Canaccord Genuity Capital Markets

1 May 2023

Lowering Target Price

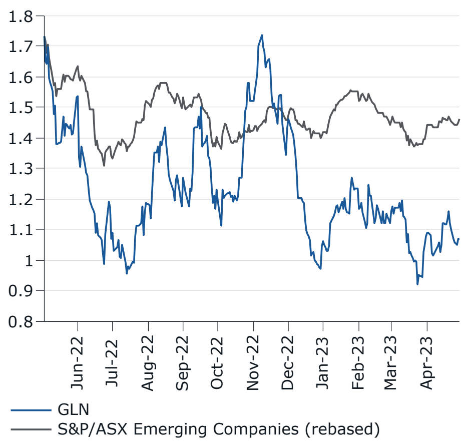
Galan Lithium Limited

EV Materials

Rating	Price Target
SPECULATIVE BUY *unchanged*	**A$3.05↓** *from A$3.40*
GLN-ASX	Price **A$1.03**

Market Data

52-Week Range (A$) :	0.90 - 1.79
Avg Daily Vol (000s) :	1
Market Cap (A$M) :	304.2
Shares Out. (M) :	295.4
Enterprise Value (A$M) :	344
NAV /Shr (A$) :	3.40
P/NAV (x) (A$) :	0.40



Source: FactSet

Priced as of close of business 1 May 2023

Galan Lithium is an exploration and development company focused on the exploration and development of two lithium brine projects hosted within South America's Lithium Triangle on the Hombre Muertos salar in Argentina.

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Lithium chloride concentrate - a cheaper, faster pathway to market?

HMW to pursue looks set to pursue concentrate production plan: Following recent project updates (i.e., decision to up-scale pilot plant to 4ktpa LCE as high-grade lithium chloride (LiCl) concentrate - see here), it is now apparent that GLN now intends on moving forward (subject to permitting) with its plans to prioritise a LiCl concentrate development over a conventional lithium carbonate (Li2CO3) project. In this report, we outline what lithium chloride concentrate is, its advantages, and what a development scenario at HMW and Candelas may look like for GLN.

What is LiCl and why would GLN go down this path?: As a reminder, LiCl is an intermediate lithium product (typically produced via concentration of lithium brines) and is used as a feedstock for the production of lithium compounds such as Li2CO3 and LiOH, as well as lithium metal. Test work completed on HMW's high-quality brine (high grade, low impurities) suggests GLN can achieve a high-quality LiCl concentrate of 6%. While LiCl attracts substantial discounts versus refined products, advantages of this production route include:

- **Lower upfront capital costs:** While a large proportion of the initial capital costs are attributable to production wells and evaporation ponds (typically 45- 55%), carbonate plants are also capital intensive (~25% of average brine development capital costs). Production of LiCl negates the requirement for construction of significant processing facilities and other infrastructure, lowering overall project capex.
- **Lower technical risk:** Producing battery quality lithium carbonate (>99.5% Li) can be technically challenging, with product purity specifications continuing to tighten (i.e., EVs). Moreover, product qualification lead times can extend from 12-24 months.
- **Faster path to market:** Avoiding extended production ramp-up times/ meeting high purity standards permits an accelerated path to market. LiCl is also the precursor to lithium metal manufacture (used in next-generation solid-state and Li-Air batteries).

Modelling a new base case: We have revised our modelled base case development for HMW to now centre around the initial development of a 4ktpa LCE (as LiCl conc.) pilot, which we then assume is expanded to 27kt LCE (84kt LiCl conc.). We assume Stage 1 capex of US$65m and total capex of US$455m (for Stage 2 expansion) with first production commencing in 2H'25. Included in our revised base case is a similarly revised development plan for Candelas, where we assume LiCl concentrate production comes online in 1H'28.

HMW Resource increases to 6.6Mt LCE, "precipitating" the next steps for project development: Resource estimates for HMW have been further increased by 16% to 6.6Mt LCE at 880 Mg/l (inc. Measured Resources 4.7Mt LCE) following recent drilling. We expect the updated Resource to inform a DFS for HMW (due 1H'23). Permits for the 4ktpa pilot are expected in the coming months, with our modelling assuming construction commences in late 2023.

