

14 Jul 2016

<b>Share Price</b>	\$0.575
<b>Valuation</b>	\$0.73
<b>Price Target (12 month)</b>	\$0.77

**Brief Business Description:**  
Gold producer & developer

**Hartleys Brief Investment Conclusion**  
WA gold producer combining the Kathleen Valley and Vivien satellite projects with the flagship Mt Magnet operations

**Chairman & MD**  
Robert Kennedy (Chairman)  
Mark Zeptner (MD)

**Top Shareholders**  
Board & Management 3.0%

**Company Address**  
Level 1, 130 Royal St  
East Perth, WA, 6004

**Issued Capital** 475.2m  
- fully diluted 475.2m

**Market Cap** A\$273.3m  
- fully diluted A\$273.3m

**Cash (30 Jun 16a)** A\$49.7m

**Debt (30 Jun 16a)** A\$0.0m

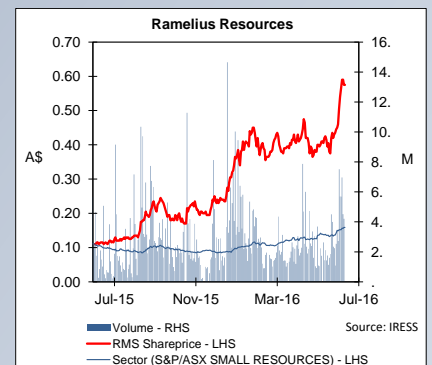
**EV** A\$223.6m

**EV/Resource Au oz** A\$100/oz

**EV/Reserve Au oz** A\$527/oz

	Prelim. (A\$m)	FY15a	FY16e	FY17e
Prod (koz Au)	86.7	109.0	140.3	
Op Cash Flw	45.8	43.4	112.0	
Norm NPAT	17.8	25.5	85.7	
CF/Share (cps)	11.1	9.4	24.1	
EPS (cps)	3.9	5.5	18.5	
P/E	14.7	10.4	3.1	

	Au
<b>Resources (Moz)</b>	2.2
<b>Reserves (Moz)</b>	0.42



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## RAMELIUS RESOURCES LIMITED (RMS)

### Strong end to FY16 with an even better year to come

Ramelius Resources has announced FY16 group annual production of 110,839oz and FY17 guidance of 135koz at AISC of A\$1,050/oz. In FY17 the Company is estimating 65koz to be produced from Mt Magnet and a further 55koz from Vivien, with a final 15koz from the Kathleen Valley operation.

The JunQ was particularly strong with group production of 32,752oz (vs guidance of 28-32koz) and AISC's expected to be significantly lower than guidance of A\$1,175/oz. JunQ production included 12,577oz from Mt Magnet (vs guidance of 12.5koz), 14,745oz from Kathleen Valley (vs guidance of 12.5koz) and 5,430oz from Vivien (vs guidance of 5koz). The Company spent ~A\$5.7m on capital development at Mt Magnet (A\$1.9m), Kathleen Valley (A\$1.7m) & exploration (A\$2.1m) during the JunQ.

### Four year plan and a significant exploration spend

Ramelius has announced a four year mine plan, consisting primarily of ore reserves and Indicated resources and including a small amount (~10%) of Inferred resources. The four year plan is underpinned by ~65kozpa (AISC of ~A\$1,300/oz) from the Mt Magnet operations and a further ~55kozpa (AISC of ~A\$1,000/oz) from the Vivien underground satellite operation for a combined group production of ~125kozpa at AISC of ~A\$1,100/oz.

RMS has announced a capex requirement of ~A\$20mpa over the next ~2 years to pre-strip the open pits at Titan and Milky Way and setup the Water Tank Hill underground mine at Mt Magnet. RMS has also announced an increased exploration spend of ~A\$10mpa (up from the current ~A\$4-5mpa) for the next ~3 years which will increase the likelihood of extending minelife beyond the current ~4 years with a further conversion of the current ~2.2Moz resource base. After accounting for the capex and exploration requirements over the next ~12 months our estimates suggest the Company could add a further ~A\$70m of cash during FY17.

### EBITDA of ~A\$110mpa for the next ~4 years, EV/EBITDA ~2x

At current spot prices we model EBITDA of ~A\$110mpa for the next ~4 years which suggests RMS is trading on an EV/EBITDA multiple of ~2x. This compares favourably to peers who trade on multiples of ~4-6x EV/EBITDA. These cashflow multiples suggest Ramelius could trade much higher over the coming ~12 months, strengthened by the current discount to our spot valuation. Gold producer peers are currently trading on multiples (~1.4-1.6x NAV) of our spot valuation which also suggests RMS has potential to re-rate in line with our valuation (or higher).

