

GALAXY RESOURCES LTD (GXY)

Excellent contract pricing for CY17

Galaxy Resources has announced better than expected spodumene price contract for CY17. The new benchmark is US\$830/t FOB, minimum 5.5% Li₂O. This compares to US\$600/t that the Company contracted for CY16 (which is still to be delivered due to production delays). We had expected contract pricing >US\$700 but not as high as US\$830/t. The Company will sell 6% higher grade product it produces at US\$905/t.

CY17 blended price >US\$772/t (5.5% benchmark)?

The Company must still deliver ~45kt spodumene contracted in 2016 (we assume ~37kt will ship in CY17) to be delivered at US\$600/t, and has now contracted 120kt at US\$830/t (5.5% benchmark) for total sales of 160kt. The blended average price therefore is US\$772/t.

Note, if recoveries are greater than 50% in CY17, then it is likely that production exceeds 160kt, and the Company can achieve some spot sales (Company guidance is to reach 1.6Mtpa throughput for 160kt pa of spodumene at 50% recoveries). Phase 2 is the plan to install flotation to increase yields to >80% (256ktpa). The expectation is that recoveries can be optimised to ~70% without a float (>224kt pa), but we are conservative and assume only formal guidance for most of CY17. Production above guidance at a higher prices would mean blended CY17 price >US\$772/t.

Hartleys expects CY17 EBITDA of A\$62m, CY18 A\$140m

We assume declining spodumene prices in CY18 to US\$800 (5.5%). Based on production increases in CY18, we estimate EBITDA of A\$140m.

Maintain Buy

Our base case (assuming value for all three assets) is 59cps. Our spot price valuation (using US\$850/t 5.5%) is 82cps. We retain our Buy for GXY. Earnings momentum is likely to remain strongly positive through CY17 based on risk to spodumene prices (upside) and risk to production (upside if recoveries are higher than base case).

Fig. 1: Hartleys Revised Lithium Price Assumptions

P&L	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20
Net Revenue	A\$m	148.1	240.7	268.7	222.1
Total Costs	A\$m	-85.7	-100.9	-103.1	-101.1
EBITDA	A\$m	62.4	139.8	165.5	121.1
- margin		42%	58%	62%	55%
Depreciation/Amort	A\$m	-2.5	-4.1	-13.9	-38.4
EBIT	A\$m	59.9	135.7	151.6	82.6
Net Interest	A\$m	-3.5	-3.0	-2.7	-8.0
Pre-Tax Profit	A\$m	56.4	132.7	148.9	74.6
Tax Expense	A\$m	0.0	0.0	0.0	0.0
Normalised NPAT	A\$m	56.4	132.7	148.9	74.6
Abnormal Items	A\$m	0.0	0.0	0.0	0.0
Reported Profit	A\$m	56.4	132.7	148.9	74.6
Minority	A\$m	0.0	0.0	0.0	0.0
Profit Attrib	A\$m	56.4	132.7	148.9	74.6

Source: Hartleys Research

15 Dec 2016

Share Price	\$0.500
Valuation	\$0.59
Price Target (12 month)	\$0.66

Brief Business Description:

Commissioning the Mt Cattlin spodumene mine. Developing the large lithium brine operation Sal De Vida.

Hartleys Brief Investment Conclusion

One of the few Companies that is in production of lithium ore and has offtake agreements for product. Growth potential from James Bay project and Sal De Vida.

Chairman & MD

Martin Rowley (Exec. Chairman)
Anthony Tse (MD)

Major Shareholders

Company Address

Suite 8/18 Kearns Cr
Ardross, WA, 6153

Issued Capital 1832.5m

- fully diluted 1881.5m

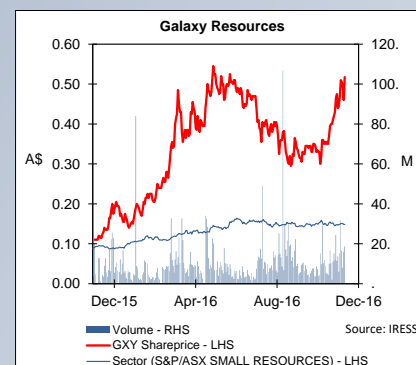
Market Cap A\$916.3m

- fully diluted A\$940.7m

Cash (31 Dec 16e) A\$2.0m

Debt (31 Dec 16e) A\$43.0m

Prelim. (A\$m)	CY17e	CY18e	CY19e
Prod (Li Spod. eq)	146.6	239.3	269.0
Op Cash Flw	104.0	139.5	161.5
Norm NPAT	56.4	132.7	148.9



