

Galena Mining Ltd

(G1A \$0.35) Buy

Analyst
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Date
September 2019

Price Target
\$0.55/sh

Investment Case

Since its IPO in Sept'17 G1A has performed exceptionally well as it proved up a high grade lead resource and delivered a very robust DFS. The funding deal with Toho is exceptional, potentially ensuring no further equity dilution. The cashflow potential of Abra is significant with EBITDA of >\$100m pa once fully developed. We maintain our Buy and increase our PT to \$0.55/sh (from \$0.50/sh).

Comments

- G1A pulled off a stunning deal to sell a 40% project interest for A\$90m to Toho Zinc via a JV project arrangement. The deal has completed and G1A has rec'd \$30m in cash thus far. The remaining \$60m is payable on confirmation of project financing debt for the Project.
- G1A has delivered an excellent DFS – broadly in line with the PFS estimates but has added an additional 2yrs to mine life (now 16yrs) with only a modest 10% increase in capex from 154m to \$170m. Other operating parameters were the same with annual production of ~ 95kt of Pb and 805koz of Ag pa for 16 yrs.
- Operating costs fell by 8% to US\$0.44/lb and the pre tax NPV8 increased by 5% to \$553m. A post tax NPV8 at US\$0.92/lb Pb delivered A\$381m and IRR of 32%. Annual EBITDA is estimated at \$114m once in steady state production.
- Since DFS drilling has continued to return some excellent high grade results with a new resource estimate due in 4th Q CY'19. Part of this program includes a 25m x 25m drill program over the initial 3 yrs production horizon and de risk the mine plan.
- Kingfisher Capital (Tim Roberts) increased his interest in G1A to 14.7% after acquiring 30.4m fpo shares from Directors after these shares were released from escrow (2yrs after IPO) the balance of 75.1m shares have been voluntarily escrowed for a further 12 months.
- Our valuation has increased to \$0.59/sh and longer term upside to \$0.80/sh upon successful execution and delivery as a long life, mid cap lead producer.

Val/ Sh		Lead \$									
\$0.59		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
AUD/USD	15%	\$0.20	\$0.27	\$0.34	\$0.41	\$0.48	\$0.54	\$0.61	\$0.68	\$0.75	
	10%	\$0.23	\$0.30	\$0.37	\$0.44	\$0.51	\$0.58	\$0.65	\$0.72	\$0.79	
	5%	\$0.25	\$0.33	\$0.40	\$0.47	\$0.55	\$0.62	\$0.70	\$0.77	\$0.85	
	0%	\$0.28	\$0.36	\$0.44	\$0.51	\$0.59	\$0.67	\$0.75	\$0.83	\$0.90	
	-5%	\$0.31	\$0.39	\$0.47	\$0.56	\$0.64	\$0.72	\$0.80	\$0.88	\$0.97	
	-10%	\$0.34	\$0.43	\$0.52	\$0.60	\$0.69	\$0.78	\$0.86	\$0.95	\$1.04	
	-15%	\$0.38	\$0.47	\$0.56	\$0.66	\$0.75	\$0.84	\$0.93	\$1.02	\$1.12	

