

**Analyst**

Peter Arden 613 9235 1833

**Authorisation**

Duncan Hughes 618 9326 7667

# Galaxy Resources Ltd (GXY)

## Mt Cattlin doing what it is meant to

**Recommendation**  
**Buy**  
**Price**  
**\$3.16**  
**Price Target**  
**\$4.75** (previously \$4.80)  
**Expected Return**

Capital growth	<b>50.3%</b>
Dividend yield	<b>0%</b>
Total expected return	<b>50.3%</b>

**Company Data & Ratios**

Enterprise value	<b>\$1,228m</b>
Market cap	<b>\$1,287m</b>
Issued capital	<b>407.4m</b>
Free float	<b>84%</b>
Avg. daily val. (52wk)	<b>\$16.9m</b>
12 month price range	<b>\$1.52 - \$4.54</b>
GICS sector	<b>Materials</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	3.37	3.95	2.58
Absolute (%)	-4.3	-18.4	25.2
Rel market (%)	-2.4	-14.4	22.4



SOURCE: IRESS

### Mt Cattlin generating strong operating cash flows

GXY's Mt Cattlin operation has begun to generate very strong operating cash flows. The company reported operating cash flow of \$49.5m in 2H 2017 as spodumene concentrate lifted to nameplate capacity and sales were made on higher 2017 contract pricing terms. Unexpected accounting charges and treatments meant that GXY only reported a breakeven NPAT result in 2017 of \$0.2m, well below our estimate on revenue of \$125.6m (BPe \$127.4m) after much larger non-cash items totalling about \$33m for depreciation of the General Mining acquisition; amortisation of capitalised finance costs; and share based payments. Operating cash flow was \$56.2m and capex was \$49m. GXY was debt-free at 31 December 2017 with cash of \$59.7m.

### Lithium prices unlikely to follow skewed US broker view

Lithium prices continued to firm at the end of 2017 from the combined impact of supply constraints and continuing growth in demand, particularly from electric vehicle (EV) production, which continued to make new records, especially in China aided by extended tax rebates. The robust and broader demand for lithium in 2017 helped GXY to secure a recent five-year binding offtake agreement with multiple customers for at least 200ktpa of Mt Cattlin concentrate at higher headline pricing than for 2017. We expect firm lithium prices for the next few years in contrast to a recent US broker study that we believe was too narrow in focusing on lithium for EV demand only.

### Investment thesis – Buy, TP \$4.75/sh (prev. \$4.80)

GXY's financial result for 2017 showed that Mt Cattlin is doing what it was expected to, generating very useful free cash flow to fund the Sal de Vida and James Bay developments, which are progressing with current pre-development studies that are moving both projects towards investment decisions. We have incorporated the impact of the latest result and rolled our model forward with minor adjustments that has seen our earnings forecasts reduced for 2018, 2019 and 2020 by 22%, 17% and 16% respectively. Our target price, which is based on the 12-month forward DCF-related valuation, is reduced by 1% to \$4.75/share. Our Buy recommendation is retained.

**Earnings Forecast**

Year ending December	2017a	2018e	2019e	2020e
Sales (A\$m)	131	234	246	290
EBITDA (A\$m)	40	99	107	129
NPAT (reported) (A\$m)	0	54	60	44
NPAT (adjusted) (A\$m)	0	54	60	44
EPS (adjusted) (eps)	0	13	14	10
EPS growth (%)	na	nc	10%	-27%
PER (x)	na	24.9	22.6	31.0
FCF Yield (%)	1%	na	na	-3%
EV/EBITDA (x)	30.7	12.4	11.4	9.5
Dividend (eps)	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%
ROE (%)	0%	9%	9%	6%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Mt Cattlin starts generating big cash flows

Although GXY's Mt Cattlin operation has only relatively recently achieved full nameplate capacity and is still working on further operational enhancements to optimise spodumene concentrate production, it has enabled the company to generate strong operating cash flows in the second half of 2017 (Table 1). Some unexpected accounting charges and treatments meant that GXY only reported a breakeven profit result in 2017.

