

# Galan Lithium Limited

## EV Materials

Rating  
**SPECULATIVE BUY**  
unchanged

Price Target  
**A\$2.25**  
unchanged

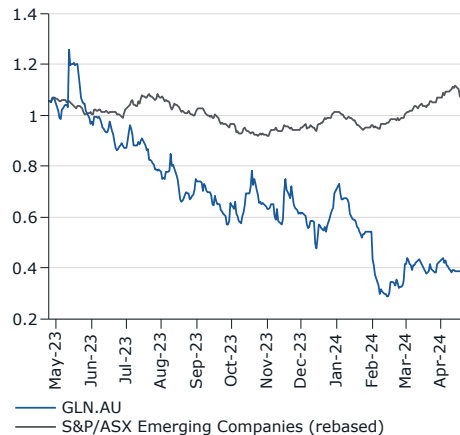
GLN-ASX

Price  
**A\$0.34**

### Market Data

52-Week Range (A\$) :	0.27 - 1.28
Avg Daily Vol (000s) :	1
Market Cap (A\$M) :	133.3
Shares Out. (M) :	397.8
Enterprise Value (A\$M) :	116.7
NAV /Shr (A\$) :	2.25
P/NAV (x) (A\$) :	0.15

FYE Jun	2023E	2024E	2025E	2026E
EBITDA (A\$M)	(4.7)	(5.0)	0.4↓	53.5↓
Previous	-	-	1.2	56.6
Net Income (A\$M)	(4.0)↑	(4.0)↑	0.3↑	34.8↑
Previous	(4.3)	(4.2)	(0.6)	34.0
Free Cash Flow (A\$M)	(39.7)	20.2	(183.1)	(251.1)



Source: FactSet

Priced as of close of business 22 April 2024

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.

Canaccord Genuity received a fee for its role as Joint Lead Manager to Galan Lithium's \$19.5m equity raise on 31 January 2024.

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## Correction: Fine brine goes international

A previous version of this note incorrectly stated Glencore has FROR over Phase 2 offtake.

**Pathway to export permit established:** Galan has signed a commercial agreement with the Catamarca provincial government, supporting local sales and export of LiCl concentrate from Hombre Muerto West (HMW). In exchange, GLN will pay state royalties of up to 7% and commit to pursue downstream refining capabilities (i.e. carbonate/LiOH) in-country within four years.

We expect the issue of an export permit to allow sales of product to all major lithium markets. We believe this could lead to increased competitiveness for GLN's product (i.e. pricing), improving both funding and offtake opportunities/terms for Phase 2 (noting HMW is one of few uncommitted advanced brine projects globally).

**On track for first production in 1H'25; Phase 1 funding a key potential catalyst:** We estimate phase 1 production of 5.4ktpa LCE (as LiCl) at AISC of ~US\$5.5k/t LCE from June 2025. This is ahead of a modelled Phase 2 expansion (21ktpa LCE at costs of US\$3.6k/t LCE) from 2027. We estimate remaining Phase 1 development capex of ~US\$85m, noting construction is progressing on schedule (Pond 1 evaporation commenced).

Finalisation of funding remains a key potential catalyst, in our view, with Glencore's offtake-linked prepayment facility of US\$70-100m remaining subject to completion of due diligence. We estimate >US\$75m is required to fully fund the project to production with pro forma cash of ~A\$19m (post A\$18m placement). We think signing of the export permit could increase pressure on Glencore to finalise funding, noting the likelihood of increased competitiveness for GLN's product under Phase 2. GLN has FROR over Phase 2 offtake.

**Attractive economics - even in a lower pricing environment:** We emphasise the strategic significance of the HMW project encompassing Phase 1 and 2, underscoring the project's favourable economics across various pricing scenarios. Noting estimated payabilities on HMW product of ~56%, implied LCE equivalent costs of ~US\$6/4k/t still sees HMW as one of the world's lowest cost producers (on a like-for-like basis, see Figure 5). On our price deck (see [Lithium | 1H'24 recharge](#)) we estimate Phases 1+2 could generate EBITDA of >US\$200m p.a. At spot (US\$15.5k/t), annual EBITDA would be >US\$70m.

**HMW Resource upgrade - Group totals now 8.6Mt LCE:** Inclusion of the recently acquired Catalina concession now sees HMW Resources total 7.9Mt LCE at an average grade of 833ppm Li. This sees HMW as one of the highest grade brine Resources in South America (Figure 2 and 3). In our view, the expanded Resource base provides a solid foundation for GLN's production plans (staged expansion to 60ktpa LCE inc. potential carbonate production).

