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Authorisation

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Pantoro Limited (PNR)

Landing a few punches

Recommendation

Hold (Buy)

Price

\$0.235

Target (12 months)

\$0.25 (previously \$0.17)

GICS Sector

Materials

Expected Return

Capital growth	6.4%
Dividend yield	0.0%
Total expected return	6.4%

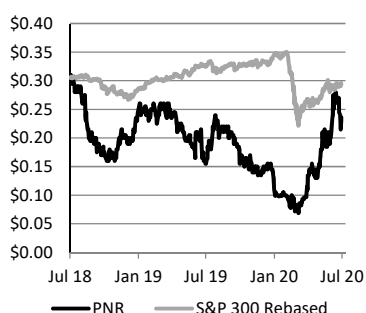
Company Data & Ratios

Enterprise value	\$252.6m
Market cap	\$276.6m
Issued capital	1,177m
Free float	75%
Avg. daily val. (52wk)	\$536,000
12 month price range	\$0.065-\$0.28

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.20	0.10	0.16
Absolute (%)	17.5	142.3	46.9
Rel market (%)	14.8	130.5	57.0

Absolute Price



SOURCE: IRESS

June 2020 quarter report

PNR reported June quarter 2020 production of 9.6koz gold at All-In-Sustaining-Costs (AISC) of A\$1,578/oz (BP est. 9.4koz gold at AISC A\$1,606/oz). This has resulted in FY20 production of 38.7koz at AISC of A\$1,739/oz, in-line with most recent implied guidance of ~38-40koz at AISC of ~\$1,750/oz and marginally ahead of our forecast of 38.5koz at AISC of A\$1,746/oz. Guidance for the next two quarters was issued for 9.0koz ±5% at AISC of A\$1,550-\$1,750/oz. PNR also closed out its hedge book during the quarter, with its final 2,000oz sold at A\$1,800/oz in April. At quarter-end, PNR held cash and bullion of \$24.0m (from A\$27.4m at end March) with no debt. PNR is due to pay a \$5m staged consideration payment for the Norseman Project in July 2020.

Positive developments continue

The trend of improving positive operational metrics was maintained with the June quarterly, including an 18% lift in mined grades to 6.4g/t Au, lower unit mining costs, higher mill throughput, marginally higher head grades and gold recoveries being maintained at ~93%. Norseman continued to deliver excellent drilling results, from both infill and extensional drill programs, which included the discovery of the Panda deposit 200m to the west of Scotia. The ongoing results both confirm the existing Resource expectations and highlight the potential for growth. Further catalysts are in the pipeline as PNR is beginning to pursue some of the greenfield exploration opportunities at Norseman, with drilling at Lake Cowan underway.

Investment thesis – Hold, TP \$0.25/sh (from Buy, \$0.17/sh)

After updating for the June quarter report, our forecast loss for FY20 is reduced slightly from \$24.9m to \$23.7m following the stronger quarterly performance. This includes a \$16.1m asset write-down. FY21 and FY22 earnings forecasts lift 16% and 25% respectively, primarily on the higher gold price offsetting marginally lower production and higher costs. Our NPV valuation increases on our higher gold price forecast and our increased, market-based valuation for Norseman. Our 12-month forward Price Target increases by 47%, from \$0.17 to \$0.25/sh. We lower our recommendation to Hold, consistent with our recommendation structure.

Earnings Forecast

Year end 30 June	2019a	2020e	2021e	2022e
Sales (A\$m)	77	80	97	87
EBITDA (A\$m)	17	20	42	32
NPAT (reported) (A\$m)	1	(24)	21	11
NPAT (adjusted) (A\$m)	1	(9)	21	11
EPS (adjusted) (cps)	0.1	(0.8)	1.8	0.9
EPS growth (%)	-95%	-2299%	nm	-50%
PER (x)	245.2	nm	13.1	26.0
FCF Yield (%)	-5%	-7%	-2%	0%
EV/EBITDA (x)	14.8	12.9	6.0	8.0
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	1%	-27%	24%	10%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Landing a few punches

June 2020 quarterly report

PNR reported June quarter 2020 production of 9.6koz gold at AISC of A\$1,578/oz (BP est. 9.4koz gold at AISC A\$1,606/oz). This has resulted in FY20 production of 38.7koz at AISC of A\$1,739/oz and in-line with most recent implied guidance of ~38-40koz at AISC of ~\$1,750/oz and marginally ahead of our forecast of 38.5koz at AISC of A\$1,746/oz.

