

## Analyst

Stuart Howe 613 9235 1856  
**Associate Analyst**  
 Joseph House 613 9235 1624

## Authorisation

Peter Arden 613 9235 1833

# Whitehaven Coal Ltd (WHC)

## Investor day: Narrabri reset

### Recommendation

**Buy** (unchanged)

### Price

**\$1.585**

### Target (12 months)

**\$2.15** (unchanged)

### GICS Sector

Energy

### Expected Return

Capital growth	<b>36%</b>
Dividend yield	<b>0%</b>
Total expected return	<b>36%</b>

### Company Data & Ratios

Enterprise value	<b>\$2,555m</b>
Market cap	<b>\$1,637m</b>
Issued capital	<b>1,033m</b>
Free float	<b>68%</b>
Avg. daily val. (52wk)	<b>\$20.5m</b>
12 month price range	<b>\$0.83-\$2.80</b>

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	1.09	0.85	2.63
Absolute (%)	45.4	86.5	-39.7
Rel market (%)	37.5	73.7	-39.7

### Absolute Price



SOURCE: IRESS

## Improved outlook for Narrabri & group costs

WHC's Investor Briefing mostly focussed on an updated outlook for Narrabri, substantially de-risking that mine's production and cost outlook. Targeted annual cost savings of \$50m as a result of an operations-wide review of costs and productivity were also flagged. Importantly, WHC noted during the briefing that its balance sheet liquidity position had held since mid-year, despite realised prices lagging the recent thermal coal price rally. WHC made no changes to FY21 guidance. We have made no material changes to our WHC earnings estimates or valuation.

## Narrabri reset de-risks production outlook

At Narrabri, revised longwall sequencing will bring forward access to shallower and less structurally complex coal geology. This should result in lower risk production and improvements to unit costs. From FY22, the introduction of Cut & Flit mining on the perimeter of the Reserve provides a low-capex opportunity for incremental volumes of around 600ktpa. From around FY25, WHC plan to add a second longwall miner, enabling a smoother production profile in the lead-up to the full Stage 3 Extension.

Maules Creek coal seam access is improving and in-pit waste dumping ramping up, both of which should improve consistency in coal quality and lower unit costs. The autonomous waste haulage program is also increasing productivity at this mine.

WHC's two growth projects remain on ice. Any change to this status is not expected until FY22 and requires sustained improved thermal coal pricing. Updated Resources and an initial Reserve for Winchester South are expected to be released next week.

## Investment thesis: Buy, Target Price \$2.15/sh

WHC's operational outlook is improving amid strengthening thermal coal markets and the company's undeveloped projects provide future growth opportunities. WHC is one of few ASX-leverages to thermal coal prices. Our Target Price of \$2.15/sh is based on our valuation of WHC's operating assets only.

### Earnings Forecast

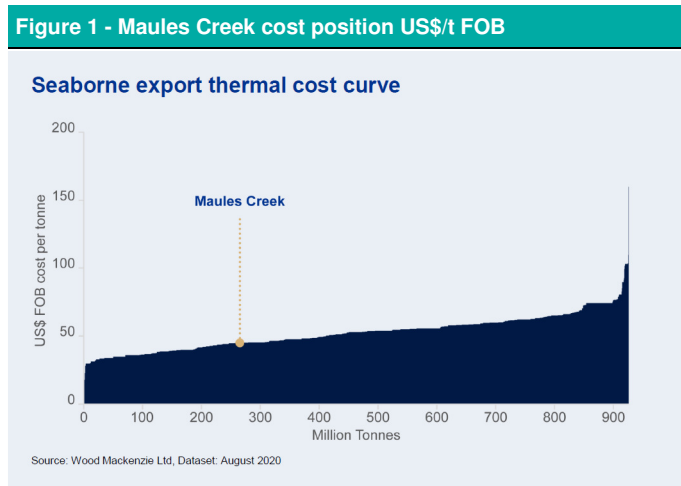
Year ending 30 June	2020a	2021e	2022e	2023e
Sales (A\$m)	1,725	1,598	2,009	1,989
EBITDA (A\$m)	306	255	525	523
NPAT (reported) (A\$m)	30	(23)	153	187
NPAT (adjusted) (A\$m)	30	(23)	153	187
EPS (adjusted) (cps)	3	(2)	15	18
EPS growth (%)	-94%	-175%	na	22%
PER (x)	54.1	(70.5)	10.6	8.7
FCF Yield (%)	-7%	5%	20%	20%
EV/EBITDA (x)	8.4	10.1	4.9	4.9
Dividend (cps)	1.5	-	4.0	9.0
Yield (%)	1%	0%	3%	6%
Franking (%)	0%	0%	100%	100%
ROE (%)	1%	-1%	5%	5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

