

# Galena Mining Ltd

## (G1A \$0.25) Buy, upgrade from Speculative Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	30 <sup>th</sup> January 2019	\$0.50/sh ▲ from \$0.40/sh

### A\$90m project equity for Abra

#### Investment case

G1A has pulled off a stunning deal securing \$90m in project equity for the Abra development for a 40% interest in the project. The deal implies a \$0.40/sh share price for G1A 60% interest but more importantly should see no further equity required, assuming the balance of capital is debt funded. Toho is a high quality partner which owns Pb/Zn mines in NSW and Zn/Pb smelters in Japan. We upgrade our recommendation to a Buy and increase our PT to \$0.50/sh. Longer term, we see upside to >\$0.80/sh upon successful execution and delivery of a long life, mid cap lead producer. This is a true value adding deal and we expect the market to respond accordingly.

#### Key points

- G1A has pulled off a stunning deal to effectively sell a 40% interest in the Abra project for \$90m. The implied value for G1A's 60% interest is \$135m or ~\$0.40/sh – an outstanding outcome.
- This compares to its last traded price of \$0.245/sh and a 30 day VWAP of \$0.183/sh
- Total project capex is estimated at ~\$170m so this deal effectively fully funds the equity component required with the balance of \$80-90m likely from debt.
- As part of the deal Toho is to assist the JV in potentially procuring some project financing debt through the attractive projects available for Japan related projects.
- The actual mechanics of the deal are;
  - Binding term sheet subject to confirmatory due diligence, definitive documentation, final internal approvals, third party consents and FIRB.
  - G1A will issue shares in its wholly owned subsidiary Abra Mining Pty Ltd ('AMPL') to Toho Zinc such that Toho own 40% for total consideration of \$90m
  - Toho Zinc and G1A will form a JV with G1A appointing three directors and Toho two directors. The Chairman of AMPL will be selected from the three Galena representatives.
- The funds into the JV will be accessed in three tranches;
  - \$20m at the close of the transaction (expected April'19)
  - \$10m on completion of the DFS (expected mid CY'19),
  - \$60m on project financing on terms acceptable to both G1A and Toho and all conditions for draw down for the full amount of project financing.
- Abra Mining currently has a \$10m shareholder loan to G1A. This will be repaid. This should be sufficient to cover G1A administration costs until Abra is in production.
- Each JV partner has clear access to its own concentrate/offtake arrangements. Such agreement will have terms and conditions typically associated with an incorporated JV of this type.
- Toho Zinc is a \$1bn Toyko listed company that owns Zn and Pb smelters in Toyko. Toho owns the Rasp and Endeavour mines in NSW which were acquired during the takeover of CBH Resources Ltd in 2010. It has a mkt capitalisation of \$1bn.
- G1A has granted Toho exclusivity to pursue the Transaction until 31/3/19.
- G1A continues to target commencement of construction of Abra in 2019 with initial production in 2021 and full year steady state production in 2022.
- G1A and Toho have agreed to apply the majority of the first two tranches (\$30m) to predevelopment and early development works at Abra.

Galena Mining Ltd	Year End 30 June	
Share Price	0.25	A\$/sh
Price Target	0.50	A\$/sh
Valuation	0.51	A\$/sh

Shares on issue	366	m, diluted *
Market Capitalisation	89	A\$m
Enterprise Value	84	A\$m
Debt	0	A\$m
Cash	5	A\$m
Largest Shareholder Dir and Mgt		35.0%

Production F/Cast	2019f	2020f	2021f
Attrib. Prod'n (kt)	0	0	15
Cash Cost (US\$/lb)	0.00	0.00	0.60
Total Cost (US\$/lb)	0.00	0.00	0.98

Assumptions	2019f	2020f	2021f
Pb Price US\$/lb	0.98	1.03	1.05
AUDUSD	0.75	0.74	0.75

Key Financials	2019f	2020f	2021f
Revenue (A\$m)	0	2	47
EBITDA (A\$m)	0	-10	8
NPAT (A\$m)	0	-12	-11
Cashflow (A\$m)	0	-8	9

CFPS (Ac)	0	-2	3
P/CFPS (x)	0.0	-11.0	9.7

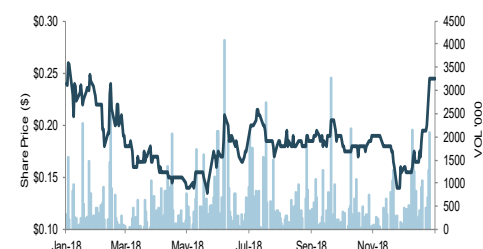
EPS (Ac)	0	-3	-3
EPS growth (%)	na	-80%	-14%
PER (x)	na	-7.4	-8.7

EV:EBITDA (x)	na	-8.4	10.0
EV:EBIT (x)	na	-6.0	-7.3

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	-46%	-777%	-10%
Interest Cover (x)	na	na	na

#### Share Price Chart



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## Galena Mining Ltd

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#### Analysis

This is a stunning deal for G1A shareholders with an effective ~ 80% uplift on the implied/look through price compared to the last trading price and >100% to the 30 day VWAP that Toho is paying for a minority interest in a JV.