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Galaxy Resources GXY		Share Price				15 December 2016	
		GXY				\$0.500	Buy
Key Market Information							
Share Price						\$0.500	
Market Capitalisation - ordinary						A\$941m	
Net Debt (cash)						\$41m	
Market Capitalisation - fully diluted						A\$941m	
Issued Capital						1832.5m	
Options						49.0	
Issued Capital (diluted for options)						1881.5m	
12month price target						\$0.66	
P&L	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20		
Net Revenue	A\$m	148.1	240.7	268.7	222.1		
Total Costs	A\$m	-85.7	-100.9	-103.1	-101.1		
EBITDA	A\$m	62.4	139.8	165.5	121.1		
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Tax Expense	A\$m	0.0	0.0	0.0	0.0		
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Abnormal Items	A\$m	0.0	0.0	0.0	0.0		
Reported Profit	A\$m	56.4	132.7	148.9	74.6		
Minority	A\$m	0.0	0.0	0.0	0.0		
Profit Attrib	A\$m	56.4	132.7	148.9	74.6		
Balance Sheet	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20		
Cash	A\$m	117.5	231.2	232.5	95.7		
Other Current Assets	A\$m	18.3	29.7	33.1	27.4		
Total Current Assets	A\$m	135.7	260.9	265.6	123.1		
Property, Plant & Equip.	A\$m	46.0	63.3	225.2	516.0		
Exploration	A\$m	4.1	8.5	12.9	17.3		
Investments/other	A\$m	0.0	0.0	0.0	0.0		
Tot Non-Curr. Assets	A\$m	50.1	71.8	238.1	533.3		
Total Assets	A\$m	185.8	332.7	503.7	656.4		
Short Term Borrowings	A\$m	0.2	0.2	0.2	0.2		
Other	A\$m	79.8	94.0	96.0	94.1		
Total Curr. Liabilities	A\$m	80.0	94.2	96.3	94.3		
Long Term Borrowings	A\$m	81.0	81.0	101.0	181.0		
Other	A\$m	-	-	-	-		
Total Non-Curr. Liabil.	A\$m	81.0	81.0	101.0	181.0		
Total Liabilities	A\$m	161.0	175.2	197.3	275.3		
Net Assets	A\$m	24.8	157.5	306.4	381.0		
Net Debt (net cash)	A\$m	-36.2	-149.9	-131.2	85.6		
Cashflow	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20		
Operating Cashflow	A\$m	107.5	142.5	164.1	124.9		
Income Tax Paid	A\$m	0.0	0.0	0.0	0.0		
Interest & Other	A\$m	-3.5	-3.0	-2.7	-8.0		
Operating Activities	A\$m	104.0	139.5	161.5	116.9		
Property, Plant & Equip.	A\$m	-19.6	-21.4	-175.8	-329.2		
Exploration and Devel.	A\$m	-2.6	-4.4	-4.4	-4.4		
Other	A\$m	0.0	0.0	0.0	0.0		
Investment Activities	A\$m	-22.2	-25.8	-180.2	-333.6		
Borrowings	A\$m	50.0	0.0	20.0	80.0		
Equity or "tbc capital"	A\$m	0.0	0.0	0.0	0.0		
Dividends Paid	A\$m	0.0	0.0	0.0	0.0		
Financing Activities	A\$m	50.0	0.0	20.0	80.0		
Net Cashflow	A\$m	131.8	113.7	1.3	-136.8		
Shares (GXY terms)	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20		
Ordinary Shares - End	m	1848.4	1917.7	1917.7	1957.7		
Ordinary Shares - W'ted	m	1842.2	1883.0	1917.7	1937.7		
Diluted Shares - W'ted	m	1957.7	1957.7	1957.7	1957.7		
Ratio Analysis (GXY)	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20		
Cashflow Per Share	A\$ cpt	5.6	7.4	8.4	6.0		
Cashflow Multiple	x	8.9	6.7	5.9	8.3		
Earnings Per Share	A\$ cpt	3.1	7.0	7.8	3.9		
Price to Earnings Ratio	x	16.3	7.1	6.4	13.0		
Dividends Per Share	AUD	-	-	-	-		
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%		
Net Debt / Net Debt + Equity %		316%	-1990%	-75%	18%		
Interest Cover	X	17.3	45.0	56.9	10.3		
Directors							Company Information
Martin Rowley (Exec. Chairman)							Suite 8/18 Kearns Cr
Anthony Tse (MD)							Ardross, WA, 6153
Michael Fotios (Non-exec)							Ph +61 8 9215 1700
George Zheng (Non-exec)							www.galaxylithium.com
Top Shareholders							
Reserves & Resources							
		Mt	Li %	TaxO ₂			
Mt Cattlin	M+I	12.1	1.09%	166			
Mt Cattlin	Inf	4.3	1.07%	132			
Mt Cattlin	Total	16.4	1.1%	149			
Mt Cattlin	Reserve	10.0	1.0%	149			
James Bay	M+I	11.8	1.30%				
James Bay	Inf	10.5	1.20%				
