

24 May 2017

ASX CODE: GPX
Speculative Buy
Capital Structure

Sector	Materials
Share Price	A\$0.32
Fully Paid Ordinary Shares	57.8m
Options (ex 25c, exp 6/19)	12.4m
Options (ex 20c, exp 6/19)	3.0m
Options (ex Nil, exp 17/19/21)	3.4m
Market Capitalisation (Diluted)	A\$24.5m
Share Price Year High-Low	A\$0.595-0.315
Approx Cash	A\$1.8m

Valuation (Mid Case)

Chilalo	A\$109.19m	A\$1.42
Exploration	A\$20.7m	A\$0.27
Cash + Opt ex	A\$4.2m	A\$0.05
Corporate	(A\$15m)	(A\$0.19)
TOTAL	\$118.9m	A\$1.55

Directors

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

Major Shareholders

JP Morgan Nominees	6.7%
MMG Exploration Holdings	6.2%
One Managed Inv Funds	5.0%

Analyst

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Share Price Performance


Graphex Mining Ltd

Funding and Offtake Term Sheet executed with Chinese Syndicate ...valuation re-rating

Offtake/Funding Agreement Executed

- The Company announced (24/5/2017) that it has executed a non-binding Term Sheet for an equity Joint Venture, Offtake Agreement and prospective financing agreement ("the Agreement") with a syndicate led by **CN Docking** (a subsidiary of China National Building Material Group Corporation-('CNBM')). Formal agreements to supersede this Term Sheet should be finalised within three months.
- The syndicate will invest US\$18-20 million (A\$24-A\$27 million) for a 50% direct interest in the Chilalo Project through an incorporated joint venture.
- A total of US\$13 million (A\$17.6 million) is due to be transferred by 3 June 2017 to a nominated Hong Kong account to be applied to the joint venture. A break fee of US\$1.8 million (A\$2.4 million) applies if either party enters into an alternative transaction within three months of execution of the Term Sheet.
- Debt guarantees (if required) to be provided by **GPX** and the syndicate with a projected debt/equity ratio of approximately 65% (pre-production capital costs). **RM Research** believes this ratio may decrease on the back of potential CAPEX reductions.
- The agreement includes an offtake for a minimum of 50% of graphite production (at market prices) leaving the joint venture free to sell the balance of production to other markets.

Construction

- The JV will appoint a Chinese EPC as part of the final engineering design and associated EPC appointment that is hoped will result in a significant reduction in the initial US\$74 million CAPEX estimate.

Valuation Upgrade

- Our mid-case valuation of A\$1.55 scenario is now based on a 20% discount (30% from our March 2017 report) to our attributable after tax NPV₁₀ of A\$133 million (50% project interest) over an 18 year mine life at an attributable production rate of 34,500 tpa @ 10.85% TGC and a basket graphite price of A\$1,620/tonne. There remains upside to this basket price particularly in the expandable graphite market as an application in flame retardant material.

Price Catalyst

- Finalisation of debt finance and final JV agreements with Chinese counterparties.

Action and Recommendation

- GPX** is trading at a 79% discount to our 12 month A\$1.55 mid case target based primarily on the risked NPV₁₀ of Chilalo. **RMR** is maintaining a speculative buy.

EARNINGS FORECASTS	2017	2018	2019	2020
Net Profit (A\$m)	-	-	34	34
Cash Flow (A\$m)	-	-	645	645
CFPS (c)	-1.5	-1.5	17.1	11.9
CFM (x)	(2.5)	(3.0)	28.0	22.8
EPS (c)	-0.04	-0.04	0.37	0.30
PER (x)	(7.4)	(8.1)	0.9	1.1
DPS (c)	(0.03)	(0.02)	0.22	0.16
Div Yield (%)	(12.3)	(15.9)	1.4	2.1

ESTIMATE OF VALUE

In accordance with the Term Sheet, our valuation scenario (Table 1, Figure 1) assumes a fully funded Chilalo Project leaving **GPX** with a 50% equity interest and no further dilution of the Company and assuming a debt: equity ratio of approximately 65% based on the current CAPEX estimate of US\$74 million (A\$100 million). We consider the upside is the exposure to the high value expandable graphite together with the likely increase in plant throughput/mine life to meet graphite demand.