**Table 1 – GXY summary financials for 2017**

	2016	1H 2017	2H 2017	2017	2017	Change on	Actual vs
Year to 31 December	Actual	Actual	Actual	Actual	BP est	pcp (%)	BP est (%)
Spodumene concentrate production (kt)	10.0	56.5	99.2	155.7		1457%	
Spodumene concentrate sales recognised (kt)	0.0	53.6	99.9	153.5		nc	
Average realised spodumene concentrate price (US\$/t)	600	874	867	868		45%	
Sales Revenue (\$m)	0.0	15.0	113.1	128.1	127.4	na	1%
EBITDA (\$m)	(73.2)	1.9	38.0	40.0	52.0	na	-23%
Normalised NPAT (\$m)	(17.7)	(6.5)	6.6	0.2	30.2	na	-99%
Earnings Per Share (normalised) (¢/share)	(29.1)	(1.9)	1.4	0.0	7.9	na	-99%
Dividend Per Share (¢)	0.0	0.0	0.0	0.0	0.0	na	na
Operating cash flow (\$m)	(1.9)	6.7	49.5	56.2	42.1	na	33%
Capital expenditure (\$m)	(21.7)	(25.9)	(19.0)	(45.0)	(28.5)	108%	58%
Cash (\$m)	9.3	40.4	59.7	59.7	59.7	541%	
Total debt (\$m)	(40.2)	(12.7)	0.0	0.0	0.0	na	
Net cash/(debt) (\$m)	(30.9)	27.7	59.7	59.7	59.7	na	

SOURCE: GALAXY RESOURCES LTD AND BELL POTTER SECURITIES ESTIMATES

Key aspects of the company's 2017 financial performance were as follows:

- Reported NPAT of \$0.2m (BPe \$30.2m) came from sales revenue of \$125.6m (BPe \$127.4m) but there were three unexpected or much larger non-cash items totalling about \$33m being much higher depreciation of \$28.8m (BPe \$16.2m with the company identifying an amount of \$18.4m relating to the substantial value that was recognised as part of the General mining acquisition that is being amortised over the life of the project, so it will be ongoing), amortisation of capitalised finance costs of \$5m and share based payment expense of \$12m. Reported EBITDA of \$40m was below our estimate from some of those unexpected items but GXY reports that adjusted EBITDA was \$52.0m (BPe of EBITDA was \$52.0m) and that gross profit was \$33.5m, which was close to our estimate of NPAT.
- Sales of concentrate from Mt Cattlin at 153.5kt were just below the company's targeted level for 2017 of 160kt and they were mostly around an average grade of 5.75% Li<sub>2</sub>O as the company steadily improved operational performance over the year with recoveries improving from about 49% in the first quarter to an average of 58% in the latest quarter.
- While unit production costs also improved overall over the course of the year, they increased in the fourth quarter to average A\$467/t (US\$362/t) of concentrate for the year. The average net realised unit sales price for spodumene concentrate after sales commission was US\$818/t (A\$1,077/t) which gave an average unit margin overall for the year of A\$610/t (US\$457/t) although the higher priced contract terms in the second half of the year meant the average margin then was A\$820/t (US\$629/t).
- Mt Cattlin's performance, particularly in the second half of the year, generated strong operating cash flow of \$49.5m taking the full year's operating cash flow to \$56.2m.

- Overall the company's net capex was up 108% on the previous year to \$45.0m of which exploration and evaluation was \$11.6m and net property plant and equipment expenditure was \$33.4m.
- GXY repaid the remaining US\$6.7m BNP facility ahead of plan at the end of the year and was debt-free at December 31 2017 with cash of \$59.7m as previously disclosed.
- New spodumene concentrate offtake agreements were signed towards the end of 2017 with multiple customers for five years for all of Mt Cattlin's planned concentrate production at indicated higher concentrate sales prices than for the 2017 contracts.
- No dividend was declared as expected and no guidance was given for 2018.

#### **Mt Cattlin metallurgical enhancements due by 3Q 2018 as exploration cranks up**

Technical and financial evaluation of metallurgical improvements including construction of an ultra fines DMS circuit, a secondary float re-crush circuit and a final product optical ore sorter were completed at the end of 2017. Construction of these enhancements, designed to lift recoveries to the target rate of 70 – 75% are planned to be completed during 3Q 2018. Work on medium and longer term water supply sources continued and is nearing completion with suitable options available for both timelines. A greenfield and brownfield exploration drilling program recently began in January 2018. Ground penetrating radar identified new targets on which drilling was scheduled to be completed in 1Q 2018.