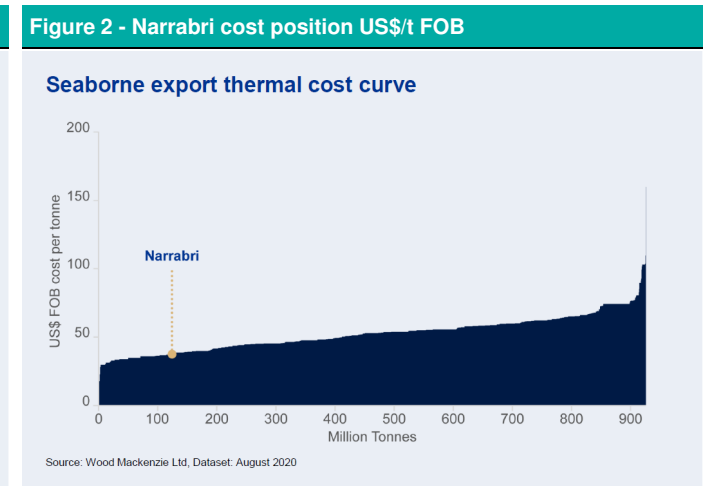
# Investor day: Narrabri reset

The following are what we consider the key slides from WHC’s presentation.

## Key projects are cost competitive through the price cycle



SOURCE: WHC PRESENTATION



SOURCE: WHC PRESENTATION

## Narrabri optimisation revises mining sequence

The Narrabri optimisation substantially de-risks near to medium term operations through:

- Stepping around the faulted zone in LW110. While this action obviously results in production downtime, it is estimated to have minimal net impact when compared with traversing the fault at lower speeds and incurring lower coal quality.
- Deferring LW111 in preference of shorter panels LW203-205. These southern blocks have less cover and less structural features.
- Cut and Flit mining of 201-202 will provide low-capex incremental production of around 600ktpa from FY22 for a period of 6 years.
- Introduction of a second longwall miner from FY25 (WHC’s capital cost is estimated at its 78% share of \$400m) should flatten the mine’s production profile and improve costs in the lead-up to the full Stage 3 Extension (extending mine life from 2031 to 2045).

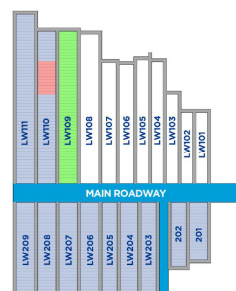
Figure 3 - Narrabri mine optimisation plan (1)

Narrabri

### Mine optimisation

The revised mine sequence is focused on de-risking the operation and accessing the southern panels sooner to optimise performance and returns

- Continue mining LW109
- LW110 step around complex fault
- Cut and Flit 201 and 202
- LW203-205 to be mined as originally approved
- Optionality for 10km long panels from LW206 onwards
- LW111 deferred until end of mine life



SOURCE: WHC PRESENTATION

Figure 4 - Narrabri mine optimisation plan (2)

Narrabri

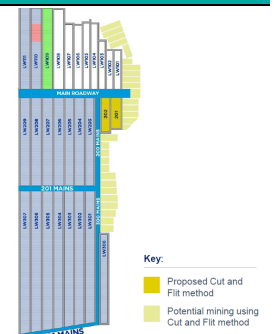
### Panels 201 & 202 opportunity

#### Reason:

Mining 201 and 202 panels using a Cut and Flit method provides access to high quality coal earlier in the mine life

#### Impact:

- Increases ROM production by ~600kt per year for the next 6 years commencing FY2022
- Accesses higher quality coal
- Cut and Flit offers ability to increase production at competitive production costs, at low risk, with minimal capital investment
- Proof of concept to mine other similar areas by Cut and Flit not previously accessible



SOURCE: WHC PRESENTATION

**FY21 guidance: No changes**

WHC made no changes to FY21 production, unit cost or capital cost guidance.

