

# Lepidico

## Forges Galaxy relationship

On 10 October, Lepidico (LPD) announced that Galaxy Resources had agreed to subscribe for a 12% strategic shareholding in Lepidico via a private placement of 291.8m shares at a price of A\$0.01/share to raise A\$2.9m. At the same time, LPD is also offering existing shareholders the opportunity to invest alongside Galaxy on the same financial terms, via a 1-for-6 partially underwritten renounceable entitlement offer (effectively a rights issue) at A\$0.01/share to raise up to an additional c A\$4m. Total gross proceeds of up to A\$7.0m will be used to fund LPD's Phase 1 L-Max full feasibility study through to final investment decision as well as advancing Lepidico's resource development and exploration activities.

Year end	Total revenues (A\$m)	PBT* (A\$m)	Cash from operations (CFO) (A\$m)	Net (debt)/cash (A\$m)	Capex (A\$m)
06/16	0.1	(2.3)	(1.0)	0.7	(0.1)
06/17	0.1	(5.4)	(3.6)	3.3	(0.9)
06/18e	0.0	(3.4)	(5.7)	14.0	(23.6)
06/19e	0.0	(5.4)	(1.6)	(10.8)	(23.2)

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

## Partnering with a global lithium major

Galaxy (GXY) is an international lithium company, listed in Australia, with a market capitalisation of A\$1,271m. It owns and operates the James Bay lithium pegmatite project in Quebec and the Mt Cattlin mine at Ravensthorpe in Western Australia, which is currently producing a spodumene and tantalum concentrate. It is also advancing plans to develop the Sal de Vida lithium and potash brine project in the lithium triangle in Argentina (whence 60% of global lithium production is currently sourced). As such, it has been described as the biggest of the non-Big 3 lithium producers. Given its existing contacts and relationships, Galaxy will assist Lepidico with future business and growth opportunities, including evaluating potential synergies with its Mt Cattlin mine and James Bay projects, as well as accessing additional mica feedstock sources for processing via L-Max. In addition to its initial investment, Galaxy has stated that it intends to take up all of its rights in the Entitlement Offer. It will also nominate a representative to LPD's board.

## Valuation: Rises 10% to 2.15c per share

We estimate that execution of the L-Max Phase 1 PFS according to the operational parameters contained therein will result in free cash flow to Lepidico of A\$26.8m pa once steady-state production has been achieved. Lepidico's share price jumped to A\$0.015 in the immediate aftermath of its Galaxy announcement. Assuming a total of US\$30m (A\$38.5m) of equity financing at the prevailing share price (ie a balance of A\$31.5m to go), this implies an updated valuation for Lepidico of A\$0.0215/share currently (up from A\$0. 0.0196/share previously). This rises to A\$0.0315 in FY22 (vs A\$0.0287 previously), based solely on discounting our estimate of (maximum potential) future dividends to shareholders derived from the Phase 1 plant at a rate of 10% pa (fully diluted), ie no value is yet ascribed to the development of the Phase 2 plant or other development options (see our initiation note, [Masterful metallurgy](#), published on 4 July 2017).

## Funds for L-Max study raised

### Metals & mining

13 October 2017

**Price** **A\$0.015**

**Market cap** **A\$32m**

A\$1.2844/US\$

Net cash (A\$m) at end June 2017 3.3

Shares in issue 2,139.5m

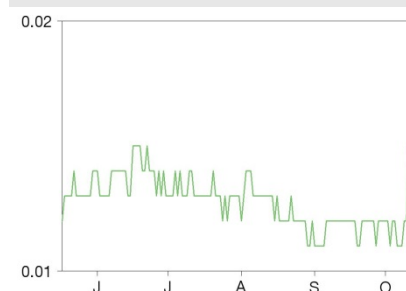
Free float 66.68%

Code LPD

Primary exchange ASX

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 16.7 7.7 (20.1)

Rel (local) 15.5 5.0 (24.3)

52-week high/low A\$0.02 A\$0.01

### Business description

Lepidico provides exposure to a portfolio of lithium assets via its wholly owned properties, JVs and IP in Australia, Canada and Europe. Uniquely, it has successfully produced lithium carbonate from non-traditional hard rock lithium bearing minerals using its registered L-Max® (hereafter L-Max) process.