#### **Sal De Vida studies advance**

At the company's Sal de Vida brine project in north-western Argentina, a 344m deep exploration borehole, which was drilled for geological and hydrogeological purposes, is to be developed into a production well. Following successful refurbishment and upgrading of the company's test plant for processing concentrated brine, successful testwork was completed on producing battery grade lithium carbonate and lithium hydroxide. Scoping studies commenced for a potential lithium hydroxide sub-circuit and co-location of processing facilities. Planning and preparation work commenced for a 10 hectare test evaporation pond and a continuous pilot plant to produce battery grade lithium carbonate to be operational in early 2018.

#### **Feasibility Study progresses at James Bay Project after major Resource upgrade**

GXY announced a significant Mineral Resource upgrade at its James Bay spodumene deposit in Quebec, Canada, which now totals 40.8Mt at 1.40% Li<sub>2</sub>O. This upgraded Resource is the basis for an Ore Reserve Estimate, expected in the first half of 2018. The company submitted a Project Notice to the Canadian and Quebec governments for determination as work on the Feasibility Study continued and there was ongoing engagement with leaders of the First Nations groups.

### **Upcoming catalysts**

The main upcoming catalysts for GXY are as follows:

- Development study outcomes for Sal de Vida over the course of 2018 leading to a development decision likely in 2H 2018 now that is likely to include funding considerations such as potential strategic partnerships with major lithium off-takers;
- Finalisation of the Feasibility Study on the James Bay Project starting with the Ore Reserve Estimate is expected in 1H 2018, leading to a potential development decision possibly by the end of 2018 that could also include funding considerations such as potential for strategic partnerships with major lithium off-takers; and
- Ongoing evidence of further strength in the lithium markets with evidence of higher prices and increased demand and consumption as data progressively becomes available during 2018.

# Earnings and valuation changes

## Further upgrade to 2017 to 2019 earnings estimates and to valuations

We have revised our earnings forecasts to update and roll forward our models to reflect the 2017 financial result (Table 2). This has flowed into decreases in earnings for 2018, 2019 and 2020 of 22%, 17% and 16% respectively.

**Table 2 - Revised earnings forecasts and target price for GXY**

	Previous			New			Change		
	2018e	2019e	2020e	2018e	2019e	2020e	2018e	2019e	2020e
Year ending 31 December									
<b>Prices &amp; currency</b>									
Lithium concentrate (US\$/t)	946	944	939	946	944	939	0%	0%	0%
Lithium carbonate (US\$/t)	14,888	15,819	15,593	14,888	15,819	15,593	0%	0%	0%
Tantalum concentrate (US\$/kg)	106	107	108	106	107	108	0%	0%	0%
Potash (MOP) (US\$/t)	229	233	238	229	233	238	0%	0%	0%
US\$/A\$	0.76	0.75	0.75	0.76	0.75	0.75	0%	0%	0%
<b>Equity production &amp; costs</b>									
<b>Mt Cattlin</b>									
Spodumene concentrate (kt)	201	203	212	201	203	206	0%	0%	-3%
Average concentrate grade (Li <sub>2</sub> O)	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	0%	0%	0%
Tantalum concentrate (t)	42	45	45	42	45	45	0%	0%	0%
All in sustaining costs (after by products) (A\$/t)	559	588	589	559	588	589	0%	0%	0%
All in sustaining costs (after by products) (US\$/t)	422	441	442	422	441	442	0%	0%	0%
<b>Sal De Vida</b>									
Lithium carbonate (kt)			2.8			2.8			0%
All in sustaining costs (after by products) (US\$/t)			5,163			5,163			0%
<b>Earnings</b>									
Revenue (\$m)	235	246	294	234	246	294	-1%	0%	0%
EBITDA (\$m)	103	107	129	99	107	129	-4%	0%	0%
EBIT (\$m)	92	97	96	70	79	82	-24%	-18%	-15%
NPAT (adjusted) (\$m)	70	72	52	54	60	44	-22%	-17%	-16%
EPS (adjusted) (cps)	16	17	12	13	14	10	-22%	-17%	-16%
PER (x)	25	24	33	25	23	31	na	0%	-6%
EPS Growth (%)	107%	3%	-27%	nc	10%	-27%	na	7%	na
DPS (reported) (cps)	0	0	0	0	0	0	na	na	nc
Yield	0.0%	0.0%	0.0%	0%	0%	0%	na	na	nc
Net debt/equity	na	22%	26%	na	21%	26%	na	na	-4%
Target price (\$/sh)	4.80			4.75			-1%		

SOURCE: BELL POTTER SECURITIES ESTIMATES

## Valuation reduced by 1% to \$4.75 per share

Our incorporation of the 2017 result and roll forward of our models has resulted in revised valuations for the company's lithium assets. Our corporate valuation of the company's net assets, which is based on our fully diluted 12-month forward NPV valuation, has decreased

by 1% to \$2,032m, which translates to a 1% decrease to \$4.75 per share (Table 2 above and Table 3 in more detail over page). Our Target Price is reduced by 1% to \$4.75/share.