Project free cash flow of \$4.8m was in-line with our forecasts and PNR's guidance of \$3.0-\$5.0m for the June quarter. We estimate that total site costs declined by ~\$2m compared with the March quarter and that this puts PNR on track to meet free cash flow guidance for Halls Creek of \$3.5-\$6.0m per quarter for the next two quarters (BPe ~\$5.0m). PNR has provided updated guidance for the September and December 2020 quarters as follows:

Table 1 - Halls Creek production and cost guidance

	Q1 FY21 Guidance	Q2 FY21 Guidance
Production (oz Au)	9,000 ± 5%	9,000 ± 5%
Revenue @ \$2,600/oz* (\$ million)	\$22 - \$25	\$22 - \$25
C1 (\$/oz)	\$1,300 - \$1,350	\$1,300 - \$1,350
AISC (\$/oz)*	\$1,550 - \$1,750	\$1,550 - \$1,750
Major Project Capital (\$ million)	\$2.0 - \$2.5	\$2.0 - \$2.5
Exploration (\$ million)	\$1.0	\$1.0
Net Cashflow (\$ million) @ \$2,600/oz	\$3.5 - \$6.0	\$3.5 - \$6.0

SOURCE: COMPANY DATA

In addition to the improved production and cost performance we note further positive operational developments reported with the June quarterly including:

- An 18% lift in mined grades to 6.4g/t Au, reflecting improved ground conditions and the first full quarter of revised mining practices aimed at reducing dilution and increasing grade. This is the best performance since the March 2019 quarter and, importantly, is closely in line with the current Reserve grade;
- Unit costs per tonne continuing to decline from recent elevated levels; and
- Higher mill throughput and marginally higher head grades with gold recoveries being maintained at ~93%.

PNR also closed out its hedge book during the quarter, with its final 2,000oz sold at A\$1,800/oz in April. At quarter-end, PNR held cash and bullion of \$24.0m (from A\$27.4m at end March) with no debt. PNR is due to pay a \$5m staged consideration payment for the Norseman Project in July 2020.

Production performance actuals and Bell Potter forecasts are summarised below:

Table 2 – Quarterly production summary

	Jun-19 Actual	Sep-19 Actual	Dec-19 Actual	Mar-20 Actual	Jun-20 Actual	Jun-20 BP est.	Variance % qoq	Variance % BP est.
Mining								
Ore mined (t)	59,693	63,179	69,792	50,661	45,882	55,000	-9%	-17%
grade (g/t Au)	5.6	5.9	4.7	5.4	6.4	5.6	18%	14%
Contained gold (oz Au)	10,778	11,897	10,458	8,763	9,397	9,902	7%	-5%
Processing								
Ore milled (t)	55,801	54,343	58,456	55,986	59,002	57,000	5%	4%
Head grade (g/t Au)	6.0	6.7	5.3	5.4	5.5	5.5	1%	-1%
Recovery (%)	89.4%	91.2%	94.0%	93.8%	92.7%	93.0%	-1.1%	-0.3%
Gold produced (oz Au)	9,557	10,631	9,403	9,085	9,586	9,374	6%	2%
Costs								
Cash costs (A\$/oz)	\$1,440	\$1,345	\$1,717	\$1,603	\$1,327	\$1,337	-17%	-1%
AISC (A\$/oz)	\$1,670	\$1,526	\$2,014	\$1,872	\$1,578	\$1,606	-16%	-2%

