

# Energizer Resources Inc.

(EGZ-T: C\$0.06) intraday

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**BUY, Speculative Risk**  
Dundee target: C\$0.40

## Battery Grade Spherical Graphite Created from Molo Concentrate

EGZ-CA	New	Last
Rating	--	Buy
Target	--	C\$ 0.40
Risk	--	Speculative
Projected Return	--	567%
DCF multiple	--	0.60x
2016 - 10% DCF Corporate Value	--	0.11
2015 - Cash and Debt	--	0.00
2015 - Additional Resource Value	--	0.20
NAV	--	0.31
P/NAV	--	0.19x

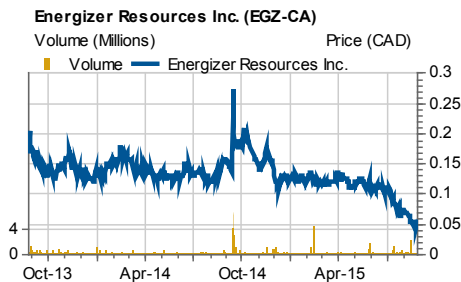
Company Data		
Last Price		C\$ 0.06
52-week Range	C\$ 0.05 -	C\$ 0.31
Market Cap (\$MM)		C\$ 20
Enterprise Value (\$MM)		C\$ 17
Shares Outstanding - Basic (MM)		329.5
Shares Outstanding - FD (MM)		358.0
Avg Volume - 100d (000 shares/day)		261.2
Cash est. (\$MM)		2.47
Debt est. (\$MM)		0.00
Working Capital (\$MM)		2.32

Forecast	2013A	2014A	2015E	LT
Graphite (US\$/t)	1,500	1,400	1,316	1,321
Realized Price (US\$/t)	0	0	0	1,321

All Figures in C\$ Unless Otherwise Noted

Source: Company Reports, FactSet, Dundee Capital Markets

### EGZ-T: Price/Volume Chart



Source: Factset

### Company Description

Energizer Resources is a graphite development company focused on its 100% owned Molo Graphite project in Madagascar. Following a positive PEA, the company is now working on its full DFS planned for Q1/15. This is a potentially massive, large flake project.

**We recommend Energizer with a BUY and C\$0.40 target price.** R&D continues as Molo graphite concentrate from Madagascar is tested for suitability by potential end users. Initial results were positive as spherical graphite was created and all specifications and quality requirements for battery anode material have been met. This provides potential for the Molo deposit to be an alternative and natural source of spherical graphite concentrate for the purpose of supplying battery anode material for the EV market. Molo con shows good potential compared to current suppliers of the two unnamed but apparently leading companies (1-manufacturer of battery anode material, and 2-supplier of graphite for EVs) that completed the testing. Surface area, milling behaviour, tapping density, ash content, impurities and electrochemical performance (first cycle efficiency and third cycle capacities) were analyzed. Molo now qualifies for the next stage - additional bulk testing downstream on each respective potential customer's supply chains. Results from a third spherical graphite producer are also expected. Discussions are underway regarding timelines and logistics, including discussions on potential off-take agreements. We believe this will determine whether the 2018 start-up of the Molo graphite mine in Madagascar remains on track.

**Financing risk is a main stumbling block these days,** despite the positive project attributes (largely technical risks). We believe reducing this financing risk is the key, including challenges that come from both the current equity markets and its Madagascar site. Investor sentiment notwithstanding, we see Energizer's African site location as less of an issue. Molo is relatively close to production, close to Asian and European markets, Energizer is working with experienced African consultants and mining contractors, and there are funds/institutions focused on Third World investment. A strategic partnership may be required in order to fully fund this operation.

**This is where R&D comes in.** These seemingly endless studies testing the suitability of Molo as a high quality spherical graphite source are an important step. Having potential customers agree and sign off-take agreements to cover initial capital costs or to provide commercial banks (and equity investors) enough comfort to fund the project is needed. Initial results show that all specifications and quality requirements for battery anode material production have been met. While EVs will likely become a chief market, there are other options which EGZ has been exploring. In July, testing demonstrated that Molo flakes were deemed an acceptable source of graphene for the development of graphene inks ([see 23-Jul-15 comment](#)). These inks can carry an electrical charge for use on plastics, circuit boards or clothing. Initial tests show improvement over conventional carbon inks.

