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Graphex Mining Limited (GPX AU, \$0.30, market cap. A\$17m)

Partners commitment to the funding of Chilalo reaffirms demand for expandable graphite from this high quality project

- We are pleased to see that the Chinese partners for the Chilalo project, led by SOE CN Docking, remain committed. This follows meetings between GPX's CEO and the partners in China early this week.
- Despite uncertainties driven by changes to Tanzania's Mining Act, we are greatly comforted that the Chinese partners committed so quickly to their involvement in the project. This is a testament to (1) the quality of the project, (2) the strong demand for non-Chinese expandable graphite and (3) the belief by the Chinese in the current GPX management team to deliver a mining operation.
- In our recent report, our 'best case' outcome was to assume status quo with the partnership agreement, with the addition of the 1% export clearance fee, and with the 'gifting' of the 16% free carried interest to the Tanzanian government.
- It's worth noting that while Tanzania have hit the gold and base metals groups with an additional 2% royalty (with the total top-line take now of 7%), the graphite companies were untouched, remaining at 3%.
- What has now emerged is that the Chinese will reduce their equity contribution pro-rata to their final 42% equity in the project, so the previous US\$18-20m contribution reduces to US\$15-17m.
- Under the earlier scenario, we had GPX pretty well fully funded into the project. There was a small deficit which we said would be covered by capex savings for the final project.
- Under the current scenario we can see GPX's deficit expanding modestly, to the extent the company might need to consider an equity raise to fully fund its 50% share of the project. We have therefore incorporated a modest equity raise at the current share price into our valuation. We think this is a conservative assessment of GPX's valuation for the following reasons:
 - We have spoken with consultants involved in the PFS (Battery Limits) who echo GPX's publicly stated view that capex will be lower than quoted in the study.
 - GPX may see capital inflow with the exercise of outstanding options, all of which are in the money. These total some \$3.5m.

- Furthermore, there might be the opportunity to gear the project beyond the target of 65% (debt/equity). Based on our debt assumption of A\$58m, the project's EBIT to interest is forecast to be a reasonably low 6x.
- In our revised valuation, we have assumed that GPX will not be required to deliver a 50% FCI to the Tanzania Government. This provision appears to be applicable to existing mining operations which have enjoyed historical tax relief.
- Our revised valuation is as follows. Note there is no change to our Chilalo valuation, which had incorporated the additional 1% royalty announced several months ago.

Graphex NAV			Notes
Cashflow NPV (10%, post-tax, real)	US\$m	165.9	
Capex	US\$m	67.0	Assumes contract mining
Equity NPV	US\$m	232.9	
Exchange rate	AUDUSD	0.75	
Equity NPV	A\$m	310.6	
Project debt	A\$m	(58.1)	Reduce NPV by debt component
NPV less debt	A\$m	252.5	
Ownership by GPX	%	42%	Sell down to 42% (16% FCI to Tz Govt)
Implied equity	A\$m	106.0	
Cash	A\$m	5.2	Incl. cash from option exercise
Corporate office cost	A\$m	(20.0)	PV, after tax
Corporate NAV	A\$m	91.2	
Fully diluted shares outstanding	m shares	86.6	Incl. options
Implied valuation per share	A\$	1.05	

(Note: The above valuation is an accounting/finance valuation based upon the company's financials and our estimates, and is not a share price target or prediction)

Looking forward, we see the following events as important:

- A country and site visit by the Chinese partners over the next few weeks.
- Completion of the joint venture agreement. Given the Tanzanian speedbump, there will likely be a few delays here.
- Identification of an EPC contractor.
- Commencement of civils, perhaps late 2018.

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