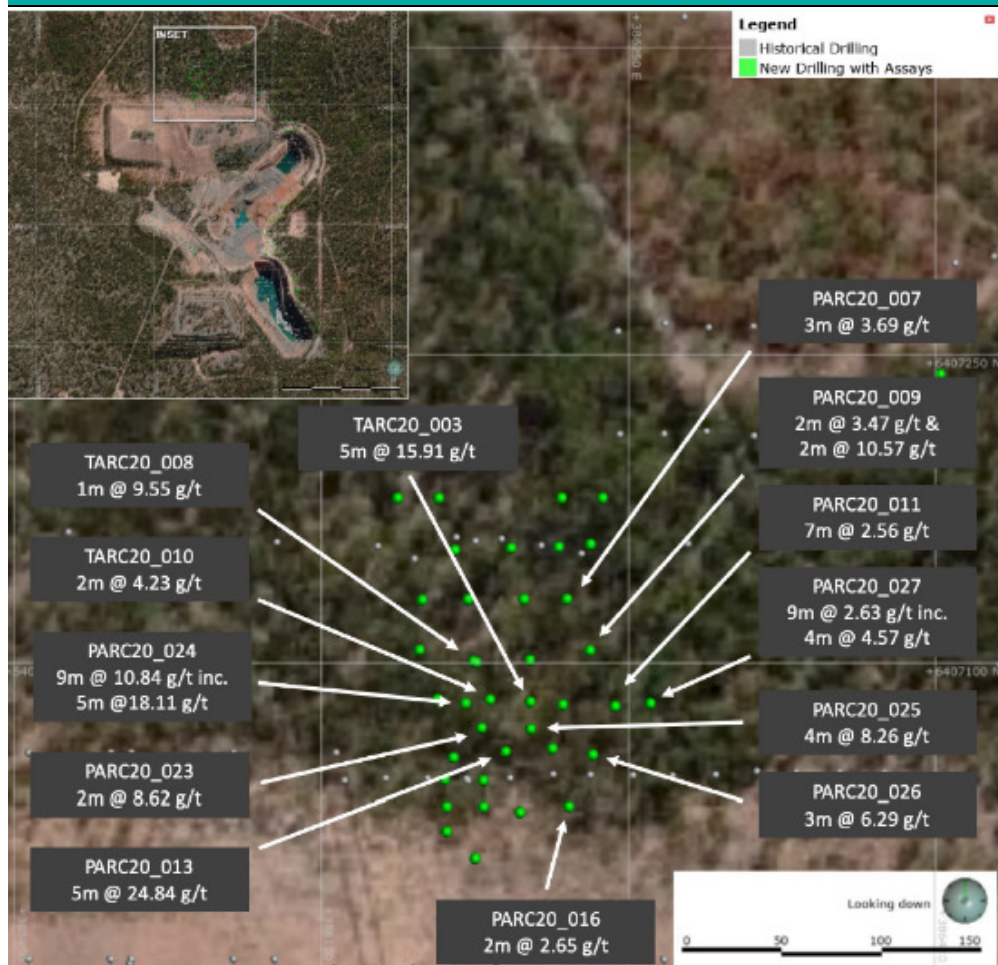
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Norseman continues to deliver

The Norseman Gold Project (PNR 50%) continued to deliver excellent drilling results during the quarter. Some permitting delays were experienced due to the impact of COVID-19 restrictions, delaying the completion of some open-pit drilling programs to the current quarter, but 5 rigs were active through the June quarter.

Strong results were returned from both infill and extension drilling at the Scotia mining centre in particular, highlighting its potential for Resource growth and as a key production centre for Norseman. This included the discovery of the Panda deposit, 200m to the west of Scotia.