Valuation & Recommendation

Our target price reduces slightly to $3.05 on account of the lower realised pricing achieved with lithium chloride concentrate under our updated development scenario for HMW. Our valuation is based on a heavily risked NPV10% (LT price of US $22.5k/t LCE) of our modelled development scenario at HMW/Candelas. We see GLN entering a period of increased news flow and potential share price catalysts and maintain our SPEC BUY rating.

Lithium chloride concentrate; a cheaper, faster pathway to market?

While both the studies completed to date for HMW and Candelas outline projects based on conventional evaporation and lithium carbonate processing, recent announcements by GLN outline intentions on pursuing the initial production of a Lithium chloride (LiCl) concentrate (subject to government approvals).

LiCl concentrate is an intermediate lithium product produced during lithium brine processing through liming (removal of magnesium, sulfate) and solar evaporation (lithium concentration). During this stage of processing, lithium concentrations in brine are typically upgraded by 6-10x. The resulting chloride concentrate is then further processed into lithium carbonate from the application of soda ash and further purification via ion exchange.

While LiCl concentrates typically attract lower payabilities/prices, this development route would conceptually offer significantly lower capex (~50%) and operating costs versus conventional brine developments, thereby facilitating accelerated market entry.

In this report, we outline what lithium chloride concentrate is, its advantages, and what a development scenario at HMW may look like.

What is lithium chloride concentrate?

The production of a lithium chloride concentrate is by no means anything new. It is the product of evaporation and the liming process prior to carbonation and purification in a lithium carbonate plant. While the production of saleable product has been largely limited to larger market players (ie. SQM, Ganfeng, Livent), there are examples of smaller companies that have in the past chosen to assess LiCl as a development option for their project (i.e., Lithium Energy X, International Lithium).

Typically, Li concentrate grades prior to carbonation and purification range from 2-4% Li, although this varies across different operations. In the case of GLN, test work completed to date suggests that the brine chemistry at HMW (high Li concentrations, low impurities such as B, Mg, Ca, sulfates) allows production of a LiCl concentrate grading up to 6% Li.

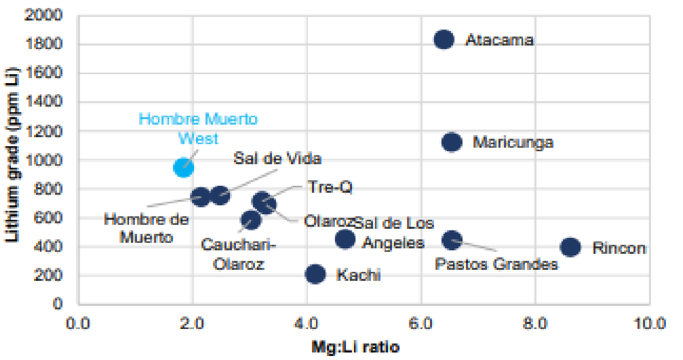
To put that into perspective and make it comparable to lithium carbonate, a 6% Li product equates to a 32% lithium carbonate equivalent grade (conversion factor of 5.323). Assuming battery grade LCE of 99.5%, the relationship between both products is approximately 3.12x (i.e. 3.12kt of LiCl concentrate = 1kt of battery grade LCE).

We also note that LiCl is the feedstock for the production of lithium metal, which is typically manufactured via electrolysis. Lithium metal is a key input into several different forms of next-generation lithium batteries, including solid-state and lithium air.

Brine chemistry & Testwork completed to date

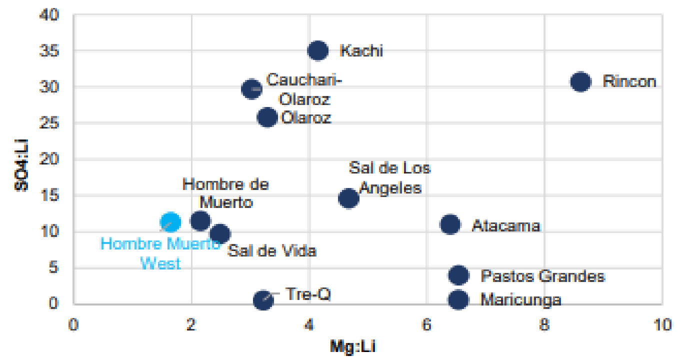
Chemical analysis of the brine at HMW shows a relatively high lithium concentration of +880 ppm Li, as well as low levels of impurities such as sulphates and magnesium. High impurity levels typically result in higher operating costs (increased reagent consumption to precipitate out impurities), with comparisons with other brine deposits showing HMW to compare very favourably (i.e. high lithium concentration, low Mg, SO4, etc.).