James Bay	Total	22.2	1.3%				
James Bay	Reserve	-	-				
Global Spod.	Total	38.6	1.18%				
Global Spod.	Reserve	9.974	1.04%	149			
		Cub. m.	mg/l	LC Mt	KCI Mt		
Sal de Vida	Resource	1.81	753	7.2	28.8		
Sal de Vida	Reserve			1.4	4.2		
Mt Cattlin Production Summary	Unit	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21
Processed Mill Throughput	Mt	0.03	1.36	1.55	1.55	1.55	1.55
Mined grade Li	%		1.2%	1.2%	1.2%	1.2%	1.2%
Produced Spodumene - Technical	kt	0.0	0.0	0.0	0.0	0.0	0.0
Produced Spodumene - Battery	kt	2	134	223	253	253	253
Produced Tantalite	klb pa	4	231	314	314	314	314
Produced Spodumene - Battery Eq	kt	3	147	239	269	273	275
LCE equiv	Kt	0	20	32	36	37	37
Mine Life	yr	15	14	13	12	11	10
Assumed Mining Inventory	Mt	22.3	21.3	19.8	18.2	16.7	15.1
Assumed Mining Inventory - Li grade	%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Assumed Mining Inventory - Tant grade	%	149	149	149	149	149	149
Costs	Unit	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21
Cost per milled tonne	\$/t	54.8	55.0	55.4	55.4	55.4	55.4
EBITDA / tonne milled ore	\$/t	45.8	90.2	106.8	78.1	65.6	64.7
Total cost per milled tonne	\$/t	62.9	65.1	66.5	65.2	64.7	
Total Cash Costs	\$/t Spod. Batt. eq	585	422	383	370	365	
- US\$	\$/t Spod. Batt. eq	437	318	292	284	283	
C1: Operating Cash Cost = (a)	\$/t Spod. Batt. eq	510	356	319	315	313	
(a) + Royalty = (b)	\$/t Spod. Batt. eq	556	403	366	353	347	
C2: (a) + depreciation & amortisation = (c)	\$/t Spod. Batt. eq	527	373	371	414	456	521
(a) + actual cash for development = (d)	\$/t Spod. Batt. eq	661	464	989	1,538	396	
AISC: (c) + Royalty	\$/t Spod. Batt. eq	573	420	418	493	555	
(d) + Royalty	\$/t Spod. Batt. eq	708	511	1,036	1,575	430	
Price Assumptions	Unit	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21
AUDUSD	US\$/A\$	0.76	0.75	0.76	0.76	0.77	0.78
LC	US\$/t	10,941	12,931	12,672	12,672	11,439	10,941
Spodumene - Battery	US\$/t	600	830	800	800	658	600
Tantalum	US\$/lb	60	60	60	60	60	60
Hedging	Unit	Dec 16	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21
Spodumene		Yes					
Sensitivity Analysis							
			Valuation		FY21 NPAT		
Base Case			0.59		22.8		
Spot Prices			0.82 (40.8%)		83.4 (266.4%)		
Spot USD/AUD 0.74, Chemical Spod \$850/t, LC \$10,000/t, Tant. \$60/lb.							
AUDUSD +/-10%			0.48 / 0.71 (-17.7% / 21.6%)		13.0 / 34.7 (-42.8% / 52.3%)		
Spodumene +/- Technical +/-10%			0.59 / 0.59 (0.0% / 0.0%)		22.8 / 22.8 (0.0% / 0.0%)		
Spodumene - Chemical +/-10%			0.67 / 0.51 (13.6% / -13.6%)		36.3 / 9.2 (59.4% / -59.4%)		
Tantalite +/-10%			0.59 / 0.58 (0.9% / -0.9%)		24.0 / 21.5 (5.4% / -5.4%)		
Production +/-10%			0.73 / 0.44 (24.8% / -24.8%)		37.2 / 8.4 (63.3% / -63.3%)		
Operating Costs +/-10%			0.53 / 0.64 (-10.0% / 10.0%)		16.3 / 29.2 (-28.2% / 28.2%)		
Unpaid Capital							
Year Expires							
31-Dec-18		No. (m)	\$m	Avg price	% ord		
31-Dec-18		69.3	5.8	0.08	4%		
31-Dec-19		0.0	0.0	0.00	0%		
31-Dec-20		40.0	13.7	0.34	2%		
31-Dec-21		0.0	0.0	0.00	0%		
31-Dec-22		0.0	0.0	0.00	0%		
TOTAL		109.3	19.5	0.18	6%		
Valuation post merger							
100% Mt Cattlin (pre-tax NAV at disc. rate of 10%)			703		\$/GXY 0.37		
Sal de vida			600		0.32		
Other Assets/Exploration			67		0.04		
Corporate Overheads			-45		-0.02		
Net Cash (Debt)			-41		-0.02		
Tax (NPV future liability)			-180		-0.10		
Options & Other Equity			5		0.00		
Total			1108		0.59		
Analyst: Trent Barnett							
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15 Dec 16							
tbc capital could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.							
Sources: IRESS, Company Information, Hartleys Research							