- Spherical graphite testing was performed by 1) a Japanese manufacturer of battery anode material; & 2) European supplier of spherical graphite for EVs.

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- Two separate 20kg samples ranging from -200 mesh (small / fine flake) to +32 mesh (extra large / jumbo flake) were used by each testing facility
- Graphite was purified with standard methods, spherically cut to specifications for lithium-ion batteries used by a major car company that builds EVs
- Spheroidization used two different rounding steps and testing was completed with shorter and longer rounding times

**Positive project attributes.** EGZ has massive resources and reserves; superb geology and setting; good flake distribution; high purity graphite concentrate; improving infrastructure and development is moving forward. A Q1/15 DFS provided wholesale improvements over the two-year old PEA across the board: a refined flow sheet, better flake distribution, higher end product purity, higher realized price, halved strip ratio, and extended LOM ([see note](#)). The FS contemplates post-tax NPV of US\$390 MM, 31.2% IRR, 4.84 yr payback, and expected realized prices of US\$1,689/t. Total initial Capex totals US\$188 MM; site operating costs US\$353/t, US\$690/t including transportation to Europe. We also expect short permitting time horizons in Madagascar, which is located close to many end users.

### Financing is the Key Risk

- **Equity markets and Madagascar may worry investors.** Financing will likely be the main issue from here on out, and may be the reason for any slippage in development time horizons. The new study provides for 50% equity and 50% debt at LIBOR +5.75% (LIBOR escalated to 3.54% by 2022). We estimate that Energizer may require upwards of US\$200 MM in order to cover Capex and working capital.
- **Potential for Government and NGO incentives.** The Feasibility Study was required before discussions and negotiations could begin. Protection, savings, tax credits and debt relief may be secured from various groups including ECIC (South African Export Credit Insurance Corporation); World Bank insurance versus political stability, debt agencies and the Government of Madagascar itself. Interest rates could be lowered depending on where debt was obtained and whether that country provided materials for construction (ie: German and South African banks). Madagascar's Large Mining Investment Act (LGIM) provides for negotiations to secure such items at a 22% fixed tax rate, 5 year tax holiday, exemption from VAT and tax, import duties, and royalties.
- **Challenging market.** There isn't that much room today for new graphite material, although that could change by 2017. There is 1.2 MM tpa graphite consumption versus 1.4 MM tpa graphite supply today with demand increasing between 2-8% annually. What is likely as important as overall consumption is the quality of the product. However, with supply-demand near balance, and Energizer (and others) planning on developing their projects, it may be a requirement that end users are ready to step up and help finance the operation, should it create the product that they desire. Madagascar is close to end users in Asia. But for Canadian investors, Madagascar remains a relatively unknown African entity, plus Energizer is up against a couple of peers with Canadian projects who are nearing financing themselves.
- **Attributes that might help lower financing risk:** 1) decreasing timeline to production; 2) demand for high purity product; 3) close to Asian and European markets; 4) funds/institutions/NGOs focused on 3rd world investment; 5) proximity to South Africa; 6) Energizer's good handle on the graphite market. It has extensive intelligence on the market, pricing trends, S&D analysis, both internally and through graphite market expert, Roskill.
- **Off-takes or strategic partner likely required.** Several large entities are looking at helping Energizer with its financing requirements. It includes a variety of institutions including end users, commodity trading houses, banks, Governments, NGOs and capital market brokers. Also a variety of options is apparent - including those looking for strategic ownership (minority and/or majority); strictly debt only, off-takes only; debt and off takes. Many potential partners are likely looking for projects that are large, world class, high quality, near production, likely to be profitable, and de-risked. A significant off-take may be required - initial discussions with potential debtors indicate that this will likely be needed to secure financing. Energizer has no current preference at this time, but will look to the option that is most advantageous to the company.