Figure 1 - Plan view of Panda drilling results



SOURCE: COMPANY DATA

Updated Mineral Resource and Ore Reserve statements remain on track for the September 2020 quarter. These are expected to be released in conjunction with the feasibility study for the re-construction of the Norseman process plant and the parameters of an initial production re-start plan. These will be key milestones for PNR and enable the estimation of a higher confidence valuation for the Norseman project.

With the completion of the Phase 1 drill program at Norseman, which has prioritised Resource definition for the Feasibility Study, four rigs are continuing on through the current quarter at Norseman and there will be opportunity for the testing of greenfield targets. This includes the highly prospective Lake Cowan target, where drilling commenced during the quarter. Any discovery here will be a significant positive catalyst, in our view.

Changes to our forecasts and valuation

Following the release of PNR's June 2020 quarter report, we have made the following changes to our modelled assumptions:

- Updated for the June 2020 quarter production and cost performance;
- Marginally lowered our mill throughput and mining production assumptions to be more closely aligned with latest company guidance and recent actual performance;
- Applied an increased Enterprise Value per Resource ounce (EV/oz) valuation of A\$120/oz to the Norseman Gold Project to more closely reflect current market metrics (which we measure at ~A\$127/oz). This lifts our valuation from \$170m to \$260m. We point out that most of the exploration company peers in this sample are reliant on the market for funding and have no production revenues, unlike PNR;
- Incorporated our latest gold price and foreign rate exchange forecasts, which include a 2% higher AUD:USD exchange rate and 9% higher US\$ gold price for FY21;
- Updated for the latest balance sheet and capital structure; and
- Rolled our model forward.

The net impacts of these changes are summarised in the table below:

Table 3 - Changes to earnings estimates									
Year ending 30 June	Previous			New			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Prices & currency									
Gold (US\$/oz)	1,551	1,600	1,550	1,570	1,750	1,650	1%	9%	6%
US\$/A\$	0.67	0.67	0.71	0.67	0.68	0.71	1%	2%	0%
Gold (A\$/oz)	2,330	2,408	2,184	2,342	2,574	2,324	0%	7%	6%
Production & costs									
Ore milled (kt)	226	228	228	228	224	224	1%	-2%	-2%
Gold produced (koz)	38	38	38	39	38	38	1%	-2%	-2%
Cash costs (A\$/oz)	1,482	1,217	1,247	1,483	1,296	1,328	0%	7%	7%
AISC (A\$/oz)	1,746	1,482	1,507	1,739	1,569	1,595	0%	6%	6%
Earnings									
Revenue (A\$m)	79	92	83	80	97	87	1%	5%	5%
EBITDA (A\$m)	18	40	30	20	42	32	7%	6%	5%
EBIT (A\$m)	(10)	17	8	(9)	20	10	na	16%	25%
NPAT (underlying) (A\$m)	(10)	18	8	(9)	21	11	na	16%	25%
NPAT (reported) (A\$m)	(24.9)	18	8	(23.7)	21	11	na	16%	25%
EPS (reported) (cps)	(2.2)	1.6	0.7	(2.1)	1.8	0.9	na	16%	25%
PER (x)	(10.6)	15.2	32.5	(11.1)	13.1	26.0	(0.5)	(2.1)	(6.5)
EPS growth (%)	-2412%	nm	-53%	-2299%	nm	-50%	113%	nm	4%
DPS (reported) (cps)	-	-	-	-	-	-	na	na	na
Yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
NPV (\$/sh)	0.15	0.17	0.17	0.23	0.25	0.26	52%	47%	51%
Price Target (\$/sh)		0.17			0.25			47%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our forecast loss for FY20 is reduced slightly from \$24.9m to \$23.7m following the stronger June quarter performance. Our FY20 forecast includes a \$16.1m asset write-down. FY21 and FY22 earnings forecasts lift 16% and 25% respectively, primarily on the higher gold price offsetting marginally lower production and higher costs. Our NPV valuation increases on our higher gold price forecast and our increased, market-based valuation for Norseman. Our 12-month forward Price Target increases by 47%, from \$0.17 to \$0.25/sh.