Figure 1: Lithium grades vs Magnesium (impurity) content



Source: Company Reports, Canaccord Genuity estimates

Figure 2: Mg:Li ratio vs SO4:Li ratio

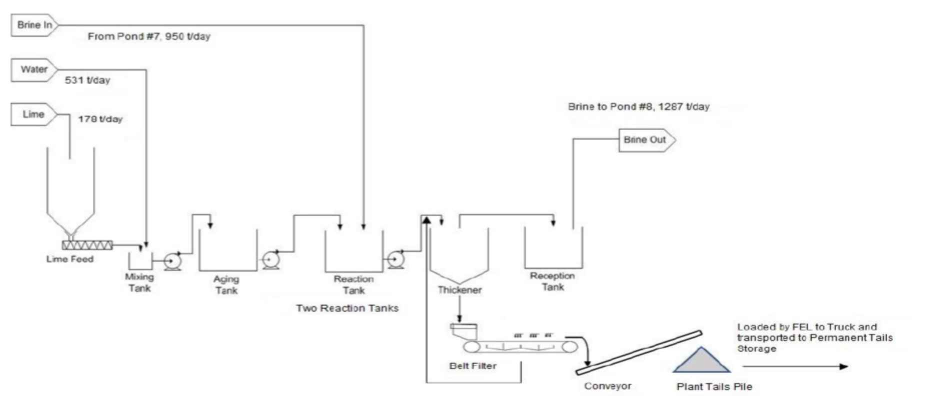


Source: Company Reports, Canaccord Genuity estimates

Post the completion of the HMW PEA, GLN undertook studies to test for production of a high-grade lithium concentrate for commercial and plant optimisation reasons. Through liming at different stages of the evaporation process to avoid the precipitation of salts containing lithium, results have shown that GLN's brine is amenable to the production of a LiCl concentrate with grades up to 6% Li.

This was later confirmed at a lab in Chile under a controlled evaporation process. Additionally, GLN released the results of the further testwork that the high-grade LiCl can be further refined into a high-grade lithium carbonate product grading 99.88% Li (minimum battery grade specifications require >99.5% Li).

Figure 3:Typical liming process example (taken from Mariana project DFS)



Source: Company reports

How is lithium chloride concentrate priced?

Unlike traditional lithium products (carbonate, hydroxide, spodumene concentrate), LiCl concentrate is not regularly traded, so there is no 'spot' market price. Instead, a price is often agreed between both the buyer and seller, which takes into consideration the price of the converted product (ie, lithium carbonate), recoveries at the processing plant, a potential capex quota, and a margin that is shared between both the lithium chloride concentrate producer and the converter.

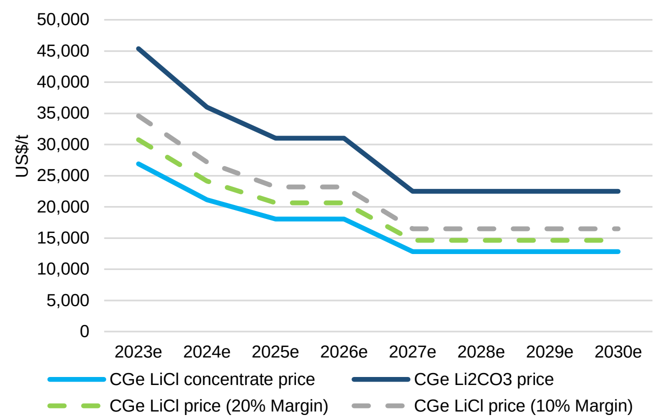
Below in Figure 4, we provide an example of how LiCl concentrate may be priced. In this example, we assume that the product is being fed to an existing carbonate facility, so no capex quota/factor is required.

Figure 4: LiCl pricing formula

Paramter			(CGe LT) US$/t		
CGe LT Li2CO3 Price	USD/MT		22500	30000	40000
Ocean Freight + Handling	USD/MT		100	100	100
Land Transport	USD/MT		100	100	100
Netback EXW Li2CO3	USD/MT		22300	29800	39800
Conversion Cost	USD/MT		1500	1500	1500
Margin Toller	USD/MT	30%	6240	8490	11490
Netback LiCl	USD/MT		14560	19810	26810
Recovery			88%	88%	88%
Netback LiCl	**USD/MT**		**12813**	**17433**	**23593**

Source: Canaccord Genuity estimates

Figure 5: LiCl price based on CGe Li2CO3 price deck



Source: Company Reports, Canaccord Genuity estimates

Why and who would buy a lithium chloride concentrate?