It removes the question of how a \$50m company will fund a >\$170m development without destroying the balance sheet from either a large debt package or massive dilution. It does demonstrate the quality of the Abra project. We suspect a strong part of the rationale for Toho is to get access to a long life Pb project in a safe jurisdiction and with operations already in Australia is comfortable to operate here.

Our previous valuation of G1A was \$0.41/sh based on a 40% risk adjusted value of Abra of \$378m. However, in reality we hadn't taken into account funding requirements etc or potential dilution.

Our revised valuation and Price Target is \$0.51/sh which is 60% interest in our Abra valuation of \$378m, risk adjusted by 80% to reflect the DFS is yet to be completed and the delay until the full proceeds are received (Oct'19) into the JV.

Longer term our un risked valuation is \$0.63/sh but once in production we see potential EBITDA of >\$100m pa, G1A share of \$60m which at a 5x EV/EBITDA multiple implies a \$300m value or >\$0.80/sh

We upgrade our recommendation from Speculative Buy to Buy post this transaction and increase our Price Target to \$0.50/sh.

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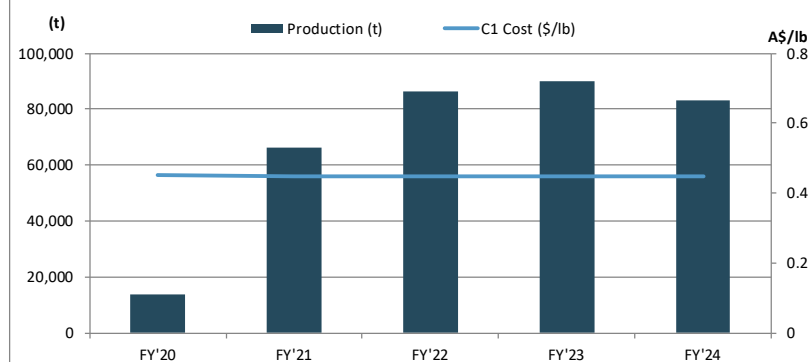
## Key Variables

Val/ Sh		Lead \$								
AUDUSD	\$0.51	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
	15%	\$0.13	\$0.20	\$0.26	\$0.32	\$0.39	\$0.45	\$0.51	\$0.58	\$0.64
	10%	\$0.16	\$0.22	\$0.29	\$0.36	\$0.42	\$0.49	\$0.56	\$0.62	\$0.69
	5%	\$0.19	\$0.25	\$0.32	\$0.39	\$0.46	\$0.53	\$0.60	\$0.67	\$0.74
	0%	\$0.21	\$0.29	\$0.36	\$0.43	\$0.51	\$0.58	\$0.65	\$0.73	\$0.80
	-5%	\$0.25	\$0.32	\$0.40	\$0.48	\$0.55	\$0.63	\$0.71	\$0.79	\$0.86
	-10%	\$0.28	\$0.37	\$0.45	\$0.53	\$0.61	\$0.69	\$0.77	\$0.85	\$0.93
	-15%	\$0.32	\$0.41	\$0.50	\$0.58	\$0.67	\$0.75	\$0.84	\$0.93	\$1.01

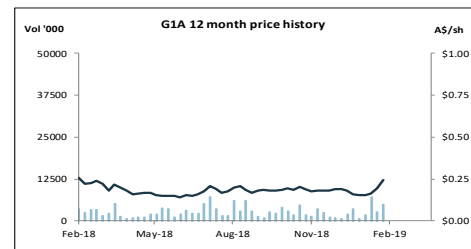
Val/ Sh		Silver \$								
AUDUSD	\$0.51	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
	15%	\$0.37	\$0.38	\$0.38	\$0.38	\$0.39	\$0.39	\$0.40	\$0.40	\$0.40
	10%	\$0.41	\$0.41	\$0.42	\$0.42	\$0.42	\$0.43	\$0.43	\$0.44	\$0.44
	5%	\$0.45	\$0.45	\$0.46	\$0.46	\$0.46	\$0.47	\$0.47	\$0.48	\$0.48
	0%	\$0.49	\$0.49	\$0.50	\$0.50	\$0.51	\$0.51	\$0.52	\$0.52	\$0.52
	-5%	\$0.54	\$0.54	\$0.55	\$0.55	\$0.55	\$0.56	\$0.56	\$0.57	\$0.57
	-10%	\$0.59	\$0.59	\$0.60	\$0.60	\$0.61	\$0.61	\$0.62	\$0.62	\$0.63
	-15%	\$0.65	\$0.65	\$0.66	\$0.66	\$0.67	\$0.67	\$0.68	\$0.68	\$0.69

Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23
Silver (US\$/oz)	\$15	\$16	\$18	\$18	\$18
Lead (US\$/lb)	\$0.96	\$1.03	\$1.05	\$1.05	\$1.05
AUDUSD	\$0.73	\$0.74	\$0.75	\$0.75	\$0.75

## G1A - Prod'n &amp; C1 Forecast



## Our Share Price Sensitivity



## Our Market Sensitivity

Price Target \$0.50/sh

Valuation \$0.43/sh

## Bull Scenario \$0.80/sh

G1A successfully develops Abra into a long life lead producer and the lead price increases above our LT forecast.

## Base Scenario \$0.50/sh

Forms JV with Toho Zinc and no further equity is required to develop Abra

## Bear Scenario \$0.30/sh

Abra DFS is significantly below the PFS and the project stalls.

## Company Summary

Galena Mining Ltd listed on the ASX in Sept'17 after raising \$6m to explore the Abra base metal project with a theory that higher grade zones, previously identified in drilling were continuous and could become a modest size lead producer.

A successful drilling campaign proved this theory and a maiden high grade lead resource was announced. This formed the basis of the PFS which demonstrated a viable project. A DFS is underway and expected to be completed in mid CY'19. In Jan'19 G1A reached agreement for a \$90m project equity funding from Toho for 40%.