**Table 1 - FY21 guidance details**

		FY20 actual	FY21 guidance	Comments
<b>Operations</b>				
Managed ROM coal production	Mt	20.6	21.0 - 22.8	Weighted to 2H ~55%
Maules Creek	Mt	10.7	11.3 - 12.0	Weighted to 2H ~60%
Narrabri	Mt	6.1	6.0 - 6.7	Longwall change-out in June 2021 quarter
Gunnedah Open Cuts	Mt	3.8	3.7 - 4.1	Tarrawonga expansion now operational
Managed coal sales (excl purchases)	Mt	17.5	18.5 - 20.0	Excludes coal purchases / trading
Unit cost (excl. royalties)	A\$/t	75	69 - 72	Increased production & lower diesel costs offsetting higher strip ratio at Maules Creek and increased depth at Narrabri
<b>Capital expenditure</b>				
Sustaining capital	A\$m	39	60 - 70	Includes rebuild of certain Maules Creek mining equipment
Narrabri mains development	A\$m	23	5	
Expansion & growth capital	A\$m	134	50 - 60	
Operating mine projects	A\$m		15 - 20	
Growth projects	A\$m		35 - 40	
Acquisition of EDF consideration		20	17	
<b>Total</b>	<b>A\$m</b>	<b>216</b>	<b>132 - 152</b>	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Balance sheet: Liquidity held; banks supportive**

WHC commented that balance sheet liquidity levels are unchanged on levels at 30 June 2020. WHC's borrowings at 30 June 2020 are summarised as:

- Senior debt facility of \$1b maturing in July 2023 and drawn to \$638m (i.e. \$362m undrawn);
- Export Credit Agency facility drawn to \$68.1m, amortised over the next 8 years;
- Finance leases of \$216.3m, mostly on mobile equipment fleets; and
- IFRS16 leases of \$130.3m.

**Table 2 - Balance sheet summary as at 30 June 2020**

All figures in \$m unless otherwise stated	Jun-20
Leases	347
Borrowings	638
Export Credit Agency loan	68
<b>Total</b>	<b>1,053</b>
Capitalised borrowing costs	-28
<b>Total loans &amp; borrowings</b>	<b>1,025</b>
Cash	107
Equity	3,250
<b>Net debt (pre-IFRS16)</b>	<b>788</b>
Net debt / net debt + equity %	20%
<b>Net debt (total) \$m</b>	<b>946</b>
Interest expense FY20	40
EBITDA FY20	306
<b>EBITDA / interest expense x</b>	<b>7.6</b>

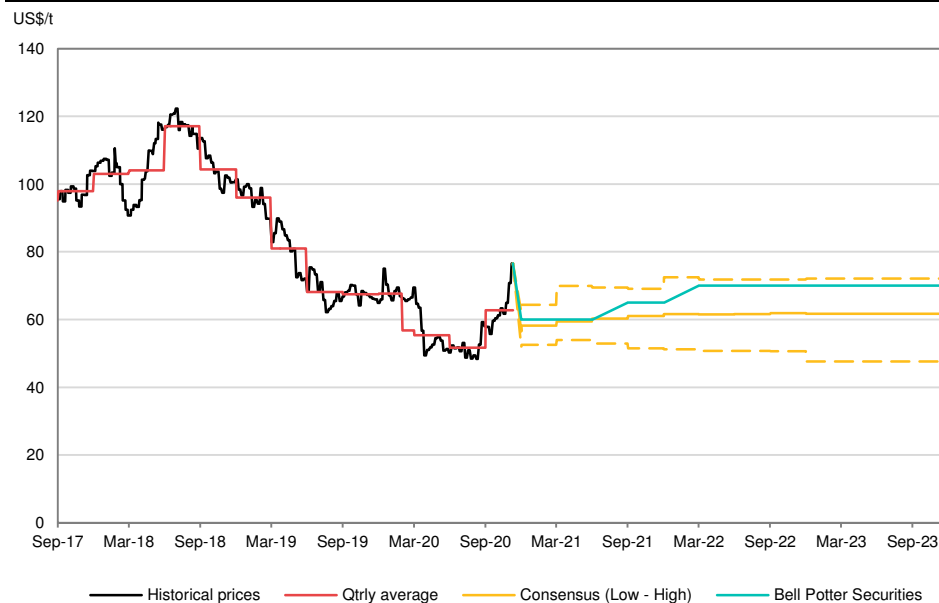
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Coal price outlook