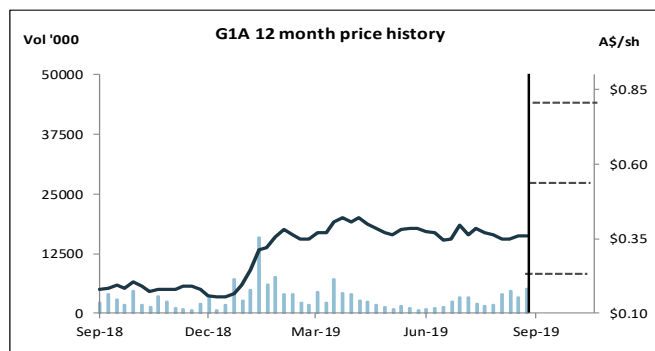
Val/ Sh		Silver \$									
\$0.59		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%	
AUD/USD	15%	\$0.46	\$0.46	\$0.47	\$0.47	\$0.48	\$0.48	\$0.48	\$0.49	\$0.49	
	10%	\$0.49	\$0.50	\$0.50	\$0.51	\$0.51	\$0.51	\$0.52	\$0.52	\$0.53	
	5%	\$0.53	\$0.54	\$0.54	\$0.54	\$0.55	\$0.55	\$0.56	\$0.56	\$0.57	
	0%	\$0.57	\$0.58	\$0.58	\$0.59	\$0.59	\$0.60	\$0.60	\$0.60	\$0.61	
	-5%	\$0.62	\$0.62	\$0.63	\$0.63	\$0.64	\$0.64	\$0.65	\$0.65	\$0.66	
	-10%	\$0.67	\$0.68	\$0.68	\$0.68	\$0.69	\$0.69	\$0.70	\$0.70	\$0.71	
	-15%	\$0.73	\$0.73	\$0.74	\$0.74	\$0.75	\$0.75	\$0.76	\$0.76	\$0.77	

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 RESOURCES QUARTERLY SEPTEMBER 2019

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Share Price Performance



Market Statistics

Market Statistics		Year End 30 June	
Share Price	\$0.35 A\$/sh	Directors	
Issued Capital		A. Byass	NE Chairman
Fully Paid Ord	375.6 m	A. Molyneux	Managing Dir
Options (var. prices)	34.7 m	J. Downes	NE Dir
Total Dil. FPOrd	365.7 m	T. James	NE Dir
		T. Morrison	NE Dir
Market Cap (dil)	\$140 m	Shareholders	
Enterprise Value	\$103 m	Dir and Mgt	30.0%
Cash	\$37 m	Kingsfisher Capital	14.9%
Debt	\$0 m		

Our Market Sensitivity

Valuation \$0.59/sh
Price Target \$0.55/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 \$0.20/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% project interest

Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23
Silver (US\$/oz)	\$15	\$16	\$18	\$18	\$18
Lead (US\$/lb)	\$0.91	\$0.95	\$0.90	\$1.00	\$1.00
AUDUSD	\$0.72	\$0.69	\$0.70	\$0.70	\$0.70

Asset Valuation	A\$m	A\$/sh
Abra (60%)	188	0.46
Hedging	-	-
Corporate	(21)	(0.05)
Exploration	35	0.09
Unpaid Capital	4	0.01
Cash	37	0.09
Debt	0	0.00
Total @ 10%	243	0.59

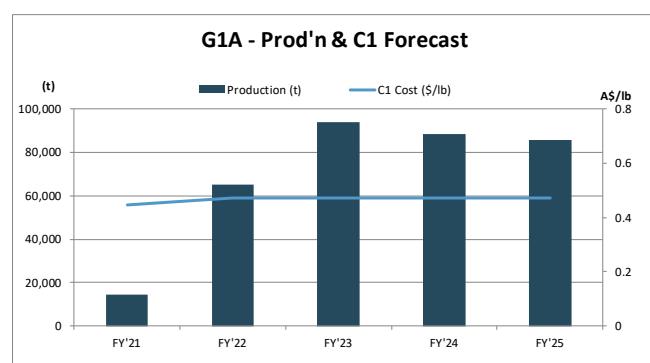
F/Cast Production	2019f	2020f	2021f	2022f	
Abra 100%					
Pb in Concentrate	kt	-	-	15.4	68.4
Cash Costs (C1)	US\$/lb	-	-	0.45	0.47
Cash Costs (incl Roy)	US\$/lb	-	-	0.57	0.61
Total Costs	US\$/lb	-	-	0.91	0.69

Assumptions	US\$/lb	0.91	0.95	0.90	1.00
Spot Pb Price	US\$/lb	0.91	0.95	0.90	1.00
FX Rate ass'd	A\$/US\$	0.72	0.69	0.70	0.70