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The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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Market Statistics				Year End 30 June			
<b>Share Price</b>	<b>\$0.25</b>	<b>A\$/sh</b>		<b>Directors</b>			
Issued Capital				A. Byass	NE Chairman		
Fully Paid Ord	336.0	m		A. Molyneux	Managing Dir		
Options (var. prices)	34.7	m		J. Downes	NE Dir		
<b>Total Dil. FPOrd</b>	<b>365.7</b>	<b>m</b>		T.James	NE Dir		
				T.Morrison	NE Dir		
Market Capitalisation (dil)	\$89	m					
Enterprise Value	\$84	m		<b>Shareholders</b>			
Cash	\$5	m		Dir and Mgt	35.0%		
Debt	\$0	m					
<b>Asset Valuation</b>				<b>A\$m</b>	<b>A\$/sh</b>		
Abra (60%) risk adj by 80%				181	0.50		
Hedging				-	-		
Corporate				(21)	(0.06)		
Exploration				20	0.05		
Unpaid Capital				-	-		
Cash				5	0.01		
Debt				0	0.00		
<b>Total @ 10%</b>				<b>185</b>	<b>0.51</b>		
<b>F/Cast Production (A\$m)</b>				<b>2019f</b>	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>
Abra 100%							
Pb in Concentrate	kt	-	-	14.6	69.9		
Cash Costs (C1)	US\$/lb	-	-	0.45	0.45		
Cash Costs (incl Roy)	US\$/lb	-	-	0.60	0.59		
<b>Total Costs</b>	<b>US\$/lb</b>	<b>-</b>	<b>-</b>	<b>0.98</b>	<b>0.68</b>		
<b>Assumptions</b>							
Spot Pb Price	US\$/lb	0.96	1.03	1.05	1.05		
FX Rate ass'd	A\$/US\$	0.73	0.74	0.75	0.75		
<b>Ratio Analysis (A\$m)</b>				<b>2019f</b>	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>
Cashflow		0	(8)	9	60		
Cashflow per Share		0	(2)	3	16		
Cashflow Ratio (x)		-	(11.0)	9.7	1.5		
Earnings		0	(12)	(11)	44		
Earnings per Share		0	(3)	(3)	12		
EPS Growth (%)		na	-80%	-14%	-520%		
Earnings Ratio (x)		na	(7.4)	(8.7)	2.1		
Enterprise Value		83	12	82	29		
EV : EBITDA		na	(8.4)	10.0	1.1		
EV : EBIT		na	(6.0)	(7.3)	1.3		
NDebt:NDebt+Equity(%)		-46%	-777%	-10%	-92%		
Interest Cover (x)		na	na	na	na		
EBIT Margin (%)		-8384%	na	-25%	29%		
Return on Equity (%)		0%	-14%	-13%	35%		
Return on Assets (%)		0%	-6%	-5%	24%		
Dividend (c/sh)		0	0	0	0		
Dividend payout ratio		0%	0%	0%	0%		
Dividend Yield		0.0%	0.0%	0.0%	0.0%		
Dividend Franking		0%	100%	100%	100%		
<b>Profit and Loss (A\$m)</b>				<b>2019f</b>	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>
Pb Revenue		(0)	-	46	216		
Hedging Revenue		-	-	-	-		
Deferred Revenue		-	-	-	-		
Interest Income		0	2	1	0		
Other Income		-	-	-	-		
<b>Total Revenue</b>		<b>0</b>	<b>2</b>	<b>47</b>	<b>217</b>		
Operating Costs		(0)	-	27	127		
Dep/Amort		-	-	16	16		
WriteOff (expl'n)		-	-	-	-		
O/H + New Bus Dev		-	10	10	10		
Provisions		-	4	4	-		
EBITDA		0	(10)	8	79		
EBIT		0	(14)	(12)	63		
Interest Expense		-	-	-	-		
NPBT		0	(12)	(11)	63		
Tax		0	-	-	19		
Minority Interest		-	-	-	-		
<b>NET PROFIT</b>		<b>0</b>	<b>(12)</b>	<b>(11)</b>	<b>44</b>		
Net Abnormal Gain		-	-	-	-		
<b>Net Profit After Abnormal</b>		<b>0</b>	<b>(12)</b>	<b>(11)</b>	<b>44</b>		
<b>Cash Flow (A\$m)</b>				<b>2019f</b>	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>
Net Profit		0	(12)	(11)	44		
+ Working Capital Adj		-	-	-	-		
+ Dep/Amort		-	-	16	16		
+ Provisions & W/O		-	4	4	-		
+ Tax Expense		0	-	-	19		
- Deferred Revenue		-	-	-	-		
- Tax Paid		0	-	-	19		
<b>= Operating Cashflow</b>		<b>0</b>	<b>(8)</b>	<b>9</b>	<b>60</b>		
-Capex + Development		-	80	80	7		
-Exploration		-	-	-	-		
-Assets Purchased		-	-	-	-		
+Asset Sales		-	-	-	-		
+Other		-	-	-	-		
<b>= Investing Cashflow</b>		<b>-</b>	<b>(80)</b>	<b>(80)</b>	<b>(7)</b>		
+ Equity Issues (Rts,plc,opts)		6	60	-	-		
+Loan Drawdown/Receivable		-	100	-	-		
+Loans from(to) other entities		-	-	-	-		
-Loan Repayment		-	-	-	-		
-Dividends		-	-	-	-		
<b>= Financing Cashflow</b>		<b>6</b>	<b>160</b>	<b>-</b>	<b>-</b>		
<b>Period Surplus</b>		<b>6</b>	<b>72</b>	<b>(71)</b>	<b>53</b>		
FX Adjustments		-	-	-	-		
<b>CASH</b>		<b>6</b>	<b>78</b>	<b>7</b>	<b>60</b>		
<b>Balance Sheet (A\$m)</b>				<b>2019f</b>	<b>2020f</b>	<b>2021f</b>	<b>2022f</b>
<b>Assets</b>							
Cash		6	78	7	60		
Current Receivables		13	14	14	14		
Other Current Assets		-	36	36	36		
<b>Non-Current Assets</b>		<b>-</b>	<b>98</b>	<b>162</b>	<b>153</b>		
<b>Total Assets</b>		<b>19</b>	<b>226</b>	<b>219</b>	<b>263</b>		
<b>Liabilities</b>							
Borrowings		-	-	-	-		
Current Accounts Payable		-	40	40	40		
Other Liabilities		-	98	98	98		
<b>Total Liabilities</b>		<b>-</b>	<b>138</b>	<b>138</b>	<b>138</b>		
<b>Net Assets</b>		<b>19</b>	<b>88</b>	<b>81</b>	<b>125</b>		
<b>Reserves and Resources</b>							
	<b>Mine ore mt</b>	<b>grade</b>	<b>Reserve metal kt</b>	<b>Mineral ore mt</b>	<b>grade</b>	<b>metal kt</b>	
Abra	10.5	8.1%	851	36.7	7.3%	2679	
Total contained Pb			851			2,679	

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