

27 July 2016

ASX CODE: GPX
Speculative Buy
Capital Structure

Sector	Materials
Share Price (A\$)	0.47
Fully Paid Ordinary Shares (m)	55.0
Options (ex 25c, exp 6/16) (m)	24.0
Market Capitalisation (Dil) (A\$m)	37.1
Enterprise Value (Dil) (A\$m)	23.8
Share Price Year H-L (A\$)	0.595-0.365
Approx Cash (A\$m)	5.0

Directors & Management

Stephen Dennis	Non-Executive Chairman
Phil Hoskins	Managing Director
Grant Davey	Non-Executive Director
Stuart McKenzie	Company Secretary

Major Shareholders

MMG Exploration Holdings	6.4%
UBS Nominees	5.8%
Christopher Shun	3.4%

Analyst

GT Le Page +61 8 6380 9200

Share Price Performance


Graphex Mining Ltd

Offtake/Funding negotiations ongoing...drilling to commence

Offtake/Funding Progressing

- **GPX** is progressing negotiations with China Gold Group Investment Co. Ltd ('**China Gold**') and China National Building Material Group Corporation ('**CNBM**') in respect to providing part or all of the A\$100m CAPEX together with offtake for graphite from the Company's 100% owned Chilalo Project (Tanzania).
- The exclusivity period is coming up on 31/7/2016 however we anticipate commercial negotiations will continue. The Chinese parties are still undertaking metallurgical testwork (a pre-requisite to any funding/offtake arrangements) and there are inevitable delays in dealings with large corporates/governments. Both of these factors have contributed to the extended timelines surrounding commercial negotiations.

Compelling Economics ...with resource upside

- Our initiating coverage due next month is likely to show an attributable after tax NPV of >A\$100 million based on a 10 year mine life at a modest production rate of approximately 69,000 tpa and average head grade of 10.85% TGC (based on throughput of 630,000 tpa). Plenty of scope to increase the production profile.
- **GPX** has today announced a 1,200 RC program at Chilalo with an exploration target of 100-300Mt@ 3-11% TGC. A resource of this size has the potential to support a mine life well in excess of 50 years even with a doubling of the production profile. The project also has infrastructure advantages—200km from the deep water port of Mtwara. 150km of this road is sealed and Government support for road upgrades is likely.
- **China Gold** and **CNBM** are key players in the global graphite markets, particularly with respect to the expandable graphite market, where its application as a flame retardant material is critical in meeting the new legislative guidelines in China.

Price Catalyst

- Offtake/project financing, granting of the mining license (August 16) and regional exploration drilling results from Shimba. Note that **Magnis Resources Ltd** (ASX: **MNS**) (situated 13km from Chilalo) has a market capitalisation of A\$431m based on a 174Mt @ 5.4% TGC—key takeaway—this is as much a resource play as a near term cash flow play.

Action and Recommendation

- **RMR** is maintaining its speculative buy rating on **GPX** on the back of the imminent granting of the mining lease, likelihood of further exploration success and additional JORC resources at Shimba, the conclusion of offtake and funding negotiations (**China Gold** and **CNBM**) and the attractive project economics. We will quantify the financial metrics in our initiating coverage in coming weeks.

Registered Offices

Perth

Level 1, 143 Hay St
Subiaco WA 6008

PO Box 154
West Perth WA 6872

Email / Website

info@rmresearch.com.au
www.rmresearch.com.au

Phone: +61 8 6380 9200

Fax: +61 8 6380 9299

RM Research Recommendation Categories

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Buy	Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.
Speculative Buy	We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.
Hold	A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.
Sell	Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

Disclaimer / Disclosure

This report was produced by RM Research Pty Ltd, which is a Corporate Authorised Representative (343456) of RM Capital Pty Ltd (Licence no. 221938). RM Research received a payment for the compilation and distribution of this research report. RM Research Pty Ltd has made every effort to ensure that the information and material contained in this report is accurate and correct and has been obtained from reliable sources. However, no representation is made about the accuracy or completeness of the information and material and it should not be relied upon as a substitute for the exercise of independent judgment. Except to the extent required by law, RM Research Pty Ltd does not accept any liability, including negligence, for any loss or damage arising from the use of, or reliance on, the material contained in this report. This report is for information purposes only and is not intended as an offer or solicitation with respect to the sale or purchase of any securities. The securities recommended by RM Research carry no guarantee with respect to return of capital or the market value of those securities. There are general risks associated with any investment in securities. Investors should be aware that these risks might result in loss of income and capital invested. Neither RM Research nor any of its associates guarantees the repayment of capital.

WARNING: This report is intended to provide general financial product advice only. It has been prepared without having regard to or taking into account any particular investor's objectives, financial situation and/or needs. Accordingly, no recipients should rely on any recommendation (whether express or implied) contained in this document without obtaining specific advice from their advisers. All investors should therefore consider the appropriateness of the advice, in light of their own objectives, financial situation and/or needs, before acting on the advice. Where applicable, investors should obtain a copy of and consider the product disclosure statement for that product (if any) before making any decision.

DISCLOSURE: RM Research Pty Ltd and/or its directors, associates, employees or representatives may not effect a transaction upon its or their own account in the investments referred to in this report or any related investment until the expiry of 24 hours after the report has been published. Additionally, RM Research Pty Ltd may have, within the previous twelve months, provided advice or financial services to the companies mentioned in this report. As at the date of this report, the directors, associates, employees, representatives or Authorised Representatives of RM Research Pty Ltd and RM Capital Pty Ltd may hold shares in this company.