### Valuation and recommendation

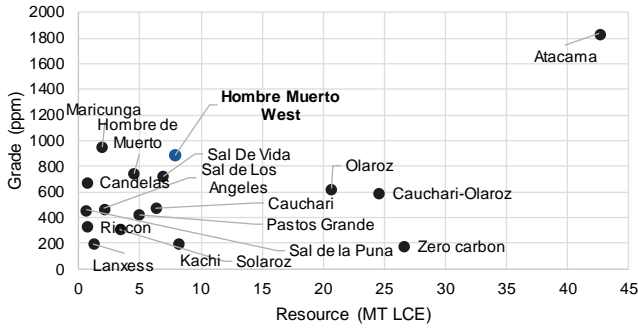
We have updated our modelling for increased royalties, reducing LOM average EBITDA by ~4%. This is partially offset in our valuation by a minor reduction in our project risking (reflecting lower permitting and Phase 2 financing risk). Our target price (risked NPV10%) is unchanged at \$2.25; SPEC BUY.

**Figure 1: GLN financial summary**

<b>Galan Lithium (ASX:GLN)</b>				Analyst :	Reg Spencer	Rating:	<b>SPEC BUY</b>
				Date:	22/04/2024	Target Price:	<b>A\$2.25</b>
				Year End:	Jun		
<b>Market Information</b>							
Share Price	A\$	0.34					
Market Capitalisation	A\$m	133					
12 Month Hi	A\$	1.28					
12 Month Lo	A\$	0.27					
Issued Capital	m	398					
ITM Options	m	41					
Fully Diluted	m	439					
<b>Valuation</b>							
		<b>A\$m</b>	<b>A\$/share</b>				
Hombre Muerto West	<i>NPV10%, Risked at 50%</i>	1,020	2.32				
Exploration, Projects & Other		-	-				
Corporate		(41)	(0.09)				
Cash		17	0.04				
Debt		-	-				
<b>Total</b>		<b>1,020</b>	<b>2.25</b>				
Price/NAV			0.15x				
<b>Assumptions</b>							
		<b>2023a</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>		
Lithium Carbonate price		60,860	20,978	18,250	22,500		
AUD:USD		0.68	0.66	0.67	0.68		
<b>Sensitivity</b>							
<b>Production - by asset</b>							
		<b>2023a</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>		
<b>Hombre Muerto West</b>							
Lithium Carbonate production		-	-	2	16		
Cash Costs (US\$/t)		-	-	913	3,766		
<b>Candelas</b>							
Lithium Carbonate production		-	-	2	-		
Cash Costs (US\$/t)		-	-	-	-		
<b>Reserves &amp; Resources</b>							
			<b>Mt</b>	<b>Grade ppm</b>			
<b>Hombre Muerto West</b>							
			7.9	883			
<b>Candelas</b>							
			0.65	676			
<b>Company Description</b>							
Galan Lithium (GLNASX) is an Australian company focused on the exploration and development of lithium projects in Argentina. Its key asset is the Hombre Muerto West project, where GLN envisages a staged development approach to 60ktpa LCE in lithium chloride by 2030.							
<b>Profit and Loss A\$m</b>							
		<b>2023a</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>		
Revenue		0.3	0.0	11.4	94.3		
Operating Costs		0.0	0.0	-5.0	-34.8		
Corporate Costs		-5.1	-5.0	-6.0	-6.0		
<b>EBITDA</b>		<b>-4.7</b>	<b>-5.0</b>	<b>0.4</b>	<b>53.5</b>		
Impairment/other non cash adjustments		0.0	0.0	0.0	0.0		
D&A		0.0	0.0	-0.9	-5.9		
Net Interest		0.8	1.1	1.4	-1.2		
Tax		0.0	0.0	-0.7	-11.6		
NPAT (reported)		-4.0	-4.0	0.3	34.8		
<b>NPAT</b>		<b>-4.0</b>	<b>-4.0</b>	<b>0.3</b>	<b>34.8</b>		
<i>EBITDA Margin</i>		<i>nm</i>	<i>nm</i>	<i>4%</i>	<i>57%</i>		
<i>EV/EBITDA</i>		<i>nm</i>	<i>nm</i>	<i>0.0x</i>	<i>0.0x</i>		
<i>EPS</i>		<i>(0.01)</i>	<i>(0.01)</i>	<i>(0.00)</i>	<i>0.04</i>		
<i>EPS Growth</i>		<i>nm</i>	<i>-15%</i>	<i>-81%</i>	<i>-2030%</i>		
<i>PER</i>		<i>-26.3x</i>	<i>-30.8x</i>	<i>-159.3x</i>	<i>8.3x</i>		