Ratio Analysis (A\$m)	2019f	2020f	2021f	2022f
Cashflow	(6)	(8)	6	54
Cashflow per Share	(1)	(2)	1	13
Cashflow Ratio (x)	-	(17.7)	23.5	2.7
Earnings	(6)	(12)	(14)	38
Earnings per Share	(1)	(3)	(3)	9
EPS Growth (%)	na	-82%	13%	-373%
Earnings Ratio (x)	na	(11.6)	(10.3)	3.8
Enterprise Value	130	62	136	95
EV : EBITDA	na	(10.3)	20.0	1.5
EV : EBIT	na	(7.3)	(6.9)	1.9
NDebt:NDebt+Equity(%)	-77%	-777%	-5%	-65%
Interest Cover (x)	na	na	na	na
EBIT Margin (%)	243293975302%	na	-34%	25%
Return on Equity (%)	-26%	-14%	-18%	33%
Return on Assets (%)	-26%	-6%	-7%	21%
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%

Reserves and Resources

	Mine Plan Reserve		Mineral Resources			
	ore	grade	metal	ore	grade	metal
	mt		kt	mt		kt
Abra	10.3	8.8%	906	36.7	7.3%	2679
Total contained Pb			906			2,679



Profit and Loss (A\$m)	2019f	2020f	2021f	2022f
Pb Revenue	(0)	-	44	217
Hedging Revenue	-	-	-	-
Deferred Revenue	-	-	-	-
Interest Income	0	2	1	0
Other Income	-	-	-	-
Total Revenue	0	2	45	217
Operating Costs	(0)	-	29	137
Dep/Amort	-	-	16	16
WriteOff (expl'n)	-	-	-	-
O/H + New Bus Dev	6	10	10	10
Provisions	-	4	4	-
EBITDA	(6)	(10)	5	70
EBIT	(6)	(14)	(15)	54
Interest Expense	-	-	-	-
NPBT	(6)	(12)	(14)	54
Tax	-	-	-	16
Minority Interest	-	-	-	-
NET PROFIT	(6)	(12)	(14)	38
Net Abnormal Gain	-	-	-	-
Net Profit After Abnormal	(6)	(12)	(14)	38

Cash Flow (A\$m)	2019f	2020f	2021f	2022f
Net Profit	(6)	(12)	(14)	38
+ Working Capital Adj	-	-	-	-
+ Dep/Amort	-	-	16	16
+ Provisions & W/O	-	4	4	-
+ Tax Expense	-	-	-	16
- Deferred Revenue	-	-	-	-
- Tax Paid	-	-	-	16
= Operating Cashflow	(6)	(8)	6	54
-Capex + Development	-	80	80	12
-Exploration	-	-	-	-
-Assets Purchased	-	-	-	-
+Asset Sales	-	-	-	-
+Other	-	-	-	-
= Investing Cashflow	-	(80)	(80)	(12)
+ Equity Issues (Rts,plc,opts)	16	60	-	-
+Loan Drawdown/Receivable	-	100	-	-
+Loans from(to) other entities	-	-	-	-
-Loan Repayment	-	-	-	-
-Dividends	-	-	-	-
= Financing Cashflow	16	160	-	-
Period Surplus	10	72	(74)	42
FX Adjustments	-	-	-	-
CASH	10	78	4	45

Balance Sheet (A\$m)	2019f	2020f	2021f	2022f
Assets				
Cash	10	78	4	45
Current Receivables	13	14	14	14
Other Current Assets	-	36	36	36
Non-Current Assets	-	98	162	158
Total Assets	23	226	216	254
Liabilities				
Borrowings	-	-	-	-
Current Accounts Payable	-	40	40	40
Other Liabilities	-	98	98	98
Total Liabilities	-	138	138	138
Net Assets	23	88	78	116

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