0	0.0	0.0	0.0

LCE PRODUCTION - equity



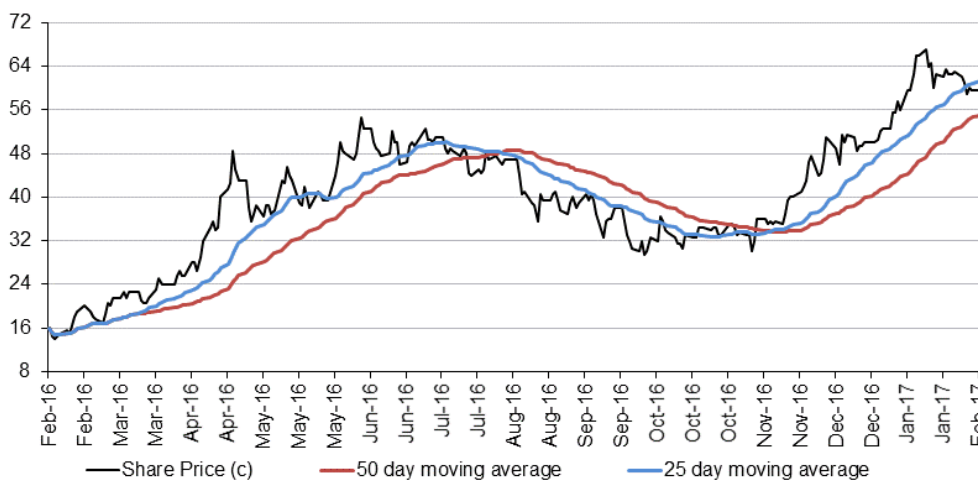
Appendix

FIG.1: LONG TERM MOMENTUM INDICATORS



Source: Iress

FIG.2: SHORT TERM MOMENTUM INDICATORS



Source: Iress

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Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of \pm 10-15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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Hold: 35%

Sell: 2%

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