

#### RECOMMENDATIONS

Rating	<b>BUY ▲</b>
Risk	High
Price Target	<b>\$0.61</b>
Share Price	\$0.52

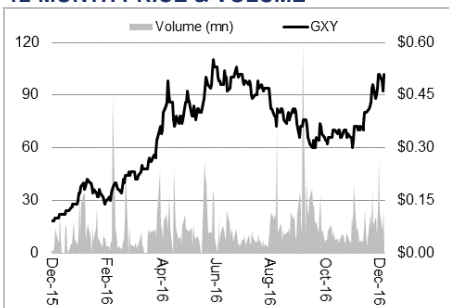
#### SNAPSHOT

Monthly Turnover	\$167.0mn
Market Cap	\$843mn
Shares Issued	1,832.5mn
52-Week High	\$0.58
52-Week Low	\$0.09
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

#### Spodumene prices go higher

- Production happening, shipment by end of December:** As announced last week, the Mt Cattlin processing facility has been successfully producing a saleable concentrate (i.e. Li<sub>2</sub>O grades above 5% and mica grades less than 5%) and product is being built up at port for shipment after Christmas and before the New Year.
- First contract delivery rolled:** Production delays resulted in the company rolling GMM's sales contracts for 2016 into 2017. GXY's first 45,000t of sales will be sold at US\$600/t (the original contract price). On our estimates these contracts should match the production to be delivered in 2016 and the March quarter of 2017.
- 2017 contract even better:** Today, the company announced that it has negotiated additional contracts for 2017 with the same group of buyers. These contracts are for 120,000t of spodumene concentrate at a price of US\$830/t for a 5.5% Li<sub>2</sub>O concentrate (we had been forecasting US\$650/t for a 5.5% concentrate). Customers are also willing to pay GXY an additional US\$15/t for every 0.1% improvement in Li<sub>2</sub>O grade. To-date grades have been as high as 6.4% Li<sub>2</sub>O, which if achievable longer-term would be equivalent to US\$960/t.
- Demand a positive for prices, earnings and valuation:** Our revised earnings and valuation is probably a conservative reflection of the uplift in the revenue stream. There are still a lot of unknowns: (1) we have used the price for 5.5% Li<sub>2</sub>O rather than the 6%+ concentrate which the company hope to produce, nor have we penalised for possible mica grades; (2) the operating costs have not been disclosed, nor would they be reliable during the ramp-up period; and (3) these recent contracts are better than we expected and confirm that demand by converters in China is robust, and that there is potential upside to come. For example, using conversion costs the current lithium carbonate price achieved by SQM would convert to ~US\$1,100/t for spodumene and lead to further upgrades relative to our forecast. We provide a table to sensitivity's for NPAT in the note.
- In the interim:** We have adjusted for the contracted prices at a 5.5% level and gradually reduced the spodumene price to reflect potential increases in supply, however this is more of an estimate as speculated demand for lithium carbonate of hydroxide could surpass the impact of some small mine additions. Our EPS estimates have risen ~50% in FY17 and FY18, and over 100% in FY 19 and FY20. Our risked valuation and target price have risen from \$0.56 to \$0.61 and our Buy rating is maintained.

#### 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	6.8	94.6	173.1
EBIT	\$mn	-16.9	-9.8	3.3	86.8	165.0
Reported Profit	\$mn	-54.7	54.9	-0.5	57.9	112.8
Adjusted Profit	\$mn	-29.2	-15.6	-0.5	57.9	112.8
EPS (Reported)	¢	-5.1	4.3	0.0	3.2	6.2
EPS (Adjusted)	¢	-2.7	-1.2	0.0	3.2	6.2
EPS Growth	%	N/A	N/A	N/A	N/A	94.8
PER (Reported)	x	N/A	11.9	N/A	16.1	8.3
PER (Adjusted)	x	N/A	N/A	N/A	16.1	8.3
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

<b>Analyst:</b>	Warren Edney
<b>Date:</b>	14-Dec-16
<b>Share Price (\$A):</b>	\$0.52
<b>Market Cap (A\$m):</b>	\$940 including all shares to be issued for GMM
<b>EV (A\$m)</b>	\$992
<b>Year End:</b>	30 June

<b>Rating:</b>	<b>Buy</b>
<b>Price Target:</b>	\$0.61
<b>Upside/(Downside):</b>	17%
<b>Valuation:</b>	\$0.78
<b>Risk:</b>	High