We regard valuation estimates based on risk-weighted NPV-related forecasts as the best guide to the long term value of GXY. Our assumptions for the development of Sal De Vida are based on, but are slightly different from, the data presented by GXY in its revised DFS of August 2016. We have mostly adopted slightly more cautious assumptions for the project to reflect the experiences (delays in ramp-up and higher than expected initial costs) of Orocobre with its Olaroz Project (also in northern Argentina). Our assumptions show that GXY's Sal De Vida Project should be a very economically attractive project with high NPV and IRR and relatively short pay-back from low operating costs and a very attractive cash operating margin. We currently apply a 24% discount to the NPV valuation for Sal de Vida. The indications that the James Bay Project will be able to support a much larger mining and processing operation with important downstream potential to supply important North American and European markets from the recently upgraded Mineral Resource Estimate have enhanced its value, which is derived after still applying a 45% discount to reflecting the early stage of development.

We have assumed the company does not raise further equity capital in the next year or so as over that time it is expected to be able to build its cash reserves ahead of obtaining suitable debt finance for the potential development of the Sal De Vida and James Bay Projects (assuming positive development decisions for them, which may include some sell down of GXY's ownership of those projects).

GXY also owns several minor gold exploration interests, which we have valued at a minor nominal amount. Our valuations are fully diluted to account for all performance rights and options that are in the money at the valuations used (Table 3).

**Table 3 – Fully diluted risk-weighted NPV-based valuations of GXY**

Assets	Now		+12 months		+24 months	
	\$m	\$ per share <sup>1,2</sup>	\$m	\$ per share <sup>1,2</sup>	\$m	\$ per share <sup>1,2</sup>
Lithium Interests – Mt Cattlin	639	1.50	535	1.25	445	1.04
- Sal de Vida	975	2.28	1,071	2.51	1,231	2.88
- James Bay	383	0.90	383	0.90	383	0.90
- LPD holding <sup>3</sup>	8	0.02	8	0.02	8	0.02
- Sub Total	2,005	4.69	1,997	4.67	2,066	4.83
Other Assets (gold exploration projects)	6	0.01	6	0.01	6	0.01
Total mineral Assets	2,011	4.70	2,003	4.69	2,072	4.85
Corporate	(57)	(0.13)	(49)	(0.11)	(41)	(0.10)
<b>Enterprise Value</b>	<b>1,954</b>	<b>4.57</b>	<b>1,954</b>	<b>4.57</b>	<b>2,031</b>	<b>4.75</b>
Net cash/(debt) <sup>4</sup>	107	0.25	77	0.18	(100)	(0.23)
<b>Total</b>	<b>2,061</b>	<b>4.82</b>	<b>2,032</b>	<b>4.75</b>	<b>1,931</b>	<b>4.52</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTES: 1. MAY NOT ADD BECAUSE OF ROUNDING AND DILUTION EFFECTS.  
2. BASED ON FULLY DILUTED SHARE CAPITAL OF 427.4M SHARES THAT INCLUDES ALL PERFORMANCE RIGHTS AND OPTIONS THAT ARE IN THE MONEY AT THE ABOVE VALUATIONS  
3. LPD VALUED AT MARKET PRICE AFTER PROVISION OF FULL TAX ON ANY GAIN  
4. INCLUDES CASH FROM ASSUMED FULL EXERCISE OF OPTIONS

# Galaxy Resources Limited (GXY)

## Company description

GXY is a Perth based lithium production company with an experienced management team that has a track record of successful involvement across the whole spectrum of lithium sector activities ranging from exploration and development of deposits to spodumene production, feasibility studies on a major lithium brine project and also previously with the production of high quality lithium end products in China.