Consensus data presented here is from Consensus Economics' November 2020 survey. Consensus Economics' estimates have been adjusted from nominal to real 2020 dollars.

## Thermal coal

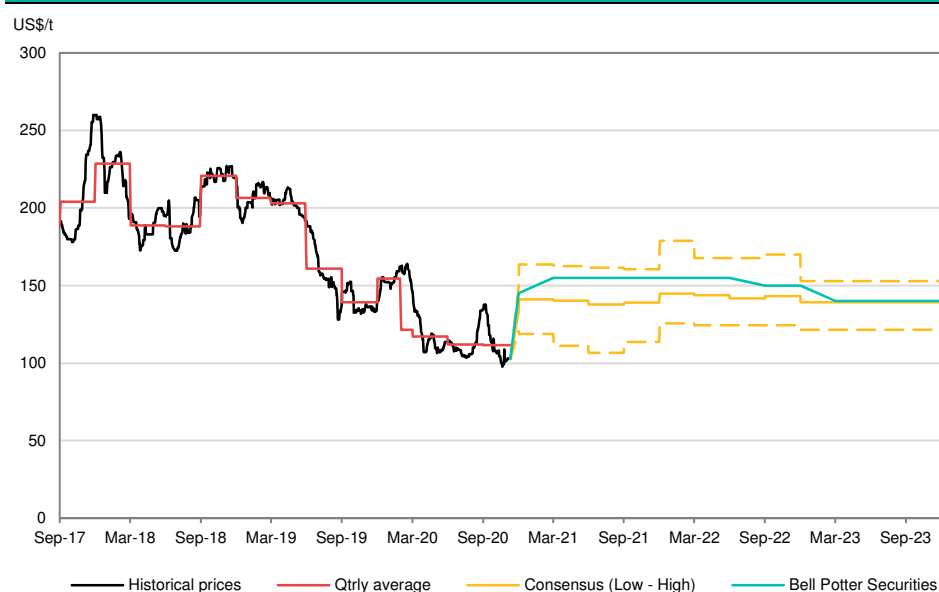
**Figure 5 - Thermal coal US\$/t FOB Newcastle - Historical & expected prices**



SOURCE: BLOOMBERG, CONSENSUS ECONOMICS, BELL POTTER SECURITIES ESTIMATES

## Metallurgical coal

**Figure 6 - Premium hard coking coal US\$/t FOB Queensland - Historical & expected prices**



SOURCE: METAL BULLETIN, CONSENSUS ECONOMICS, BELL POTTER SECURITIES ESTIMATES

# Whitehaven Coal Limited (WHC)

## Company description

WHC is an ASX-listed and Australian based coal producer. The company produces mostly thermal coal (around 80% of production) from four core assets located in the New South Wales Gunnedah Basin. In FY20, we estimate that WHC will produce around 18Mt of product coal (WHC equity share).

The company's development projects include the Vickery Project which is expected to produce up to 8.5Mtpa ramping up from FY21 and is also located in the Gunnedah Basin. In early 2018, WHC acquired Rio Tinto's Winchester South metallurgical coal project located in the Queensland Bowen Basin. Both of these projects should increase the proportion of metallurgical coal production at the WHC group level.

## Investment thesis: Buy, Target Price \$2.15/sh (unchanged)

WHC's operational outlook is improving amid strengthening thermal coal markets and the company's undeveloped projects provide future growth opportunities. WHC is one of few ASX-leverages to thermal coal prices. Our Target Price of \$2.15/sh is based on our valuation of WHC's operating assets only.