A LiCl concentrate would typically be suited to a merchant conversion facility (i.e. China) or an existing lithium carbonate (from brine) producer that has excess capacity and requires additional feedstock to maximise processing plant utilisation rates. Given GLN's product will likely be higher grade (6%) vs typical feedstock grades of 2-4%, it could also be used as blend material to optimise processing.

We highlight that surrounding both the HMW and Candelas projects, there are over 10 lithium projects that are either currently producing or approaching construction, which together have a combined capacity of +220ktpa. Noting the operating challenges involved during ramp up with inventories of sufficient concentrated brine (i.e. Olaroz) and deliver targeted production rates, we believe there could be a market for LiCl feedstock as these operations advance to nameplate production.

In addition to local markets, we also highlight potential export opportunities (i.e. Europe and North America) for GLN should they receive the necessary permits to export LiCl concentrate outside of Argentina.

Figure 6: Producing/advanced lithium brine projects surrounding HMW & Candelas

Source: Company Reports, Canaccord Genuity estimates

Advantages over conventional brine projects

Lower upfront capex

While a large proportion of the initial capital costs are attributable to production wells and evaporation ponds (typically 45- 55% of total capital), lithium carbonate plants also represent a major proportion of brine development capital (typically representing ~25%) Production and sale of LiCl negates the requirement for construction of additional processing plant and equipment, thereby lowering overall project establishment costs.

Significantly lower technical risk

Producing battery quality lithium carbonate (>99.5% Li) can be technically challenging, with product purity specifications demanded by the LiB industry continuing to tighten for high-performance applications (i.e. EVs). Moreover, product qualification lead times can extend from 12-24 months. As such, production of an intermediate product such as LiCl significantly reduces technical and product acceptance risk associated with production of high-purity lithium products.

Faster path to market

Avoiding extended production ramp-up times and meeting high product purity standards permits an accelerated path to market, notwithstanding that the LiCl market is a comparatively small (albeit potentially growing) market. As noted above, LiCl is the precursor product to the production of lithium metal, which can be used in the production of next-generation solid-state batteries.

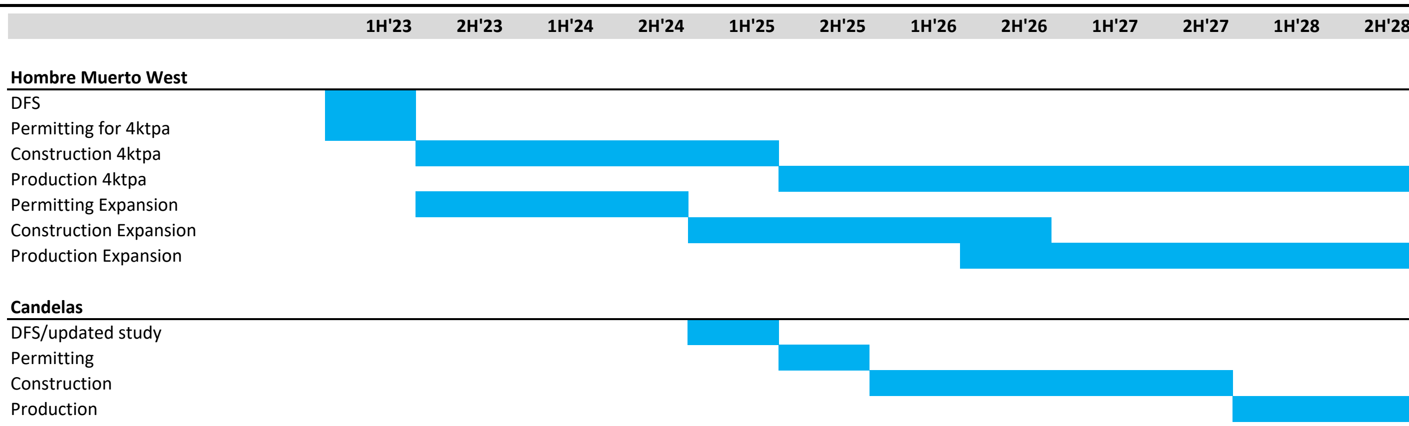
CG Development scenario – updated to incorporate LiCl concentrate plans

We have revised our modelled base case development for HMW to now centre around the initial development of a 4ktpa LCE (as LiCl concentrate) pilot, which we then assume is expanded to 27kt LCE (84kt LiCl concentrate) from 2H'25. Included in our base case is a similarly revised development plan for Candelas, where we assume LiCl concentrate production comes online in 1H'28.