Fig. 1: Key Assumptions and Risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
~15 year mine life	Low	Meaningful	This appears reasonable based on current resources
Ramp-up to 1.6mtpa in CY16	Upside/downside	Meaningful	This seems reasonable given infrastructure in place, and potentially ramp-up could be faster than our assumptions
Recoveries take time to reach 70%, and capital is required to achieve 85%	Upside/downside	Meaningful	Hopefully our recovery estimates are too low, and the plant can be optimised quickly to achieve 70%
Spodumene prices in line with our estimates	Upside/downside	Meaningful	We assume prices are yet to peak
Sal De Vida is developed	High	High	Sal De Vida appears highly economic, but will take time for first cash flows
No new financing	Low	Meaningful	We assume the project is fully funded.
Exploration value	Moderate	Meaningful	We assume modest exploration value.
<i>Conclusion</i>	<i>Selling prices of spodumene and lithium carbonate and the development of Sal de Vida are significant risks to valuation.</i>		

Source: Hartleys

PRICE TARGET

We have changed our price target to 66cps (from 52cps previously).

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	65%	\$0.59	\$0.65
NPV base case Mt Cattlin only	5%	\$0.25	\$0.28
NPV at spot commodity and fx prices	25%	\$0.82	\$0.91
Net cash	5%	\$0.00	\$0.00
Risk weighted composite		\$0.60	
12 Months Price Target		\$0.66	
Shareprice - Last - GXY		\$0.500	
12 mth total return (% to 12mth target + dividend)		32%	

Source: Hartleys Estimate

RISKS

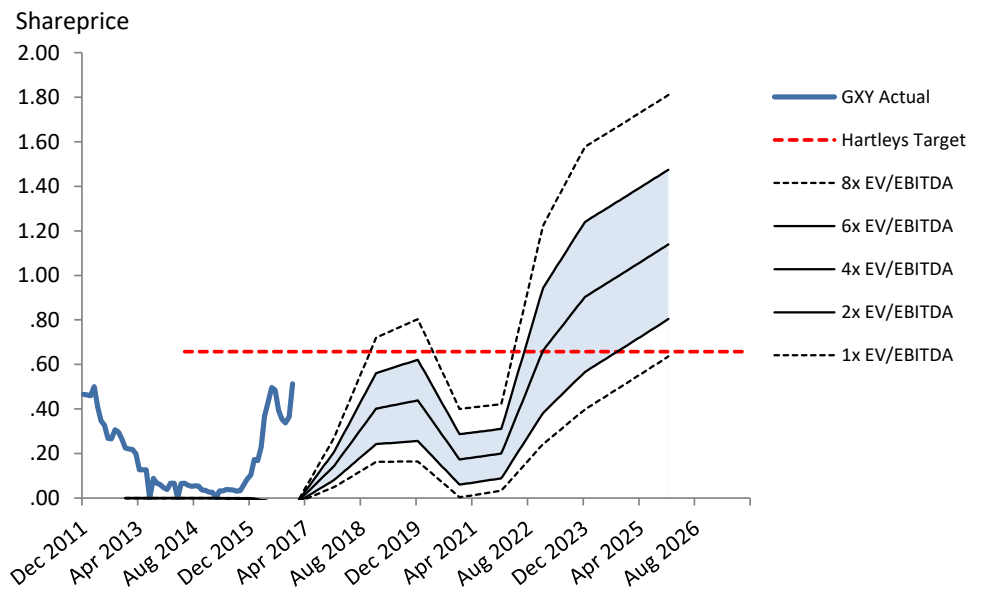
The largest risk for GXY are the selling prices of spodumene and lithium carbonate. Other risks are similar to most producers: mine planning, mill performance, force-majeure, counter party risks, mine life extensions, expansions.