Upcoming catalysts

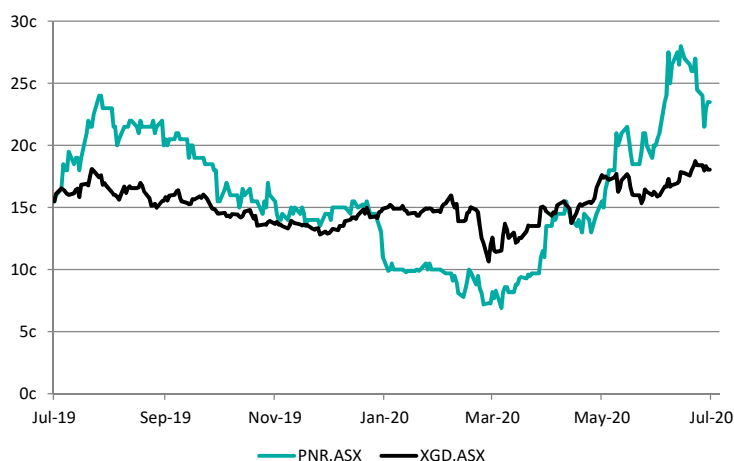
Upcoming catalysts for PNR include:

- The release of updated Resource and Reserve statements by the end of the September 2020 quarter, in conjunction with the Process Plant feasibility study and initial Norseman mine plan. This will be a major milestone and our first look at project parameters for Norseman;
- Ongoing exploration and development updates from the Norseman Gold Project. Infill drilling results have confirmed the high grade Resource potential at Norseman and extensional drilling results have highlighted the potential for Resource growth and we expect this to continue. We note the commencement of drilling of the highly prospective Lake Cowan greenfield target during the quarter;
- The maintenance of production and costs at Halls Creek in-line with guidance. The re-establishment of a good operational track record will be a key positive and help PNR generate the operational cash flows to fund ongoing exploration and development at Norseman. The September quarter report is due mid-October;
- Resource definition drilling results from Halls Creek, where the Rowdies and Wagtail deposits are being tested for extensions. These may show potential for production increases or mine life extensions;
- Potential consolidation of 100% ownership of the Norseman Gold Project; and
- Ongoing gold price strength, with PNR being one of the few unhedged gold producers on the ASX.

Share price performance vs ASX Gold Index

Relative performance chart below:

Figure 2 - PNR relative share price performance vs XGD



SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

PNR's relative performance has improved off a low base to outperform the ASX Gold Index. The key drivers have, in our view, been Halls Creek meeting (lowered) expectations to beat guidance and the increased recognition in the market for exploration assets showing discovery success and a pathway to development – boxes ticked by the Norseman Gold Project (NGP).

The 50% ownership and management of the NGP continues to provide the opportunity for positive exploration and development catalysts for PNR's share price. The successful implementation of PNR's high grade, multi-mine strategy remains a significant re-rating opportunity over the next 12 months.

Pantoro Limited (PNR)

Company description

PNR is a growing gold production and development company. The 100% owned Halls Creek Project (including the Nicolsons Gold Mine) is PNR's flagship project. The project is located in the Kimberley Region on Western Australia, approximately 45km SW of the town of Halls Creek. First gold was poured at Nicolsons in September 2015 and it is currently producing at a rate of ~40kozpa at AISC of A\$1,550-\$1,750/oz.

PNR also has a 50% share in, and management control of, the Norseman Gold Project (NGP), south of Kalgoorlie in WA. The project covers over 1,000km² of tenements, the majority of which are granted Mining Leases. The NGP has a large, high grade gold Resource base totalling 4.4Moz grading 3.9g/t Au, including underground Resources of 2.1Moz grading 15.3g/t Au and surface Resources of 2.4Moz grading 2.3g/t Au. With past production of >5.5Moz, well established infrastructure including an operating power plant, sealed airstrip, past producing mill, road and rail access all neighbouring the Norseman township, it provides an excellent platform for exploration and future production growth.