<i>Dividend Per Share</i>		<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>		
<i>Dividend Yield</i>		<i>nm</i>	<i>nm</i>	<i>nm</i>	<i>nm</i>		
<b>Cash Flow A\$m</b>							
		<b>2023a</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>		
Cash Receipts		0.0	0.0	11.4	94.3		
Cash paid to suppliers & employees		-3.2	-5.0	-11.0	-40.8		
Tax Paid		0.0	0.0	-1.4	-3.4		
Net Interest		1.1	1.1	1.4	-1.2		
Other		-1.8	113.6	0.0	0.0		
<b>Operating Cash Flow</b>		<b>-3.9</b>	<b>109.7</b>	<b>0.4</b>	<b>48.9</b>		
Proceeds/payments from sale/purchases		-0.1	0.0	0.0	0.0		
Capex		-10.0	-89.5	-183.6	-300.0		
Other		-25.8	0.0	0.0	0.0		
<b>Investing Cash Flow</b>		<b>-35.8</b>	<b>-89.5</b>	<b>-183.6</b>	<b>-300.0</b>		
Debt Drawdown (repayment)		0.0	0.0	300.0	0.0		
Share capital		31.5	23.0	160.0	0.0		
Dividends		0.0	0.0	0.0	0.0		
Financing Expenses		0.0	0.0	0.0	0.0		
<b>Financing Cash Flow</b>		<b>31.5</b>	<b>23.0</b>	<b>460.0</b>	<b>0.0</b>		
Opening Cash		53.9	45.7	88.9	365.7		
Increase / (Decrease) in cash		-8.2	43.2	276.9	-251.1		
FX Impact		-0.0	0.0	0.0	0.0		
<b>Closing Cash</b>		<b>45.7</b>	<b>88.9</b>	<b>365.7</b>	<b>114.7</b>		
<i>Op. Cashflow/Share</i>		<i>-\$0.01</i>	<i>\$0.28</i>	<i>\$0.00</i>	<i>\$0.12</i>		
<i>PCF</i>		<i>nm</i>	<i>1.2x</i>	<i>303.9x</i>	<i>2.7x</i>		
<i>FCF</i>		<i>-39.7</i>	<i>20.2</i>	<i>-183.1</i>	<i>-251.1</i>		
<i>FCF Yield</i>		<i>-29.8%</i>	<i>15.2%</i>	<i>-137.4%</i>	<i>-188.4%</i>		
<b>Balance Sheet A\$m</b>							
		<b>2023a</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>		
Cash + S/Term Deposits		45.7	88.9	365.7	114.7		
Receivables		0.2	0.2	0.2	0.2		
Other current assets		0.0	0.0	0.0	0.0		
<b>Current Assets</b>		<b>45.8</b>	<b>89.0</b>	<b>365.9</b>	<b>114.8</b>		
Property, Plant & Equip.		26.1	115.6	298.3	592.4		
Investments		0.5	0.5	0.5	0.5		
Other Non-current Assets		47.8	47.8	48.5	40.3		
Payables		1.7	115.3	115.3	115.3		
Short Term Debt		0.0	0.0	0.0	0.0		
Long Term Debt		0.0	0.0	300.0	300.0		
Other Liabilities		1.4	1.4	1.4	1.4		
<b>Net Assets</b>		<b>117.2</b>	<b>136.2</b>	<b>296.5</b>	<b>331.3</b>		
Shareholders Funds		128.9	151.9	311.9	311.9		
Reserves		4.1	4.1	4.1	4.1		
Retained Earnings		-15.8	-19.8	-19.5	15.3		
<b>Total Equity</b>		<b>117.2</b>	<b>136.2</b>	<b>296.5</b>	<b>331.3</b>		
<i>Debt/Equity</i>		<i>0%</i>	<i>0%</i>	<i>101%</i>	<i>91%</i>		
<i>Net debt/(cash)</i>		<i>-45.7</i>	<i>-88.9</i>	<i>-65.7</i>	<i>185.3</i>		
<i>Net gearing (book)</i>		<i>-39%</i>	<i>-65%</i>	<i>-22%</i>	<i>56%</i>		
<i>Net gearing (market)</i>		<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>		
<b>Directors &amp; Management</b>							
<b>Name</b>			<b>Position</b>				
Richard Homsany			Non-Executive Chairman				
Juan Pablo ("JP") Vargas de la Vega			Managing Director				
Claudia Pohl			Non-Executive Director				
Terry Gardiner			Non-Executive Director				
Daniel Jimenez			Non-Executive Director				
Graeme Fox			CFO				