Energizer Resources (EGZ-T)				EGZ-T	C\$ 0.06
Rating	BUY	US\$ Target	\$0.30	Shares O/S (MM)	329.5
Risk*	Speculative	US\$ Close	\$0.04	Fully Diluted Shares (MM)	358.0
David A. Talbot, VP, Sr. Mining Analyst		C\$ Target	\$0.40	Basic Mkt. Capitalization (\$MM)	19.77
dtalbot@dundee-capitalmarkets.com		C\$ Close	\$0.06	Enterprise Value (\$MM)	17.30

All figures in US\$, unless stated otherwise

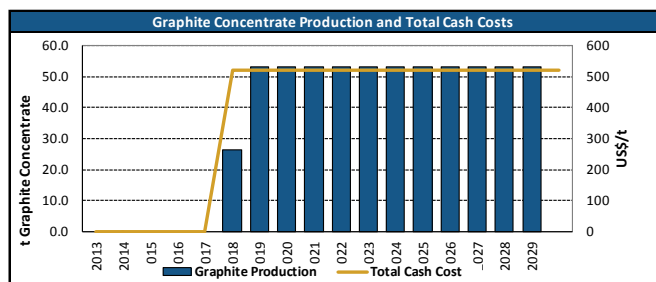
EVALUATION DATA				
Year-end June	2013A	2014A	2015E	2016E
EPS	(\$0.1)	(\$0.1)	(\$0.0)	(\$0.0)
P/E		N/A	N/A	N/A
CFPS before changes in WC	(\$0.1)	(\$0.0)	(\$0.0)	(\$0.0)
P/CF		N/A	N/A	N/A
market cap/reserve t				n/a
enterprise value/reserve t				n/a
market cap/resource t				\$0.14
enterprise value/resource t				\$0.12
ASSUMPTIONS				
Graphite	US\$/t	1,500	1,400	1,316
Exchange	US\$/C\$	0.97	0.91	0.80
Dundee Modelled Reserves and Other Mineralization (MM t)				

RESERVES & RESOURCES					
	Ownership	Tonnes MM t	Grade % Cg	Contained 100% Basis 000's tonnes	EGZ Share
<b>Proven and Probable Reserves</b>					
Molo - Proven		14.2	7.00%	992	992
Molo - Probable		8.4	7.04%	589	589
<b>Total Reserves</b>		<b>22.4</b>	<b>7.02%</b>	<b>1,581</b>	<b>1,581</b>
<b>Measured and Indicated Resources (including reserves)</b>					
Molo - High Grade	100%	40.9	8.09%	3,307	3,307
Molo - Low Grade	100%	43.1	4.72%	2,035	2,035
<b>Total M&amp;I Resources</b>		<b>84.0</b>	<b>6.36%</b>	<b>5,342</b>	<b>5,342</b>
<b>Inferred Resources</b>					
Molo - High Grade	100%	19.2	8.11%	1,560	1,560
Molo - Low Grade	100%	21.1	4.64%	979	979
<b>Total Inferred Resources</b>		<b>40.3</b>	<b>6.29%</b>	<b>2,538</b>	<b>2,538</b>
<b>TOTAL RESOURCE</b>		<b>124.3</b>	<b>6.34%</b>	<b>7,880</b>	<b>7,880</b>

PRODUCTION ESTIMATES (t)					
Year-end June	2015E	2016E	2017E	2018E	2019E
Molo	0	0	0	26,500	53,000
<b>Sub total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26,500</b>	<b>53,000</b>
<b>TOTAL CASH COST ESTIMATES (US\$/t)</b>					
Year-end June	2015E	2016E	2017E	2018E	2019E
Molo	0	0	0	521	521
<b>Wt. Ave.</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

NET ASSET VALUE	0% NAV	US\$/share	10% NAV	US\$/share
(beginning 2016)	(US\$MM)		(US\$MM)	
Corporate DCF	101	0.34	31	0.11
Cash and Debt	0	0.00	0	0.00
Exploration & unmodelled Resources	60	0.20	60	0.20
<b>Total</b>	<b>162</b>	<b>0.55</b>	<b>91</b>	<b>0.31</b>
Dundee DCF Target Multiple				0.6x
<b>Share Price Target</b>				<b>US\$ 0.30</b>
<b>Share Price Target</b>				<b>C\$ 0.40</b>

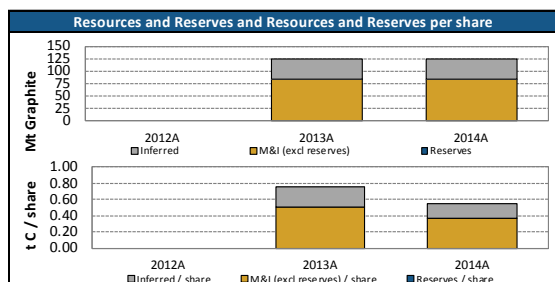
NAV & Price Target Sensitivity to Long-term Graphite Price Assumption					
NAV (C\$/share)	1,000	2,000	3,000	4,000	5,000
0% Discount	0.29	1.09	1.89	2.69	3.49
5% Discount	0.24	0.70	1.17	1.64	2.11
10% Discount	<b>0.21</b>	<b>0.51</b>	0.81	1.11	1.41
15% Discount	0.20	0.41	0.62	0.82	1.03