## Valuation

Bell Potter Securities' valuation is based on discounted cash flow models of WHC's principal operating assets and projects: Maules Creek; Narrabri; Tarrawonga; Werris Creek; Vickery Project; and Winchester South Project. Each asset is modelled to its current reserve life and to mine parameters consistent with historical production, Bell Potter Securities' estimated production outlooks and peer asset benchmarks.

Our base case valuation does not include the Vickery (permitting stage) or Winchester South (EIS underway) projects.

The discount rate is 10% (nominal).

## Risks

Risks to resources sector equities include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Bulk commodity producers are particularly reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour markets.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets can be located in countries other than Australia and are subject to the sovereign risks of that country.

- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Environmental risks.** Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and mining processes. Fossil fuel producers (coal) may be particularly exposed to the environmental risks of end markets including the electricity generation and steel production industries.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.

Table 3 - Financial summary

Date	10/12/20						Bell Potter Securities						
Price	A\$/sh	1.59					Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)						
Target price	A\$/sh	2.15											
PROFIT AND LOSS							FINANCIAL RATIOS						
Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e	Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
Revenue (including other)	\$m	2,492	1,725	1,598	2,009	1,989	<b>VALUATION</b>						
Expenses	\$m	(1,450)	(1,419)	(1,343)	(1,484)	(1,466)	EPS (underlying)	c/sh	57	3	(2)	15	18
<b>EBITDA</b>	\$m	<b>1,042</b>	<b>306</b>	<b>255</b>	<b>525</b>	<b>523</b>	EPS (reported)	c/sh	53	3	(2)	15	18
Depreciation	\$m	(224)	(225)	(241)	(257)	(217)	EPS growth	%	1%	-94%	-175%	na	22%
EBIT	\$m	817	81	15	268	306	PER	x	3.0x	54.1x	-70.5x	10.6x	8.7x
Net interest expense	\$m	(41)	(39)	(49)	(40)	(27)	DPS	c/sh	50	2	-	4	9
<b>PBT</b>	\$m	<b>776</b>	<b>42</b>	<b>(34)</b>	<b>228</b>	<b>279</b>	Franking	%	13%	0%	0%	100%	100%
Tax expense	\$m	(211)	(12)	11	(76)	(92)	Yield	%	31.5%	0.9%	0.0%	2.5%	5.7%
<b>NPAT (underlying)</b>	\$m	<b>565</b>	<b>30</b>	<b>(23)</b>	<b>153</b>	<b>187</b>	Payout ratio	%	87%	51%	0%	27%	49%
Significant items	\$m	(37)	-	-	-	-	Capital return	c/sh	-	-	-	-	-
<b>NPAT (reported)</b>	\$m	<b>528</b>	<b>30</b>	<b>(23)</b>	<b>153</b>	<b>187</b>	FCF/share	c/sh	73	(12)	7	32	31
<b>CASH FLOW</b>							<b>LIQUIDITY &amp; LEVERAGE</b>						
Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e	Net debt / (cash)	\$m	296	918	844	520	304
<b>OPERATING CASH FLOW</b>							ND / E	%	8%	28%	26%	15%	9%
Receipts	\$m	2,442	1,745	1,600	1,987	1,999	ND / (ND + E)	%	8%	22%	21%	13%	8%
Payments	\$m	(1,478)	(1,555)	(1,356)	(1,477)	(1,471)	EBITDA/net interest expense	x	25.5x	7.8x	5.2x	13.2x	19.6x
Tax	\$m	(15)	(14)	11	(64)	(92)	<b>PROFITABILITY RATIOS</b>						
Net interest	\$m	(32)	(30)	(49)	(40)	(27)	EBITDA margin	%	42%	18%	16%	26%	26%
Other	\$m	-	-	-	-	-	EBIT margin	%	33%	5%	1%	13%	15%
<b>Operating cash flow</b>	\$m	<b>916</b>	<b>146</b>	<b>206</b>	<b>406</b>	<b>408</b>	Return on assets	%	11%	1%	0%	3%	4%
<b>INVESTING CASH FLOW</b>							Return on equity	%	15%	1%	-1%	5%	5%
Capex	\$m	(124)	(248)	(116)	(81)	(90)	<b>ASSUMPTIONS - Prices (nominal)</b>						
Other	\$m	(69)	(20)	(17)	-	-	Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	LT real
<b>Investing cash flow</b>	\$m	<b>(194)</b>	<b>(268)</b>	<b>(133)</b>	<b>(81)</b>	<b>(90)</b>	Hard coking coal	US\$/t	205	144	142	155	140
<b>FINANCING CASH FLOW</b>							LV PCI	US\$/t	129	91	94	116	110