Investment thesis – Hold, TP \$0.25/sh (from Buy, \$0.17/sh)

After updating for the June quarter report, our forecast loss for FY20 is reduced slightly from \$24.9m to \$23.7m following the stronger quarterly performance. This includes a \$16.1m asset write-down. FY21 and FY22 earnings forecasts lift 16% and 25% respectively, primarily on the higher gold price offsetting marginally lower production and higher costs. Our NPV valuation increases on our higher gold price forecast and our increased, market-based valuation for Norseman. Our 12-month forward Price Target increases by 47%, from \$0.17 to \$0.25/sh.

Valuation

Our target price for PNR is based upon the 12-month forward NPV of our forecast free cash flows from the Nicolsons mine. This is included in a sum-of-the-parts valuation for the company which also includes a notional estimate for the value of the exploration potential of the CNGP which we currently value at ~A\$120/oz of gold contained in Resource. We also include a discounted cash flow estimate of corporate costs and adjust for PNR's net cash position and dilute our valuation for in-the-money options.

Table 4 – PNR sum-of-the-parts valuation

Sum-of-the-parts (+12 month Target Price)	\$m	\$/sh
Project (un-risked NPV10)	55.8	0.05
Other exploration	260.0	0.22
Corporate overheads	(49.9)	(0.04)
Subtotal	265.9	0.23
Net cash (debt)	34.0	0.03
Total (undiluted)	299.9	0.25
Add options in the money (shares, m)		14.6
Add cash	2.4	0.0
Total (diluted)	302.3	0.25

SOURCE: BELL POTTER ESTIMATES

With upside of 6.4% from the last closing share price to our target price, we lower our recommendation to Hold, consistent with our recommendation structure.

Resource sector risks

Risks to PNR include, but are not limited to:

