

CANACCORD Genuity

Galaxy Resources Limited

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Specialty Minerals and Metals

## Australian Equity Research

3 October 2016

## BUY

**PRICE TARGET** A\$0.50  
**Price (30-Sep)** A\$0.33  
**Ticker** GXY-ASX

52-Week Range (A\$): 0.04 - 0.58  
 Avg Daily Vol (000s) : 11,341.90  
 Shares Out. (M) : 1,806.8  
 Market Cap (A\$M): 587.2  
 Dividend /Shr (AUc): 0.00  
 Dividend Yield (%) : 0.0



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

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## Company Update

## Plant commissioning update at Mt Cattlin

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Galaxy Resources have provided an update of progress on the commissioning that is taking place as part of the upgrade of the Mt Cattlin project in Western Australia. On 6 September 2016 GXY indicated project managers Primero Group had been engaged along with a detailed set of milestones to enable first production by late Nov'16.

**Key highlights include:**

- Wet commissioning of the feed classification circuit implemented on schedule. Tantalum beneficiation circuit wet commission commenced last week ahead of plan.
- Critical path item of piping and electrical installation remains on track with a key focus on the Dense Media Separation (DMS) area.
- Current focus area remains reflux classifier area with progressive commissioning over the next two months to commence this week as the area is handed over from construction.
- Over 70kt of crushed ore has been stockpiled in preparation for ore commissioning from week of 27 November 2016.

**Impact on our view:**

- In our recent note [Resetting expectations at Mt Cattlin](#) (08/09/2016), we adjusted our modelled expectations of production from Mt Cattlin to reflect delays in first production to Q4'16. Our current expectations of a shipment of ~10kt of spodumene concentrate by end of Q4'16 remain unchanged.
- We had previously noted that any short falls in working capital will be satisfied by short term facilities of ~A\$10m provided by certain directors and option exercises. We currently model a cash low point of A\$10.5m in Dec'16 and expect the company to provide more details on this facility in the next weeks.
- In our view, the main risk to achieving modelled production in Dec'16 remains integrating the various circuits within the specified timeline to achieve requisite mica removal, product purity and tantalum recovery.
- Near term catalysts: Spodumene pricing for 2017 (CGe of US\$660/t) expected DecQ'16, Water commissioning of all circuit on time (20th Nov'16), First shipment of product (Dec'16).

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### Investment Recommendation

Date and time of first dissemination: October 03, 2016, 19:20 ET

Date and time of production: October 03, 2016, 19:20 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 10/03/16)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	540	59.15%	34.81%
Hold	290	31.76%	19.66%
Sell	21	2.30%	14.29%
Speculative Buy	62	6.79%	72.58%
	913*	100.0%	

\*Total includes stocks that are Under Review

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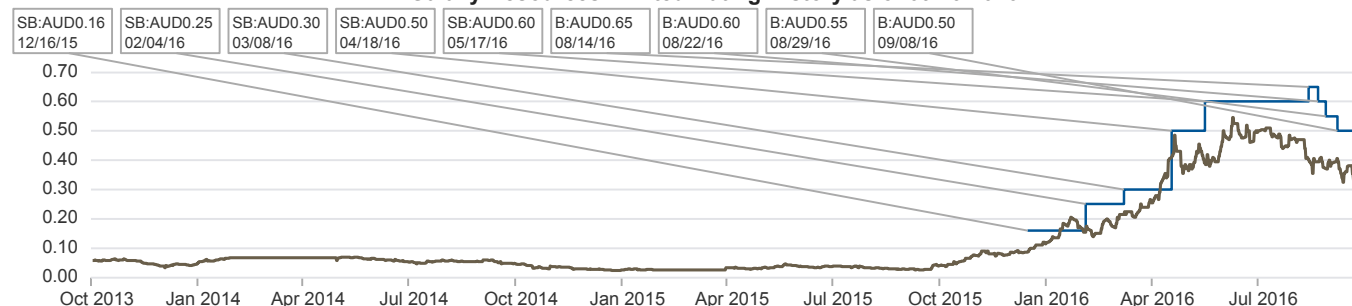
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An analyst has visited the material operations of Galaxy Resources Limited. No payment was received for the related travel costs.

**Galaxy Resources Limited Rating History as of 09/29/2016**



— Closing Price    — Target Price  
Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

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