### Next events

Alvarrões resource estimate Mid/late Oct 2017

Separation Rapids resource estimate Late Oct 2017

Feasibility study process design End 2017

Feasibility study report Q218

### Analysts

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**Exhibit 1: Financial summary**

Accounts: IFRS, Year-end: June, A\$000s	2015	2016	2017	2018e	2019e
<b>Profit &amp; Loss</b>					
Total revenues	9	116	127	0	0
Cost of sales	0	0	0	0	0
Gross profit	9	116	127	0	0
SG&A (expenses)	(455)	(617)	(912)	(912)	(912)
Other income/(expense)	0	0	0	0	0
Exceptionals and adjustments	(16)	(415)	(878)	0	0
Depreciation and amortisation	(5)	(6)	(6)	(1,702)	(3,812)
Reported EBIT	(467)	(923)	(1,670)	(2,614)	(4,724)
Finance income/(expense)	(18)	(5)	128	17	70
Other income/(expense)	(559)	(448)	(3,815)	(783)	(783)
Exceptionals and adjustments	0	(888)	0	0	0
Reported PBT	(1,044)	(2,263)	(5,357)	(3,381)	(5,437)
Income tax expense (includes exceptionals)	0	0	0	0	0
Reported net income	(1,044)	(2,263)	(5,357)	(3,381)	(5,437)
Basic average number of shares, m	178	465	1,802	3,372	4,708
Basic EPS (A\$)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
<b>Balance sheet</b>					
Property, plant and equipment	9	4	8	18,654	38,051
Goodwill	0	0	0	0	0
Intangible assets	0	16,204	16,698	19,909	19,909
Other non-current assets	1,485	715	1,620	4,831	4,831
Total non-current assets	1,494	16,922	18,326	43,394	62,791
Cash and equivalents	53	650	3,307	13,986	13,986
Inventories	0	0	0	0	0
Trade and other receivables	4	3,886	706	0	0
Other current assets	0	0	0	0	0
Total current assets	57	4,537	4,013	13,986	13,986
Non-current loans and borrowings	0	0	0	0	24,835
Other non-current liabilities	0	0	0	0	0
Total non-current liabilities	0	0	0	0	24,835
Trade and other payables	105	614	1,663	139	139
Current loans and borrowings	115	0	0	0	0
Other current liabilities	40	33	46	46	46
Total current liabilities	260	647	1,709	185	185
Equity attributable to company	1,292	20,812	20,630	57,195	51,757
Non-controlling interest	0	0	0	0	0
<b>Cash flow statement</b>					
Profit for the year	(1,044)	(2,263)	(5,357)	(3,381)	(5,437)
Taxation expenses	0	0	0	0	0
Depreciation and amortisation	5	6	6	1,702	3,812
Share based payments	450	40	1,736	0	0
Other adjustments	(451)	1,036	(162)	(3,211)	0
Movements in working capital	(10)	132	133	(818)	0
Interest paid / received	0	0	0	0	0
Income taxes paid	0	0	0	0	0
Cash from operations (CFO)	(1,050)	(1,049)	(3,644)	(5,708)	(1,626)
Capex	(9)	(63)	(861)	(23,559)	(23,209)
Acquisitions & disposals net	0	32	122	0	0
Other investing activities	(563)	(80)	0	0	0
Cash used in investing activities (CFIA)	(572)	(111)	(739)	(23,559)	(23,209)
Net proceeds from issue of shares	1,505	1,872	7,040	*39,946	0
Movements in debt	100	(115)	0	0	24,835
Other financing activities	0	0	0	0	0
Cash from financing activities (CFF)	1,605	1,757	7,040	39,946	24,835
Increase/(decrease) in cash and equivalents	(18)	597	2,657	10,679	0
Currency translation differences and other	0	0	0	0	0
Cash and equivalents at end of period	53	650	3,307	13,986	13,986
Net (debt) cash	(61)	650	3,307	13,986	(10,849)
Movement in net (debt) cash over period	(61)	711	2,657	10,679	(24,835)

Source: Company sources, Edison Investment Research. Note: \*Assumes additional A\$31.5m equity raise in FY18 to fund L-Max Phase 1 capex.

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