KEY RATIOS	FY16E	FY17E	FY18E	FY19E	FY20E
<b>NPAT - Reported</b>	-0.5	57.9	112.8	95.7	57.9
<b>NPAT - Attributable</b>	-0.5	57.9	112.8	95.7	57.9
EPS - Adjusted	-0.1	3.2	6.2	5.3	3.2
EPS Growth (%)	(95%)	(4,937%)	95%	(15%)	(39%)
P/E (x)	(784.8)	16.2	8.3	9.8	16.2
CFPS (A Cents)	0.4	3.9	6.9	6.3	7.5
P/CF (x)	138.0	13.5	7.5	8.3	6.9
DPS (A Cents)	-	-	-	-	-
Franking (%)	0%	0%	0%	0%	0%
Dividend Yield (%)	-	-	-	-	-
Payout Ratio (%)	-	-	-	-	-
FCF Yield (%)	-3%	3%	10%	-25%	1%
EV/EBIT (x)	563.4	21.4	11.3	12.7	16.1
EV/EBITDA (x)	273.0	19.6	10.7	12.1	11.6

ASSUMPTIONS	FY16E	FY17E	FY18E	FY19E	FY20E
Australian Dollar (AUD/USD)	0.75	0.73	0.73	0.75	0.75
Spodumene conc (US\$/t)	600	773	791	770	699
Spodumene conc (A\$/t)	803	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)	80	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	473	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

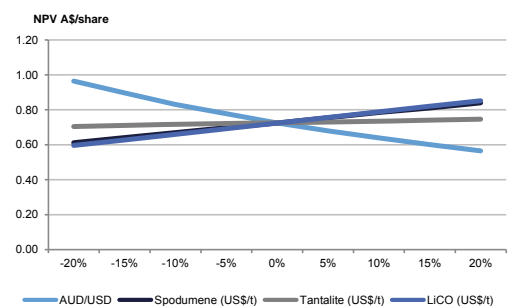
PROFIT & LOSS (A\$m)	FY16E	FY17E	FY18E	FY19E	FY20E
Operating Revenue	15.9	166.3	279.2	268.7	328.1
Other Revenue	-	-	-	-	-
<b>Total Revenue</b>	<b>15.9</b>	<b>166.3</b>	<b>279.2</b>	<b>268.7</b>	<b>328.1</b>
Operating Expenses	(9)	(71)	(105)	(114)	(166)
Corporate/Other Expenses	(1)	(1)	(1)	(1)	(1)
<b>EBITDA</b>	<b>7</b>	<b>95</b>	<b>173</b>	<b>154</b>	<b>161</b>
Depreciation & Amortisation	(4)	(8)	(8)	(8)	(46)
Exploration/write-offs	(0)	-	-	-	-
<b>EBIT</b>	<b>3</b>	<b>87</b>	<b>165</b>	<b>146</b>	<b>115</b>
Net Interest / (Expense)	(3)	(4)	(4)	(9)	(33)
<b>NPBT</b>	<b>(0)</b>	<b>83</b>	<b>161</b>	<b>137</b>	<b>83</b>
Income Tax Expense	(0)	(25)	(48)	(41)	(25)
<b>NPAT - Adjusted</b>	<b>(1)</b>	<b>58</b>	<b>113</b>	<b>96</b>	<b>58</b>
<b>Significant Items</b>	-	-	-	-	-
<b>NPAT - Reported</b>	<b>(1)</b>	<b>58</b>	<b>113</b>	<b>96</b>	<b>58</b>

CASH FLOW (A\$m)	FY16E	FY17E	FY18E	FY19E	FY20E
Cash Flow from Ops	7	70	125	113	136
Capex - Development & Sustaining	(32)	(41)	(33)	(350)	(124)
Free Cash Flow	(25)	29	91	(237)	12
Cash Flow From Investing	(292)	(41)	(31)	(344)	(119)
Cash Flow From Financing	267	6	15	227	24
Net Cash Flow	(18)	35	108	(4)	41

BALANCE SHEET (A\$m)	FY16E	FY17E	FY18E	FY19E	FY20E
Cash	-13.7	21.3	129.4	125.4	165.9
PP&E/Development/Exploration	154.1	187.0	212.3	554.3	633.2
<b>Assets</b>	<b>149.6</b>	<b>217.5</b>	<b>350.9</b>	<b>688.9</b>	<b>808.3</b>
Debts	38.3	48.3	68.9	311.2	412.8
<b>Liabilities</b>	<b>46.9</b>	<b>56.9</b>	<b>77.5</b>	<b>319.8</b>	<b>421.3</b>
<b>Equity</b>	<b>362.6</b>	<b>420.5</b>	<b>533.3</b>	<b>629.0</b>	<b>686.9</b>
Net Debt / (Cash)	52.0	27.0	-60.5	185.9	246.8
Gearing (%) - Net Debt / (Net Debt + Equity)	13%	6%	-13%	23%	26%

VALUATION SUMMARY	WACC	8.9%	A\$m	A\$/Share	Risked
Mt Cattlin			848	0.47	0.47
Sal de Vida			520	0.29	0.14
James Bay			109	0.06	0.03
<b>Operations</b>			<b>1,478</b>	<b>0.82</b>	<b>0.64</b>
Corporate			(9)	(0.00)	(0.00)
Exploration			-	-	-
Net Cash / (Debt)			(52)	(0.03)	(0.03)
<b>Total Valuation</b>			<b>1,417</b>	<b>0.78</b>	<b>0.61</b>