- **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.
- **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.
- **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 mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **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 costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resource companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Corporate/M&A risks.** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Table 5 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS							
Year ending June	Unit	2018a	2019a	2020e	2021e	2022e	Year ending June	Unit	2018a	2019a	2020e	2021e	2022e
Revenue	\$m	87.2	77.0	80.2	96.5	87.2	VALUATION						
Expense	\$m	(53.3)	(60.0)	(60.6)	(54.5)	(55.5)	NPAT	\$m	13.8	0.8	(23.7)	21.1	10.6
EBITDA	\$m	33.9	17.0	19.6	42.1	31.7	Reported EPS	c/sh	1.8	0.1	(2.1)	1.8	0.9
Depreciation	\$m	(19.4)	(16.1)	(28.2)	(21.8)	(21.8)	Adjusted EPS	c/sh	1.9	0.1	(0.8)	1.8	0.9
EBIT	\$m	14.5	0.9	(8.5)	20.3	9.9	EPS growth	%	nm	-95%	-2299%	nm	-50%
Net interest expense	\$m	0.1	0.1	-	0.9	0.7	PER	x	13.4x	245.2x	nm	13.1x	26.0x
Unrealised gains (Impairments)	\$m	(1.0)	(0.1)	(15.2)	-	-	DPS	c/sh	-	-	-	-	-
Other	\$m	(0.0)	(0.1)	-	-	-	Franking	%	0%	0%	0%	0%	0%
PBT	\$m	13.6	0.8	(23.7)	21.1	10.6	Yield	%	0%	0%	0%	0%	0%
Tax expense	\$m	(0.2)	-	-	-	-	FCF/share	c/sh	0.1	(1.3)	(1.7)	(0.4)	(0.1)
NPAT (reported)	\$m	13.8	0.8	(23.7)	21.1	10.6	P/FCFPS	x	159.1x	-18.2x	-13.4x	-59.6x	-220.8x
NPAT (underlying)	\$m	14.7	1.0	(8.5)	21.1	10.6	EV/EBITDA	x	7.4x	14.8x	12.9x	6.0x	8.0x
							EBITDA margin	%	39%	22%	24%	44%	36%
							EBIT margin	%	17%	1%	nm	21%	11%
							Return on assets	%	24%	1%	-21%	19%	9%
							Return on equity	%	37%	1%	-27%	24%	10%
							LIQUIDITY & LEVERAGE						
							Net debt (cash)	\$m	-	-	(33)	(29)	(27)
							ND / E	%	0%	0%	-43%	-29%	-25%
							ND / (ND + E)	%	0%	0%	-77%	-41%	-34%
							EBITDA / Interest	x	-473.0x	-124.2x	nm	-49.5x	-43.2x
							ORE RESERVE AND MINERAL RESOURCE						
							Nicolsons Gold Mine						
							Mineral Resources						
							Measured				0.310	10.3	102.0
							Indicated				0.879	7.5	213.0
							Inferred				0.442	5.5	78.0
							Total				1.631	7.5	393.0
							Ore Reserve						
							Proven				0.280	6.8	61.0
							Probable				0.564	6.5	118.0
							Total				0.844	6.6	179.0
							Central Norseman Gold Project (CNGP - 100% basis)						
							Mineral Resources						
							Measured				4.600	1.6	240.0
							Indicated				12.710	3.7	1,510.0
							Inferred				18.210	4.2	2,480.0
							Total				35.510	3.9	4,410.0
							ASSUMPTIONS - Prices						
							Year ending June (avg)	Unit	2018a	2019a	2020e	2021e	2022e
							Gold	US\$/oz	\$1,300	\$1,267	\$1,570	\$1,750	\$1,650
							Silver	US\$/oz	\$17	\$15	\$17	\$21	\$19
							Gold	A\$/oz	\$1,678	\$1,772	\$2,342	\$2,574	\$2,324
							Silver	A\$/oz	\$22	\$21	\$25	\$30	\$27
							Currency						
							AUD:USD	A\$/US\$	0.78	0.72	0.67	0.68	0.71
							ASSUMPTIONS - Production & costs						
							Year ending June	Unit	2018a	2019a	2020e	2021e	2022e
							Gold production						
							Ore tonnes processed	kt	230.9	213.8	227.8	224.0	224.0
							Head grade	g/t Au	7.6	6.7	5.7	5.6	5.6
							Gold produced	koz	52.2	43.0	38.7	37.5	37.5
							Costs						
							Cash costs / oz Au	A\$/oz	\$911	\$1,223	\$1,483	\$1,296	\$1,328
							All-in-Sustaining-Costs (AISC)	A\$/oz	\$1,130	\$1,439	\$1,739	\$1,569	\$1,595
							VALUATION						
							Ordinary shares (m)						1,177.0
							Options in the money (m)						14.6
							Diluted m						1,191.5
								FY20	FY21	FY22			
							Sum-of-the-parts	\$m	\$/sh	\$m	\$/sh	\$m	\$/sh
							Project (unrisked NPV10)	50.6	0.04	55.8	0.05	42.6	0.04
							Other exploration	260.0	0.22	260.0	0.22	260.0	0.22
							Corporate overheads	(63.4)	(0.05)	(49.9)	(0.04)	(29.5)	(0.03)
							Subtotal	247.2	0.21	265.9	0.23	273.1	0.23
							Net cash (debt)	24.0	0.02	34.0	0.03	29.4	0.02
							Total (undiluted)	271.2	0.23	299.9	0.25	302.5	0.26
							Add options in the money (m)		14.6		14.6		14.6
							Add cash	2.4	0.0	2.4	0.0	2.4	0.0
							Total (diluted)	273.6	0.23	302.3	0.25	304.9	0.26
							MAJOR SHAREHOLDERS						
							Shareholder						
							Robmar Investments				16.9%	198.4	
							Tulla Group				8.5%	100.0	
							1832 Asset Management				4.3%	50.6	

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.

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