GXY's assets comprise three wholly owned major lithium production and development projects – the Mt Cattlin spodumene mining and processing operation in the Ravensthorpe district of WA; the flagship project is to be the Sal de Vida Project, which is planned to be a major new lithium brine development in the Catamarca region of Argentina; and the James Bay Project, which is an advanced spodumene deposit in the Quebec region of Canada, which is the subject of a resumed Feasibility Study into its mining and extended processing.

Mt Cattlin has been expanded to become one of the largest spodumene producers with ore processing capacity of 1.6Mtpa that is now producing around 200ktpa of spodumene concentrate and about 43tpa of tantalum concentrate as production reaches targeted levels after a major ramp-up period following resumption of operations in late 2016.

A recently revised DFS of the Sal de Vida Project showed that it is based on one of the world's largest and highest quality undeveloped lithium brine deposits that is capable of becoming a major low cost lithium carbonate producer based on very extensive resources and reserves that include by-product potash (KCl) and it could be in production by early-2020. Sal de Vida is capable of becoming a long life operation producing around 25ktpa of high quality lithium carbonate for the battery market along with around 95ktpa of potash.

The James Bay Project has a very significant lithium resource in the form of high grade spodumene that is currently being actively evaluated as part of the updating of the previous feasibility studies into a potential significant North American source of lithium supply as spodumene and potentially a battery grade downstream product for local markets.

## Investment Thesis – Buy, TP \$4.75/sh (prev. \$4.80)

GXY's financial result for 2017 showed that Mt Cattlin is doing what it was expected to, generating very useful free cash flow to fund the Sal de Vida and James Bay developments, which are progressing with current pre-development studies that are moving both projects towards investment decisions. We have incorporated the impact of the latest result and rolled our model forward with minor adjustments that has seen our earnings forecasts reduced for 2018, 2019 and 2020 by 22%, 17% and 16% respectively. Our target price, which is based on the 12-month forward DCF-related valuation, is reduced by 1% to \$4.75/share. Our Buy recommendation is retained.

## Valuation: Assessed at \$4.75 per share (previously \$4.79)

Our valuation of GXY is based on the 12-month forward risk-weighted DCF-based valuations of the Mt Cattlin operation and the potential development of significant lithium carbonate and potash production from the Sal de Vida Brine Project now assumed to begin in about mid-2020 and a potential open pit spodumene mining and processing operation with potentially significant downstream value-added processing comprising the James Bay Project. Our valuations have assumed the company can generate significant free cash flow from Mt Cattlin and is either able to raise significant debt funding (of around 70% of capital cost) or achieve a strategic sell-down of its interest to cover 100% of the

development costs for the Sal de Vida Project and therefore we forecast that GXY does not need to have a further equity raising in the next few years to assist with that development. The company has had various discussions with potential joint venture partners for the Sal De Vida Project and currently has ongoing dialogue with a number of potential strategic partners and customers for financing and offtake. Depending on the timing and nature of the potential development of the James Bay Project, which could also be funded by a mixture of debt and an appropriate sell down to strategic partners, GXY could also be able to fund its development out of its own cash reserves.



# Risks of investment

The key risks for resources investments include, but are not limited to:

- **Commodity price volatility:** Unlike the well-developed and extensive markets for gold and base metals, there are no formal terminal markets for lithium or lithium products. The pricing for lithium products is almost exclusively determined by private negotiation between producer and end user, in contrast to most other mineral and metallic commodities. As with most mineral commodity prices, prices for lithium products are generally denominated in US dollars, so their translation into Australian dollars can be affected by wide fluctuations in the value of the Australian dollar. Commodity price and foreign exchange rate outcomes may be different from our forecasts.
- **Lack of funding:** While GXY has resumed lithium production at Mt Cattlin at a time of strong lithium prices, which sees the company generating strong operating cash flows now that operation has reached its targeted production rate, GXY's development projects will require significant additional funding, much of which could be expected to come from debt funding. Access to adequate debt and equity funding will be required for these developing operations until they reach the stage where they are self-funding.
- **Ability to operate:** While GXY's current operations are in the politically and socially stable jurisdiction of WA, where there are very well-known and accepted and transparent legal and regulatory frameworks that support mineral exploration, mining and processing, the company's pursuit of additional lithium production involves international jurisdictions of Argentina and Canada. The company's ability to successfully operate under different conditions and government policies even in Australian jurisdictions, may have an adverse impact on the effectiveness of, and returns from, GXY's operations. Various stages of the routine regulatory approvals process and interaction with local communities around mining operations can sometimes suffer unforeseen delays that may result in adverse financial outcomes.
- **Metallurgical issues:** While the metallurgical recovery of hard rock lithium (spodumene) is based on relatively straight forward gravity techniques, the achievement of relatively high recoveries of lithium and associated by-products requires achieving a careful calibration of several metallurgical processes. Similarly, while the recovery of lithium from brines is relatively well understood and equipment for such plants is generally available "off the shelf" and the test work on SDV Project as disclosed in the two DFSs indicates acceptably high recoveries can be achieved, there may be an additional need to modify the recovery attributes of the mineralisation to be treated at SDV and any future mineralisation discovered by the company at its projects.
- **Lack of exploration success:** While lithium mineralisation is not as rare as many other mineral commodities, and GXY has already successfully identified very significant Mineral Resources and Reserves, it is quite rare to find lithium in commercial quantities. As with other mineral deposits, geological complexities may arise with lithium deposits including extensive local and complex structural faulting and dislocation and mineralising overprints that may require extensive drilling programs to resolve, the resolution of which may inhibit the future definition of adequate resources and reserves.
- **Weather impacts:** GXY's projects are located in areas that can have severe weather events, which may adversely impact the company's operations at times. The company is planning to develop a brine-based operation at significant altitude in Argentina which relies on evaporation and so it may be adversely affected by climatic events.
- **Inappropriate acquisitions:** The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.