BALANCE SHEET				(000\$)
Year-end June	2013A	2014A	Q1/15A	
<b>Assets</b>				
Cash & ST Investments	825	1,250		2,469
Other Current Assets	357	595		620
<b>Current Assets</b>	<b>1,182</b>	<b>1,846</b>		<b>3,089</b>
Mineral Properties	39	126		115
Other non-current Assets	-	-		-
<b>Total Assets</b>	<b>1,220</b>	<b>1,972</b>		<b>3,204</b>
<b>Liabilities</b>				
Current Liabilities	803	3,684		768
Capital lease / LT Debt	-	-		-
Other non-current Liabilities	(0)	0		2,332
<b>Total Liabilities</b>	<b>803</b>	<b>3,684</b>		<b>3,100</b>
Capital Stock	75,533	84,534		89,479
Retained/Deficit	(75,116)	(86,245)		(89,375)
<b>Total Shareholder Equity</b>	<b>417</b>	<b>(1,712)</b>		<b>104</b>

EARNINGS SUMMARY				
	2013A	2014A	2015E	2016E
<b>Revenue:</b>				
Graphite	-	-	-	-
Other Revenue	308	96	32	-
<b>Total Revenue</b>	<b>308</b>	<b>96</b>	<b>32</b>	<b>-</b>
Lithium costs	-	-	-	-
Other Costs	3,135	2,447	1,137	-
DD&A	22	44	11	-
Exploration	5,305	7,344	4,703	4,000
S, G&A	1,349	1,358	1,747	4,000
<b>EBIT</b>	<b>(9,502)</b>	<b>(11,097)</b>	<b>(7,567)</b>	<b>(8,000)</b>
FX Gain	331	(60)	(50)	-
Interest	-	-	-	-
Writedown of min. properties	-	-	-	-
<b>EBT</b>	<b>(9,171)</b>	<b>(11,157)</b>	<b>(7,616)</b>	<b>(8,000)</b>
less Tax	-	-	-	-
<b>Net Income (reported)</b>	<b>(9,171)</b>	<b>(11,157)</b>	<b>(7,616)</b>	<b>(8,000)</b>
Average shares (MM)	164.5	225.9	282.0	295.2

STATEMENT OF CASH FLOWS					(000\$)
	2013A	2014A	2015E	2016E	
Net Income (000's\$)	(9,171)	(11,181)	(7,616)	(8,000)	
D, D&A	22	44	11	-	
Future income taxes	-	-	-	-	
Writedown of min. properties	-	-	-	-	
FX Gain	-	-	-	-	
Change in working capital	(615)	792	(1,144)	-	
Other Operating	1,471	1,811	877	-	
<b>Total Operating CF</b>	<b>(8,294)</b>	<b>(8,533)</b>	<b>(7,872)</b>	<b>(8,000)</b>	
Short term investments	-	-	-	-	
Mineral Properties	(10)	-	-	(88,561)	
Acquisitions	-	-	-	-	
Increase in Investments	-	-	-	-	
Other Investing	121	(602)	49	-	
<b>Total Investing CF</b>	<b>112</b>	<b>(602)</b>	<b>49</b>	<b>(88,561)</b>	
Equity financing	4,023	10,659	7,300	-	
Debt Issue	-	-	-	100,000	
Debt Repayment	-	-	-	-	
Other financing	158	(1,099)	(259)	-	
<b>Total Financing CF</b>	<b>4,181</b>	<b>9,560</b>	<b>7,041</b>	<b>100,000</b>	
Foreign Exchange effect	-	-	-	-	
Change in cash	(4,002)	425	(781)	3,439	
<b>Cash &amp; ST Inv., end of year</b>	<b>825</b>	<b>1,250</b>	<b>469</b>	<b>3,908</b>	



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**Recommendations:** BUY: Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. NEUTRAL: Total returns expected to be in line with the overall market. SELL: Total returns expected to be materially lower than the overall market. TENDER: The analyst recommends tendering shares to a formal tender offer. UNDER REVIEW: The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

**Risk Ratings:** risk assessment is defined as Medium, High, Speculative or Venture. Medium: securities with reasonable liquidity and volatility similar to the market. High: securities with poor liquidity or high volatility. Speculative: where the company's business and/or financial risk is high and is difficult to value. Venture: an early stage company where the business and/or financial risk is high, and there are limited financial metrics upon which to base a reasonable valuation.