Our revised model assumptions now comprise:

- First production at HMW brought forward to 2H'25 now that GLN plan on producing a LiCl concentrate product which we assume will be via a staged development. Initial production volumes of 4ktpa LCE (12kt LiCl conc.), with the expanded operation beginning its ramp up to 27kt LCE (84kt LiCl con) from 2H'26. We assume stage 1 (pilot) capital costs of US$65m, with the expanded operation costing an additional US$390m (total US$455m). This compares to our prior model assumptions of US$600m for a conventional 23ktpa carbonate operation. Cash costs to are now US$2,800/t (LCE in LiCl) vs prior US$4,277/t for a refined Li_2CO_3.
- At Candelas, we now assume this will be developed similarly to HMW as a concentrate operation, with first production pushed back to 1H'28. Our capital cost estimates have been revised down to US$300m (vs prior US$525m for 15ktpa carbonate).

Figure 7: Project timeline



Source: Canaccord Genuity estimates

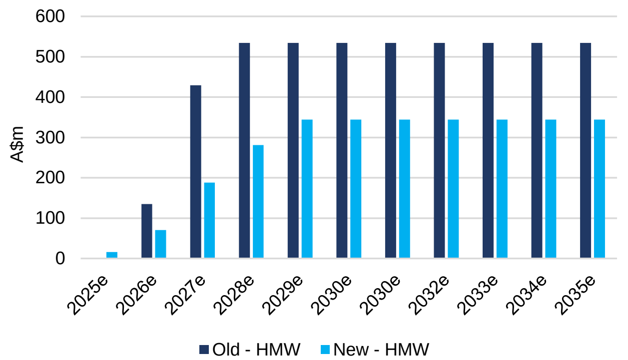
Figure 9 below illustrates the side-by-side economic analysis of LiCl vs conventional lithium carbonate for HMW. While the project NPV and EBITDA profile at HMW is larger for the conventional carbonate project, the lower capital costs/technical risk for the LiCl project significantly reduces the financing risk and dilutionary impact on existing equity, in our view.

Figure 9: Economic analysis side-by-side Old vs New

Parameter	Unit	LiCl (CGe new)	Li2CO3 (CGe old)
Mine Life	years	40	40
Capex	US$m	455	600
Production Capacity	ktpa LC	27 (84)	23.5
Cash costs	US$/t	2,800	4,350
Unrisked NPV	US$m	1005	1150
IRR	%	35	24

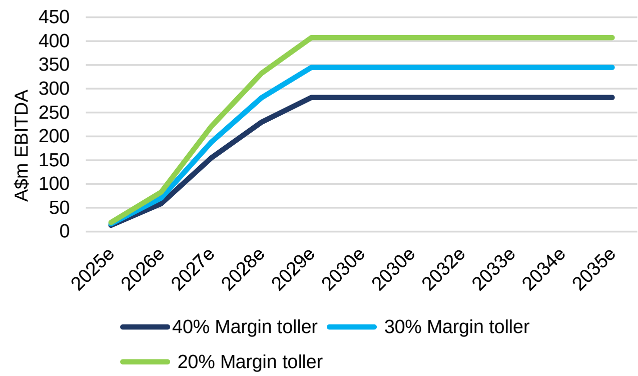
Source: Canaccord Genuity estimates

Figure 10: Old vs new EBITDA profile at HMW



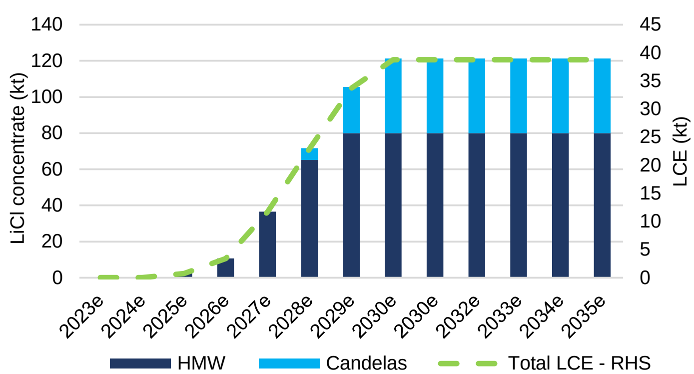
Source: Company Reports, Canaccord Genuity estimates