Debt proceeds	\$m	410	650	-	-	-	Semi-soft coking coal	US\$/t	113	80	75	94	100
Repayment of borrowings	\$m	(537)	(132)	(150)	(250)	(220)	Thermal coal	US\$/t	99	64	58	68	70
Dividends	\$m	(465)	(312)	-	-	(103)	<b>CURRENCY</b>						
Other	\$m	(123)	(97)	-	-	-	AUD/USD	US\$/A\$	0.72	0.68	0.70	0.73	0.74
<b>Financing cash flow</b>	\$m	<b>(715)</b>	<b>109</b>	<b>(150)</b>	<b>(250)</b>	<b>(323)</b>	<b>ASSUMPTIONS</b>						
<b>Change in cash</b>	\$m	<b>8</b>	<b>(13)</b>	<b>(77)</b>	<b>74</b>	<b>(4)</b>	Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e
Free cash flow	\$m	723	(122)	73	324	318	<b>Managed ROM coal production</b>	Mt	23.2	20.7	21.5	24.4	24.9
<b>BALANCE SHEET</b>							<b>Managed coal sales</b>						
Year ending 30 Jun	Unit	2019a	2020a	2021e	2022e	2023e	Maules Creek	Mt	9.3	7.9	9.7	10.3	10.1
<b>ASSETS</b>							Narrabri	Mt	5.7	6.2	6.4	6.9	7.5
Cash	\$m	120	107	30	105	100	Tarrawonga	Mt	2.2	2.0	2.3	2.6	2.6
Receivables	\$m	156	129	128	150	140	Werris Creek	Mt	1.7	1.4	1.5	1.8	1.8
Inventories	\$m	149	176	176	176	176	Rocglen & Sunnyside	Mt	1.1	0.3	-	-	-
Property, plant and equipment	\$m	3,842	4,155	4,026	3,846	3,715	Vickery	Mt	-	-	-	-	-
Other assets	\$m	579	646	650	654	658	Winchester South	Mt	-	-	-	-	-
<b>Total assets</b>	\$m	<b>4,845</b>	<b>5,212</b>	<b>5,009</b>	<b>4,930</b>	<b>4,789</b>	<b>Total</b>	Mt	<b>20.0</b>	<b>17.8</b>	<b>19.9</b>	<b>21.5</b>	<b>22.0</b>
<b>LIABILITIES</b>							<b>Equity sales of produced coal</b>	Mt	<b>16.0</b>	<b>14.4</b>	<b>16.1</b>	<b>17.4</b>	<b>17.8</b>
Creditors	\$m	198	189	177	183	178	Coal purchases	Mt	1.6	2.4	1.1	1.0	1.0
Borrowings	\$m	415	1,025	875	625	405	<b>Total equity coal sales</b>	Mt	<b>17.6</b>	<b>16.8</b>	<b>17.2</b>	<b>18.4</b>	<b>18.8</b>
Other current liabilities	\$m	60	41	41	41	41	<b>Sales mix</b>						
Other liabilities	\$m	650	707	690	701	701	High CV thermal	%	66%	62%	68%	70%	70%
<b>Total liabilities</b>	\$m	<b>1,323</b>	<b>1,962</b>	<b>1,783</b>	<b>1,551</b>	<b>1,326</b>	Low CV thermal	%	16%	20%	15%	10%	10%
<b>NET ASSETS</b>	\$m	<b>3,522</b>	<b>3,250</b>	<b>3,227</b>	<b>3,379</b>	<b>3,464</b>	Metallurgical	%	18%	18%	17%	20%	20%
Shareholder equity	\$m	3,522	3,250	3,227	3,379	3,464	Average revenue per tonne	US\$/t	102	69	65	79	78
Minorities	\$m	-	-	-	-	-	Average revenue per tonne	A\$/t	141	103	93	109	106
<b>SHAREHOLDER EQUITY</b>	\$m	<b>3,522</b>	<b>3,250</b>	<b>3,227</b>	<b>3,379</b>	<b>3,464</b>	Average cash costs (EBITDA level)	A\$/t	83	84	78	81	78
Weighted average shares	m	988	1,026	1,026	1,026	1,026	Average cash costs (excl royalty)	A\$/t	<b>69</b>	<b>74</b>	<b>71</b>	<b>72</b>	<b>69</b>
<b>RESOURCES &amp; RESERVES (Note: Major projects listed, reserves are marketable tonnes)</b>							<b>VALUATION</b>						
Resources	Unit	Equity	Meas & Ind	Total	Reserve		<b>Issued capital</b>	Unit					
Maules Creek	Mt	75%	546	590	400		Shares on issue	m	1,033				
Narrabri	Mt	70%	610	618	212		Options assumed	m	23				
Tarrawonga (open pit)	Mt	100%	54	67	28		<b>Diluted shares</b>	m	<b>1,056</b>				
Werris Creek	Mt	100%	10	10	8		<b>NPV (Discount rate 8%)</b>						
Vickery	Mt	100%	490	735	178		<b>Current</b>			<b>+ 12 months</b>	<b>+ 24 months</b>		
Winchester South	Mt	100%	430	530			\$m	\$/sh	\$m	\$/sh	\$m	\$/sh	
Other	Mt	100%	854	1,813	0		Maules Creek (75%)	1,387	1.34	1,487	1.44	1,520	1.47
<b>Total (100%)</b>	<b>Mt</b>		<b>2,994</b>	<b>4,363</b>	<b>826</b>		Narrabri (78%)	1,309	1.27	1,360	1.32	1,328	1.29
<b>Total (equity)</b>	<b>Mt</b>		<b>2,675</b>	<b>4,030</b>	<b>662</b>		Tarrawonga (100%)	429	0.42	443	0.43	428	0.41
							Werris Creek (100%)	103	0.10	81	0.08	47	0.05
							Total assets	3,227	3.12	3,371	3.26	3,323	3.22
							Corporate overheads	(130)	(0.13)	(130)	(0.13)	(130)	(0.13)
							Enterprise value	3,097	3.00	3,241	3.14	3,193	3.09
							Net debt/(cash)	918	0.89	844	0.82	520	0.50
							<b>Equity value</b>	<b>2,179</b>	<b>2.11</b>	<b>2,397</b>	<b>2.32</b>	<b>2,673</b>	<b>2.59</b>