Investors should not deem the risk ratings to be a comprehensive account of all of the risks of a security. Investors are directed to read Dundee Capital Markets Research reports that contain a discussion of risks which is not meant to be a comprehensive account of all the risks. Investors are directed to read issuer filings which contain a discussion of risk factors specific to the company's business.

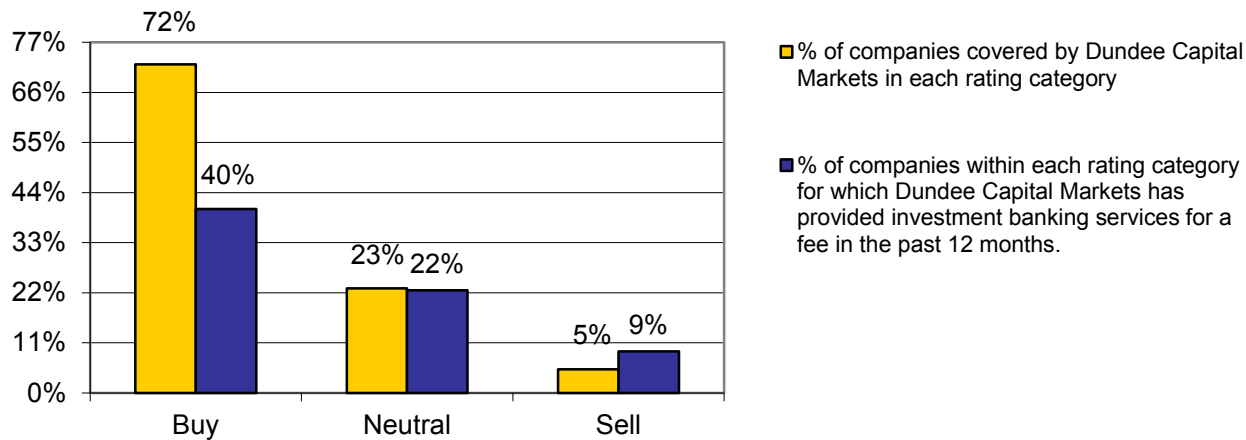
**Medium and High Risk Ratings Methodology:** Medium and High risk ratings are derived using a predetermined methodology based on liquidity and volatility. Analysts will have the discretion to raise but not lower the risk rating if it is deemed a higher risk rating is warranted. Risk in relation to forecasted price volatility is only one method of assessing the risk of a security and actual risk ratings could differ.

Securities with poor liquidity or high volatility are considered to be High risk. Liquidity and volatility are measured using the following methodology: a) Price Test: All securities with a price  $\leq$  \$3.00 per share are considered high risk for the purpose of this test. b) Liquidity Test: This is a two-tiered calculation that looks at the market capitalization and trading volumes of a company. Smaller capitalization stocks ( $<$ \$300MM) are assumed to have less liquidity, and are, therefore, more subject to

price volatility. In order to avoid discriminating against smaller cap equities that have higher trading volumes, the risk rating will consider 12 month average trading volumes and if a company has traded >70% of its total shares outstanding it will be considered a liquid stock for the purpose of this test. c) Volatility Test: In this two step process, a stock’s volatility and beta are compared against the diversified equity benchmark. Canadian equities are compared against the TSX while U.S. equities are compared against the S&P 500. Generally, if the volatility of a stock is 20% greater than its benchmark and the beta of the stock is higher than its sector beta, then the security will be considered a high risk security. Otherwise, the security will be deemed to be a medium risk security. Periodically, the equity risk ratings will be compared to downside risk metrics such as Value at Risk and Semi-Variance and appropriate adjustments may be made. All models used for assessing risk incorporate some element of subjectivity.

**SECURITY ABBREVIATIONS:** NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

**Dundee Capital Markets Equity Research Ratings**



As at June 30, 2015

Source: Dundee Capital Markets