Figure 11: HMW EBITDA sensitivity to assumed toller margin



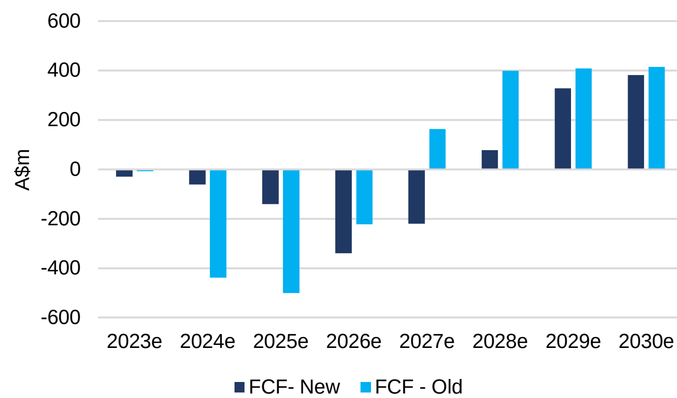
Source: Company Reports, Canaccord Genuity estimates

Figure 12: Total LiCl concentrate production (and LCE)



Source: Company Reports, Canaccord Genuity estimates

Figure 13: CGe group FCF profile old vs New



Source: Company Reports, Canaccord Genuity estimates

Valuation

NAV estimate

We value the Hombre Muerto West project (risked NPV10%) at A$835m (US$584m) and Candelas project (heavily risked NPV10%) at A$73m, which is based on our modelled development/production scenario and LiCl price assumptions (Figure 5).

Our sum-of-the-parts valuation includes an ascribed valuation for un-modelled Resources at HMW and the Greenbushes South projects, adjusted for corporate costs, current cash and ITM options.

We have not made any assumptions for project financing, and as such, have risk adjusted our valuation for the HMW project to 55%

Figure 14: CGe NAV estimate

	US$M	A$M	RISK ADJ.	EQUITY	A$M	PER SHARE	Target Operating NAV/share
OPERATING NAV							
Hombre Muerto West	1,005	1,518	55%	100%	835	$2.59	$2.59
Candelas	294	444	25%	100%	111	$0.34	$0.34
Spare 2	-	-	0%	0%	-	$0.00	$0.00
SUB TOTAL	**1,298**	**1,962**			**946**	**$2.94**	**$2.94**
NON OPERATING NAV							
Exploration, Projects & Other	30	45			45	$0.14	$0.14
Investments	-	-			-	$0.00	$0.00
Corporate	(26)	(39)			(39)	-$0.12	-$0.12
(Net debt)/cash	17	26			26	$0.08	$0.08
TOTAL	**1,320**	**1,994**			**978**	**3.04**	**$3.04**
				Target (rounded)			A$3.05

Source: Canaccord Genuity estimates

Figure 15: GLN Financial Summary

FINANCIAL SUMMARY

Galan Lithium (ASX:GLN)

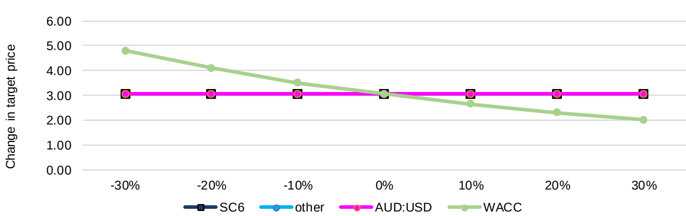
Analyst :	Reg Spencer	Rating:	**SPEC BUY**
Date:	1/05/2023	Target Price:	**A$3.05**
Year End:	Dec		

Market Information		
Share Price	A$	1.03
Market Capitalisation	A$m	304
12 Month Hi	A$	1.79
12 Month Lo	A$	0.90
Issued Capital	m	295
ITM Options	m	26
Fully Diluted	m	322

Valuation		A$m	A$/share
Hombre Muerto West	Risked at 55%	833	2.59
Candelas	Risked at 25%	111	(0.12)
Exploration, Projects & Other		45	0.14
Corporate		(39)	(0.12)
(Net debt)/cash		26	0.08
Total		943	**3.05**
Price/NAV			0.3