### VALUATION SENSITIVITY



### EARNINGS SENSITIVITY

AUD/USD		FY16E	FY17E	FY18E	FY19E
NPAT A\$m		-0.5	57.9	112.8	95.7
10%		-0.9	-9.5	-16.3	-15.5
+1c		-0.1	-1.3	-2.2	-2.1

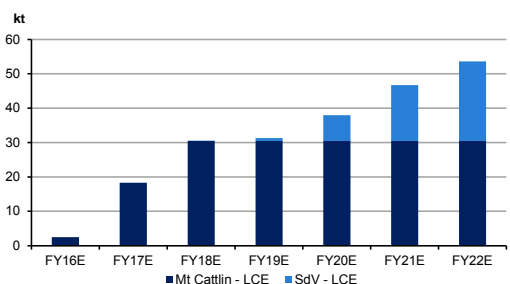
  

Spodumene		FY16E	FY17E	FY18E	FY19E
NPAT A\$m		-0.5	57.9	112.8	95.7
10%		0.9	9.3	15.8	15.4
\$100/t		1.5	12.0	19.9	20.0

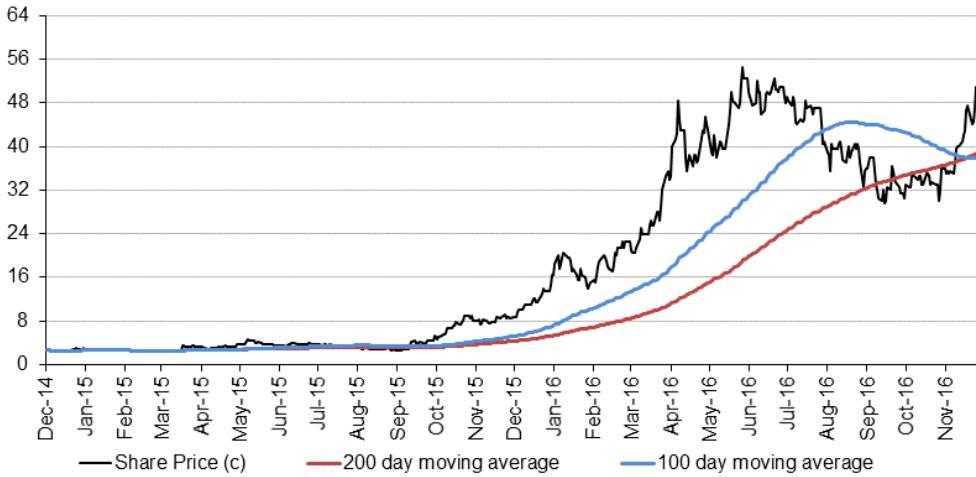
LiCO		FY16E	FY17E	FY18E	FY19E
NPAT A\$m		-0.5	57.9	112.8	95.7
10%		0.0	0.0	0.0	0.0
\$100/t		0.0	0.0	0.0	0.0

### LCE PRODUCTION - equity



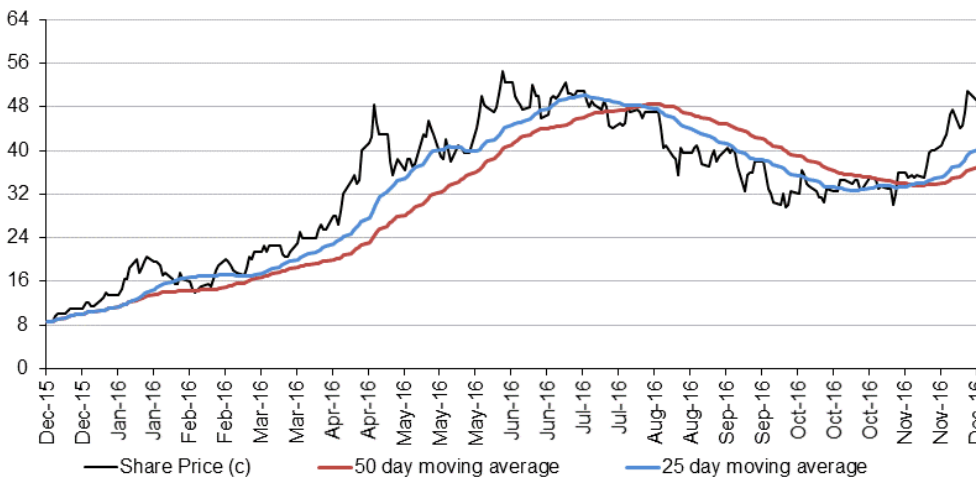
## Appendix

**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.

**Baillieu Holst Analysts' stock ratings distribution as of June 30, 2016:**

**Buy:** 63%

**Hold:** 35%

**Sell:** 2%

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