Table 4 - Financial summary

PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending 31 December	Unit	2016a	2017a	2018e	2019e	2020e	Year ending 31 December	Unit	2016a	2017a	2018e	2019e	2020e
Revenue	\$m	0	131	234	246	294	<b>VALUATION</b>						
Operating expenses	\$m	(73)	(91)	(135)	(138)	(165)	NPAT (adjusted)	\$m	(18)	0	54	60	44
<b>EBITDA</b>	\$m	<b>(73)</b>	<b>40</b>	<b>99</b>	<b>107</b>	<b>129</b>	Adjusted EPS	c/sh	(29)	0	13	14	10
Depreciation and amortisation	\$m	(6)	(33)	(29)	(29)	(47)	EPS growth	%	na	na	nc	10%	-27%
<b>EBIT</b>	\$m	<b>(79)</b>	<b>7</b>	<b>70</b>	<b>79</b>	<b>82</b>	PER	x	na	na	25x	23x	31x
Net interest	\$m	(3)	(1)	1	1	(22)	DPS	c/sh	-	-	-	-	-
<b>PBT</b>	\$m	<b>(82)</b>	<b>6</b>	<b>71</b>	<b>80</b>	<b>60</b>	Franking	%	0%	0%	0%	0%	0%
Tax expense	\$m	65	(6)	(17)	(20)	(16)	Yield	%	0%	0%	0%	0%	0%
Impairments/write-offs/other	\$m	140	0	0	0	0	FCF/share	c/sh	(8)	3	(7)	(40)	(9)
Minority interest	\$m	(0)	0	0	0	0	FCF yield	%	na	1%	na	na	na
<b>NPAT (reported)</b>	\$m	<b>123</b>	<b>0</b>	<b>54</b>	<b>60</b>	<b>44</b>	EV/EBITDA	x	na	30.7x	12.4x	11.4x	9.5x
Abnormal items	\$m	(140)	0	0	0	0	<b>PROFITABILITY RATIOS</b>						
<b>NPAT (adjusted)</b>	\$m	<b>(18)</b>	<b>0</b>	<b>54</b>	<b>60</b>	<b>44</b>	EBITDA margin	%	na	31%	42%	44%	44%
							EBIT margin	%	na	5%	30%	32%	28%
							Return on assets	%	-3%	0%	7%	6%	4%
							Return on equity	%	-4%	0%	9%	9%	6%
							<b>LIQUIDITY &amp; LEVERAGE</b>						
							Net debt / (cash)	\$m	31	(60)	(30)	147	191
							ND / E	%	7%	na	na	21%	26%
							ND / (ND + E)	%	6%	na	na	18%	21%
							<b>ASSUMPTIONS - Prices</b>						
							Year ending 31 December	Unit	2016a	2017a	2018e	2019e	LT real
							Spodumene concentrate (6.0% Li <sub>2</sub> O basis)	US\$/t	542	905	946	944	859
							Lithium carbonate (ave. of chem. & battery grades)	US\$/t	9,750	11,188	14,888	15,819	14,249
							Tantalum concentrate	US\$/kg	130	105	106	107	108
							Potash (MOP)	US\$/t	220	224	229	233	240
							<b>CURRENCY</b>						
							USD/AUD	US\$/A\$	0.74	0.76	0.76	0.75	0.75
							<b>ASSUMPTIONS - Mineral Resources</b>						
							Project and Resource Categories	Mt	Li <sub>2</sub> O %	Ta <sub>2</sub> O <sub>5</sub> ppm	Li <sub>2</sub> O kt	Ta <sub>2</sub> O <sub>5</sub> kt	KCI Mt
							Mt Cattlin (Measured, Indicated and Inferred)	11.6	1.20	157	140	1.8	
							Sal de Vida (Measured, Indicated and Inferred)				2,928		11.9
							James Bay (Indicated)	40.8	1.40		571		
							<b>Total (Measured, Indicated and Inferred)</b>				3,639	1.8	11.9
							<b>ASSUMPTIONS - Production (equity %)</b>						
							Year ending 31 December	Unit	2016a	2017a	2018e	2019e	2020e
							<b>Mt Cattlin</b>						
							Metallurgical recovery rates	%	45%	54%	63%	65%	66%
							Spodumene concentrate	kt	10	156	201	203	206
							Average Li <sub>2</sub> O content	%	na	5.7%	5.8%	5.8%	5.8%
							Tantalum concentrate	t	-	26	42	45	45
							Spodumene all in sustaining costs (after by-prods)	A\$/t	1,099	571	559	588	589
							Spodumene all in sustaining costs (after by-prods)	US\$/t	835	444	422	441	442
							<b>Sal de Vida</b>						
							Lithium carbonate	kt					2.8
							Potash (MOP)	kt					0
							All in sustaining costs (after by products)	US\$/t					5,163
							<b>Substantial and Significant Shareholders</b>						
							Shareholder				M Shares	Interest	
							Ausbil Investment Management				27.7	6.8%	
							BlackRock Group				26.2	6.4%	
							Board and Management				10.0	2.5%	
							<b>ISSUED CAPITAL AND VALUATION</b>						
							Issued capital				Unit	Total	
							Ordinary shares				m	407.4	
							Options and performance rights				m	20.1	
							<b>Total securities</b>				m	427.5	
									Now	+ 12 months	+ 24 months		
							Sum of parts valuation	\$m	\$/sh <sup>1</sup>	\$m	\$/sh <sup>1</sup>	\$m	\$/sh <sup>1</sup>
							Lithium projects - Mt Cattlin	639	1.50	535	1.25	445	1.04
							- Sal de Vida	975	2.28	1,071	2.51	1,231	2.88
							- James Bay	383	0.90	383	0.90	383	0.90
							Other assets (LPD) and exploration	14	0.03	14	0.03	14	0.03
							Total projects	2,011	4.70	2,003	4.69	2,072	4.85
							Corporate	(57)	(0.13)	(49)	(0.11)	(41)	(0.10)
							<b>Enterprise value</b>	1,954	4.57	1,954	4.57	2,031	4.75
							Net Cash/(Debt) including opts exercise	107	0.25	77	0.18	(100)	(0.23)
							<b>Equity value</b>	2,061	4.82	2,032	4.75	1,931	4.52

Note 1. May not add due to rounding and dilution effects; based on total diluting securities of 427.5m

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

**Research Team**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
<b>Industrials</b>			
Sam Haddad	Industrials	612 8224 2819	shaddad
Tim Piper	Industrials	612 8224 2825	tpiper
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
<b>Financials</b>			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified	613 9235 1668	lsotiriou
<b>Resources</b>			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Duncan Hughes	Resources	618 9326 7667	dhughes
<b>Analysts</b>			
James Filius	Analyst	613 9235 1612	jfilius
Alex McLean	Analyst	612 8224 2886	amclean

**Bell Potter Securities Limited**

ACN 25 006 390 7721

Level 38, Aurora Place  
88 Phillip Street, Sydney 2000

Telephone +61 2 9255 7200

www.bellpotter.com.au

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Peter Arden owns 10000 shares in GXY.

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