Assumptions	2022a	2023e	2024e	2025e
Lithium Carbonate price	40,932	58,653	37,375	33,500
AUD:USD	0.73	0.68	0.69	0.68

Sensitivity



Production - by asset	2022a	2023e	2024e	2025e
Hombre Muerto West				
Lithium Carbonate production	-	-	-	2
Cash Costs (US$/t)	-	-	-	1,368
Candelas				
Lithium Carbonate production	-	-	-	2
Cash Costs (US$/t)	-	-	-	1,368

Reserves & Resources	Mt	Grade ppm
Hombre Muerto West	5.8	867
Candelas	0.65	676

Directors & Management	
Name	**Position**
Richard Homsany	Non-Executive Chairman
Juan Pablo ('JP') Vargas de la Vega	Managing Director
Christopher William Chalwell	Non-Executive Director
Terry James Gardiner	Non-Executive Director
Daniel Jimenez	Non-Executive Director
Jinyu (Raymond) Liu	Non-Executive Director

Company Description

Galan Lithium (GLN:ASX) is an Australian company focused on the exploration and development of lithium projects in Argentina. Its key asset is the Hombre Muerto West project , a +40 year, 20ktpa Li2CO3 operation, with a PFS/DFS scheduled for completion in 2H'22. GLN also owns the Candales project also located within Hombre Muerto salar and the Greenbushes South exploration project located 200km south of Perth, Western Australia.

Profit and Loss A$m	2022a	2023e	2024e	2025e
Revenue	0.1	0.0	0.0	20.0
Operating Costs	0.0	0.0	0.0	-4.0
Corporate Costs	-5.0	-2.8	-3.2	-3.2
EBITDA	**-5.0**	**-2.8**	**-3.2**	**12.9**
Impairment/other non cash adjustments	-0.2	-0.4	-0.4	-0.4
D&A	0.0	0.0	0.0	-0.6
Net Interest	0.1	0.4	-0.2	-1.7
Tax	0.0	0.0	0.0	-3.1
NPAT (reported)	-5.1	-2.8	-3.8	7.1
NPAT	**-5.1**	**-2.8**	**-3.8**	**7.1**

Cash Flow A$m	2022a	2023e	2024e	2025e
Cash Receipts	0.0	0.0	0.0	20.0
Cash paid to suppliers & employees	-2.2	-2.8	-3.2	-7.2
Tax Paid	0.0	0.0	0.0	-3.9
Net Interest	0.1	0.4	-0.2	-1.7
Other	0.1	0.0	0.0	0.0
Operating Cash Flow	**-2.0**	**-2.4**	**-3.4**	**7.3**
Proceeds/payments from sale/purchases	-10.6	0.0	0.0	0.0
Capex	0.0	0.0	-57.8	-148.4
Other	0.0	-26.6	0.0	0.0
Investing Cash Flow	**-10.6**	**-26.6**	**-57.8**	**-148.4**
Debt Drawdown (repayment)	0.0	0.0	50.0	250.0
Share capital	50.0	50.0	0.0	250.0
Dividends	0.0	0.0	0.0	0.0
Financing Expenses	0.9	0.0	0.0	0.0
Financing Cash Flow	**50.9**	**50.0**	**50.0**	**500.0**
Opening Cash	15.6	53.9	75.0	63.7
Increase / (Decrease) in cash	38.3	21.1	-11.2	358.9
FX Impact	-0.0	0.0	0.0	0.0
Closing Cash	**53.9**	**75.0**	**63.7**	**422.6**
Op. Cashflow/Share	*-$0.01*	*-$0.01*	*-$0.01*	*$0.02*
P/CF	*nm*	*-127.8x*	*-89.3x*	*41.7x*
FCF	***-12.6***	***-28.9***	***-61.2***	***-141.1***
FCF Yield	*-4.1%*	*-9.5%*	*-20.1%*	*-46.4%*