Fig. 2: Hartleys Revised Lithium Price Assumptions

Assumptions for valuations	Unit							Old						% change					
		CY17e yr avg	CY18e yr avg	CY19e yr avg	CY20e yr avg	CY21e yr avg	Long run assump.	CY17e yr avg	CY18e yr avg	CY19e yr avg	CY20e yr avg	CY21e yr avg	Long run assump.	CY17e yr avg	CY18e yr avg	CY19e yr avg	CY20e yr avg	CY21e yr avg	Long run assump.
US\$/A\$	/A\$	0.75	0.76	0.76	0.76	0.78	0.75	0.75	0.76	0.76	0.76	0.78	0.75	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LC (US\$)	/tonne	12,931	12,672	12,672	11,439	10,941	10,941	12,239	12,672	12,672	10,941	10,941	10,941	5.7%	0.0%	0.0%	4.6%	0.0%	0.0%
LC (A\$)	/tonne	17,300	16,784	16,652	14,972	14,118	14,562	16,373	16,784	16,652	14,321	14,117	14,562	5.7%	0.0%	0.0%	4.6%	0.0%	0.0%
Spodumene 5.5% (US\$)	/tonne	830	800	800	658	600	600	750	800	800	600	600	600	10.7%	0.0%	0.0%	9.6%	0.0%	0.0%
Spodumene 5.5% (US\$)	/tonne	1,110	1,060	1,051	861	774	799	1,003	1,060	1,051	785	774	799	10.7%	0.0%	0.0%	9.6%	0.0%	0.0%

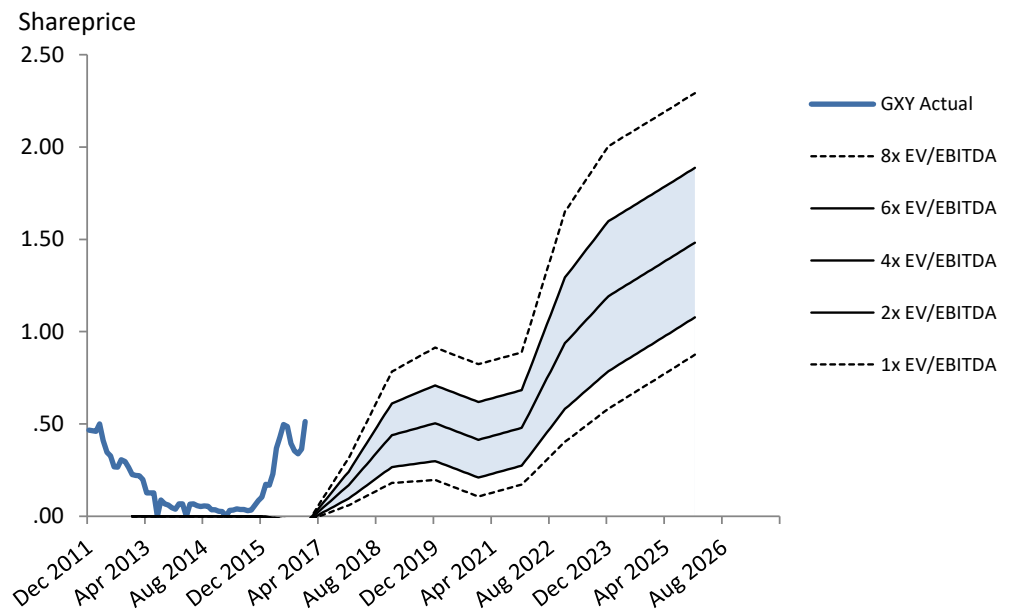
Source: Hartleys Research

Fig. 3: Using Hartleys base case commodity forecasts



Source: Hartleys Estimates, IRESS

Fig. 4: Using spot commodity prices



Source: Hartleys Estimates

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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