Finally, a look at our peer analysis leaves **RM Research** in no doubt that the recent JORC Resource increase should have a very significant impact on the valuation, and in turn the share price of **GPX** in the short to medium term given the A\$336 million enterprise value for **Magnis Resources** (based on the Nachu Graphite Project JORC Reserves of 76Mt @ 4.8% TGC for 3.6Mt of contained graphite). This equates to an EV of around A\$92 per tonne of contained JORC Reserves. The weighted average EV/tonne JORC Reserve of contained graphite for the sample of companies is A\$35/tonne.

Our scenarios for exploration factor in attributable JORC Reserve increases of 10Mt, 20Mt and 30Mt (attributable of 5Mt, 10Mt and 15Mt) @ 10.87% TGC for our lower case, mid case and upper case scenarios based on an EV/tonne of JORC Reserve of a median of A\$18/tonne for our comparable companies (Table 6). Our valuation of the operating mine assumes the base case scenario as set out in the Pre-Feasibility Study.

Our Upper Case scenario of \$1.97 per Share (Table 1, Figure 1) represents our un-risked attributable NPV₁₀ based on a A\$133m attributable NPV₁₀ over an 18 year mine life (assuming a constant annual OPEX for the life of mine). This is not unreasonable given the similar grade and configuration of the high grade JORC Resource. Our mid-case scenario discounts this by 20% for completion risk and our lower case variable is the risked NPV₁₀ on the most recent 10 year mine life scenario (2015 PFS). We believe annual production increases are highly likely given the current tightness in graphite markets.

VALUATION	Mid Case		Lower Case		Upper Case	
	\$	\$/Sh	\$	\$/Sh	\$	\$/Sh
Chilalo (NPV ₁₀)	\$109.19	\$1.42	\$76.43	\$1.00	\$132.89	\$1.73
Exploration	\$20.65	\$0.27	\$10.33	\$0.13	\$30.98	\$0.40
Cash + Liquid Sec	\$4.02	\$0.05	\$4.02	\$0.05	\$2.40	\$0.03
Corporate	-\$15.00	-\$0.20	-\$15.00	-\$0.20	-\$15.00	-\$0.20
TOTALS	\$118.86	\$1.55	\$75.78	\$0.99	\$151.27	\$1.97

Table 1: Graphex Mining Valuation mid case, lower case and upper case scenarios.

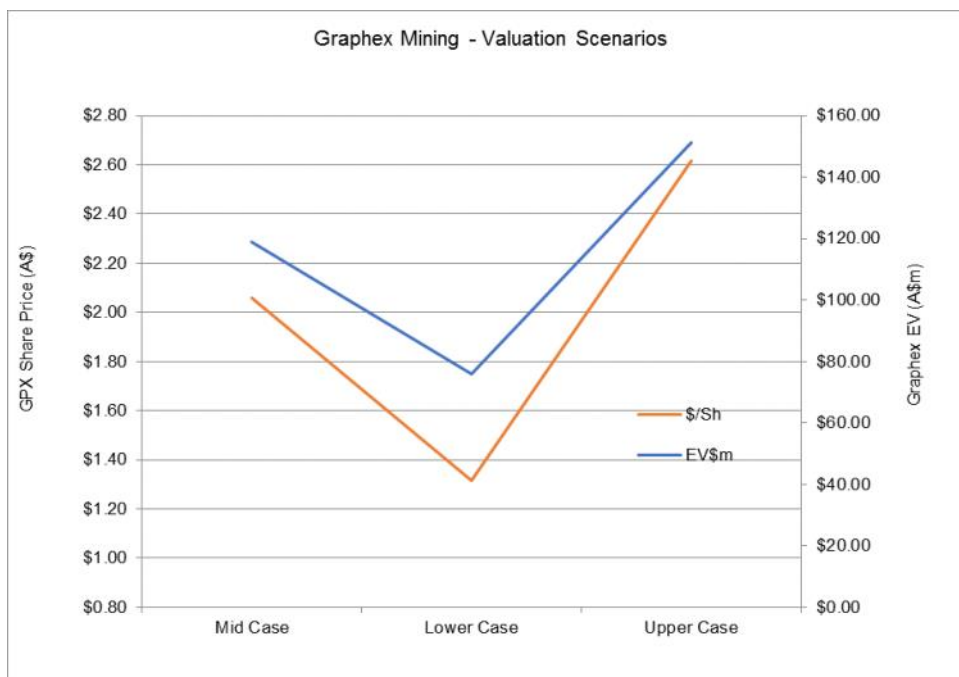


Figure 1: Graphex Mining Valuation Summary.

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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.

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