Balance Sheet A$m	2022a	2023e	2024e	2025e
Cash + S/Term Deposits	53.9	75.0	63.7	422.6
Receivables	0.1	0.1	0.1	0.1
Other current assets	0.1	0.1	0.1	0.1
Current Assets	**54.0**	**75.1**	**63.9**	**422.7**
Property, Plant & Equip.	2.6	29.2	87.0	234.8
Investments	0.6	0.6	0.6	0.6
Other Non-current Assets	33.0	33.0	33.0	33.8
Payables	2.5	2.5	2.5	2.5
Short Term Debt	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	50.0	300.0
Other Liabilities	0.8	0.8	0.8	0.8
Net Assets	**86.9**	**134.6**	**131.1**	**388.6**
Shareholders Funds	96.3	146.3	146.3	396.3
Reserves	2.5	2.5	2.5	2.5
Retained Earnings	-11.8	-14.6	-18.4	-11.4
Total Equity	**86.9**	**134.1**	**130.3**	**387.3**

Source: Company Reports, Canaccord Genuity estimates

Appendix: Important Disclosures

Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research, and (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer.

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Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: May 01, 2023, 10:11 ET

Date and time of production: May 01, 2023, 10:11 ET

Target Price / Valuation Methodology:

Galan Lithium Limited - GLN

Our valuation is based on a heavily risked NPV10% (LT price of US $22.5k/t LCE) of our modelled development scenario at HMW/Candelas.

Risks to achieving Target Price / Valuation:

Galan Lithium Limited - GLN

Financing risks

Our analysis suggests that GLN will require additional capital to fund the development costs for the Hombre Muerto West project. As a pre-cash flow company, GLN is reliant on equity/debt/external capital to fund capital commitments, and there is no guarantee that accessing these markets will be achieved without dilution to shareholders. Furthermore, accurate estimates of capital costs for the project remain subject to completion of final engineering, which may see capital requirements exceed our model assumptions.

Permitting and construction risks

Permitting delays may result in risks of delivery of the HMW project. Construction risks also exist, and while an EPCM contract will be sought there may be risks of delay, cost overruns and scope changes.

Operational 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 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.

Resource risks

The resource is subject to a number of risks and may require a high rate of capital expenditure or changes to cost structures. Risks can also be associated with exploration and lack of accuracy in interpretation of geochemical, geophysical, drilling and other data. Our model assumptions include an amount of Indicated and Inferred Resources, which may or may not ultimately be proven to be economic and converted into Reserves.

Commodity price and currency fluctuation

The company is exposed to commodity price and currency fluctuations, often driven by macro-economic forces including inflationary pressure, interest rates and supply and demand of commodities. These factors are external and could reduce the profitability, costing and prospective outlook for the business.

Distribution of Ratings:

Global Stock Ratings (as of 05/01/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	602	64.52%	21.76%
Hold	142	15.22%	10.56%
Sell	16	1.71%	0.00%
Speculative Buy	158	16.93%	45.57%
	933*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

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

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

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

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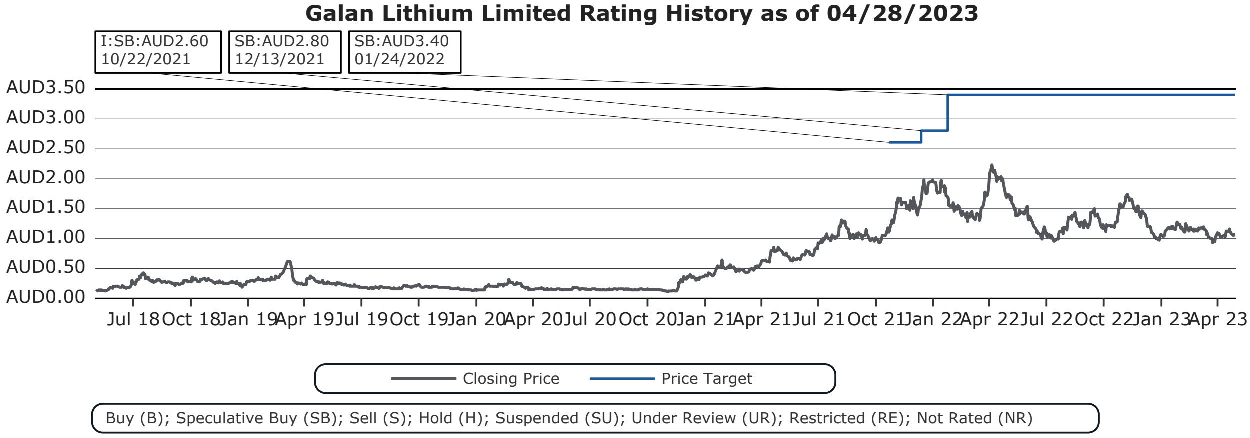

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