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

**Research Team**

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Joint Head of Research/Banks	612 8224 2810	tslim
Chris Savage	Joint Head of Research/Industrials	612 8224 2835	csavage
<b>Analysts</b>			
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	lsotiriou
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare	612 8224 2849	tnjain
Elyse Shapiro	Healthcare	613 9235 1877	eshapiro
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
Damien Williamson	Industrials	613 9235 1958	dwilliamson
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
<b>Associate</b>			
Joseph House	Associate Analyst	61 3 9235 1624	jhouse
Sam Brandwood	Associate Analyst	61 2 8224 2850	sbrandwood

**Bell Potter Securities Limited**  
ACN 25 006 390 7721  
Level 29, 101 Collins Street  
Melbourne, Victoria, 3000  
Telephone +61 3 9256 8700  
[www.bellpotter.com.au](http://www.bellpotter.com.au)

**Bell Potter Securities (HK) Limited**  
Room 1701, 17/F  
Prosperity Tower, 39 Queens Road  
Central, Hong Kong, 0000  
Telephone +852 3750 8400

**Bell Potter Securities (US) LLC**  
Floor 39  
444 Madison Avenue, New York  
NY 10022, U.S.A  
Telephone +1 917 819 1410

**Bell Potter Securities (UK) Limited**  
16 Berkeley Street  
London, England  
W1J 8DZ, United Kingdom  
Telephone +44 7734 2929

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