

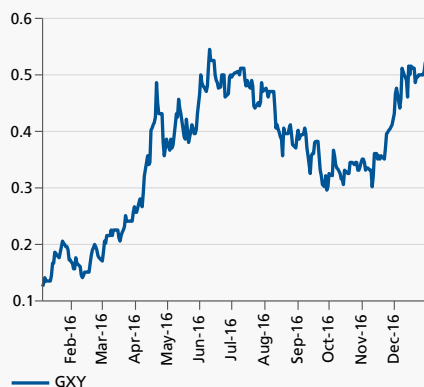
Australian Equity Research

2 January 2017

BUY

PRICE TARGET	A\$0.60
Price (30-Dec)	A\$0.53
Ticker	GXY-ASX

52-Week Range (A\$):	0.12 - 0.58
Avg Daily Vol (000s) :	10,229.50
Shares Out. (M) :	1,832.6
Market Cap (A\$M):	962.1
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

Maiden Shipment on time from Mt Cattlin

Event: First Shipment of concentrate production from Mt Cattlin

Highlights:

- GXY have announced that the first shipment of spodumene concentrate from its Mt Cattlin operation departed the Port of Esperance on 2 Jan'17. This meets the company's expectations of product loading by end of CY16 with the quantity of ~10kt in line with our CGe (11kt). We had, however, forecast only 8.5kt of material to be sold at US\$590/t (assuming a US\$10/t penalty for delayed first production).
- Payment of first shipment from off take partner Mitsubishi expected in 14 days, providing ~US\$6m in revenue.
- Mt Cattlin production ramp up ongoing. Plant utilisation is currently averaging 72% (in line with CGe for MarQ'17 of 75%) with product recoveries now at 60% (CGe for MarQ'17 of 52%).

Impact on our view:

- Positive and consistent with the adherence to regular project updates from the company. Expected first product revenue of US\$6m (vs CGe of US\$5m), should assist short-term working capital requirements.
- This shipment comes at a time of continued tightness in global lithium market (CGe ~8% deficit over CY16), which we highlighted in our recent [Lithium Sector Update](#) (15/12/2016). This was verified by a ~50% increase in YoY pricing for GXY with recently announced 2017 benchmark pricing of US\$905/t Li₂O.
- We are encouraged by the recoveries (60% vs CGe 52%) quoted within the plant ramp-up, which validates the modifications that have been made to the process flow sheet. GXY 2017 guidance of 160kt (CGe of 163kt) of concentrate is premised on a base case 50% recovery and, hence, we view any improvements as beneficial to the project's economics..
- GXY have forward sold 120kt of CY17 product at min. 5.5% Li₂O for US\$830/t. Given improved recoveries, GXY will look to optimise product grade they will receive an additional US\$15/t for each 0.1% improvement in grade up to US\$905/t for 6% Li₂O.

Upcoming Catalysts:

- Finalisation of refinancing the current OCP debt (~A\$46m maturing 31 Mar'17) with a revolving facility (MarQ'17)
- Update on project financing for the Sal de Vida lithium project (MarQ'17).

BUY rating and A\$0.60 target price are unchanged.

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: January 02, 2017, 18:45 ET

Date and time of production: January 02, 2017, 18:45 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 01/02/17)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	586	61.23%	36.01%
Hold	277	28.94%	18.41%
Sell	29	3.03%	20.69%
Speculative Buy	65	6.79%	72.31%
	957*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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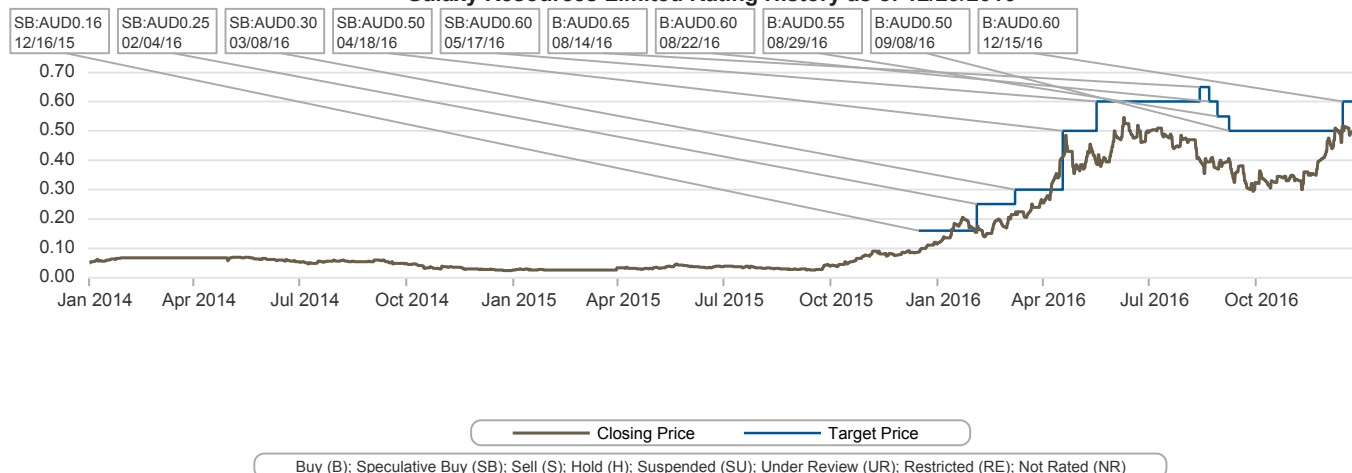
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Galaxy Resources Limited Rating History as of 12/29/2016

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