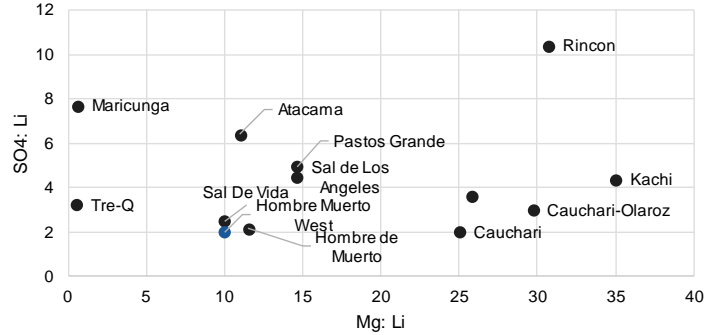
Source: Company reports, FactSet, Canaccord Genuity estimates

**Figure 2: One of the highest-grade brines globally...**



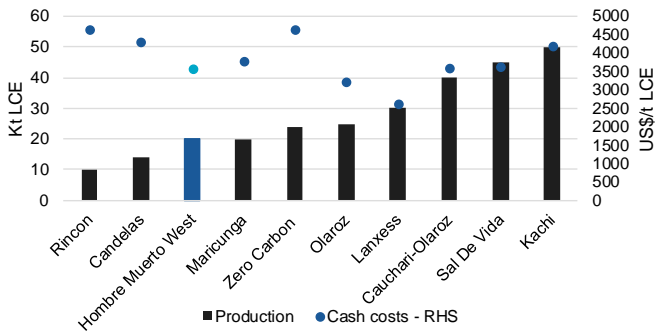
Source: Company reports, Canaccord Genuity estimates

**Figure 3: ...with very low impurities**



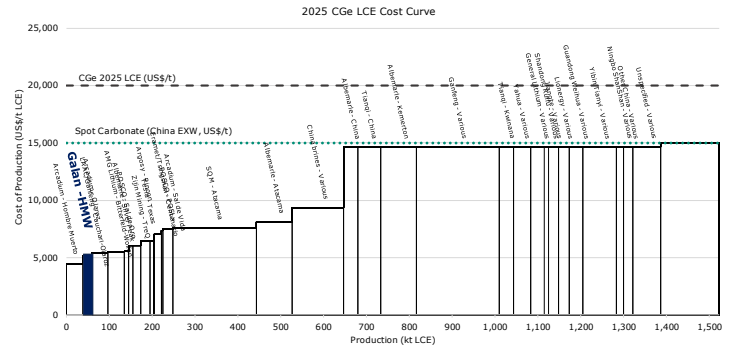
Source: Company reports, Canaccord Genuity estimates

**Figure 4: Select brine producer/developer comps**



Source: Company reports, Canaccord Genuity estimates

**Figure 5: Illustrative cost curve – globally competitive**



Source: Company reports, Canaccord Genuity estimates

# Appendix: Important Disclosures

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## Investment Recommendation

Date and time of first dissemination: April 22, 2024, 05:05 ET

Date and time of production: April 22, 2024, 21:03 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 04/22/24)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	612	65.95%	22.71%
Hold	139	14.98%	10.07%
Sell	12	1.29%	8.33%
Speculative Buy	157	16.92%	46.50%
	928*	100.0%	

\*Total includes stocks that are Under Review

**Canaccord Genuity Ratings System**

**BUY:** The stock is expected to generate returns greater than 10% during the next 12 months.

**HOLD:** The stock is expected to generate returns from -10% to 10% during the next 12 months.

**SELL:** The stock is expected to generate returns less than -10% during the next 12 months.

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\*As of January 1, 2024, the Ratings History Chart will reflect the new Canaccord Genuity Ratings System as defined above.

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**SPECULATIVE:** The stock bears significantly above-average risk and volatility. Investments in the stock may result in material loss.

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Canaccord Genuity received a fee for its role as Joint Lead Manager to Galan Lithium’s \$19.5m equity raise on 31 January 2024.

**Galan Lithium Limited Rating History as of 04/19/2024**



Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

## Past performance

In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

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