### Undervalued & misunderstood, maintain Buy recommendation

The Company has always traded lower than AUD gold peers based on multiples, primarily due to the lack of minelife at Mt Magnet. We believe with the new four year plan and given the recent exploration success at the Milky Way deposit we should see Ramelius trade more appropriately over the coming quarters. With an increased exploration spend (A\$10mpa) the market should gain a better understanding into the upside that exists at Mt Magnet. We continue to see potential to extend well beyond the current ~4 year minelife particularly given the new focus on porphyry-style mineralisation which was misunderstood by previous owners. We maintain our Buy recommendation and a price target of 77c, NAV of 73c, spot NAV of 70c.

## SUMMARY MODEL

Ramelius Resources RMS		Share Price \$0.575						14 July 2016 Buy																																								
<b>Key Market Information</b>												<b>Directors</b>						<b>Company Information</b>																														
Share Price												Robert Kennedy (Chairman)						Level 1, 130 Royal St																														
Market Capitalisation - ordinary												Mark Zepner (MD)						East Perth, WA, 6004																														
Net Debt (cash)												Michael Bohm (Non-Exec Director)						+61 8 9202 1138																														
Market Capitalisation - fully diluted												Kevin Lines (Non-Exec Director)						+61 8 9202 1128																														
EV																		www.rameliusresources.com.au																														
Issued Capital																																																
Options																																																
Issued Capital (fully diluted inc. all options)																																																
Issued Capital (fully diluted inc. all options and new capital)																																																
Valuation																																																
12month price target																																																
<b>P&amp;L</b>												<b>Reserves &amp; Resources</b>						<b>Production Summary</b>																														
Net Revenue												Mt			g/t Au			Koz			Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19																						
Total Costs												TOTAL RESOURCE	28.1	2.5	2,227	Measured	2.9	2.0	185	Indicated	14.3	2.8	1,277	Inferred	11.0	2.2	765	Reserve	4.85	2.7	424																	
EBITDA												Total cash costs	\$A/oz	990	1,078	861	898	897	C1: Operating Cash Cost = (a)	\$A/oz	831	891	734	752	752	(a) + Royalty = (b)	\$A/oz	862	1,023	817	846	844																
- margin												C2: (a) + depreciation & amortisation = (c)	\$A/oz	1,116	1,234	923	969	981	(c) + actual cash for development = (d)	\$A/oz	1,176	1,229	947	992	896	C3: (c) + Royalty	\$A/oz	1,148	1,266	1,006	1,064	1,073																
Depreciation/Amort												All in sustaining costs (AISC)	\$A/oz	1,207	1,261	1,031	1,086	988	Price Assumptions	Unit	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	AUD/USD	AS/US\$	0.81	0.73	0.72	0.72	0.75																
EBIT												Cost per milled tonne	\$A/t	61.0	61.9	36.9	40.0	40.0	Gold	US\$/oz	1187	1182	1363	1380	1380	Gold	AS/oz	1473	1610	1892	1920	1844																
Net Interest												EBITDA / tonne milled ore	\$A/t	28.7	44.3	110.7	98.3	91.1	Hedging	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19	Hedges maturing?	No	Yes	Yes	No	No																		
Pre-Tax Profit												Total cash costs	\$A/oz	990	1,078	861	898	897	Sensitivity Analysis	Valuation	0.73	FY17 NPAT	85.3	Base Case	0.70 (-4.9%)	74.6 (-12.5%)	Spot Prices	0.70 (-4.9%)	74.6 (-12.5%)	Spot Price	0.70 (-4.9%)	74.6 (-12.5%)																
Tax Expense												C1: Operating Cash Cost = (a)	\$A/oz	831	891	734	752	752	AUD/USD +/-10%	0.61 / 0.88 (-16.5% / 20.2%)	69.3 / 105.7 (-18.7% / 24.0%)	Gold +/-10%	0.86 / 0.60 (18.2% / -18.2%)	103.7 / 67.7 (21.6% / -20.7%)	Production +/-10%	0.87 / 0.59 (18.7% / -18.7%)	104.2 / 67.2 (22.2% / -21.2%)	Operating Costs +/-10%	0.68 / 0.79 (-7.6% / 7.6%)	78.5 / 92.9 (-8.0% / 8.9%)																		
Normalised NPAT												C2: (a) + depreciation & amortisation = (c)	\$A/oz	1,116	1,234	923	969	981	Unpaid Capital	Year Expires	No. (m)	\$m	Avg price	% ord	30-Jun-16	1.5	0.3	0.20	0.3%																			
Abnormal Items												(c) + actual cash for development = (d)	\$A/oz	1,176	1,229	947	992	896	30-Jun-17	1.5	0.4	0.25	0.3%	30-Jun-18	0.0	0.0	0.00	0.0%																				
Reported Profit												C3: (c) + Royalty	\$A/oz	1,148	1,266	1,006	1,064	1,073	30-Jun-19	0.0	0.0	0.00	0.0%	30-Jun-20	0.0	0.0	0.00	0.0%																				
Minority												All in sustaining costs (AISC)	\$A/oz	1,207	1,261	1,031	1,086	988	TOTAL	3.0	0.7	0.22	0.6%	Share Price Valuation (NAV)	Risked Est. A\$m	158	182	17	50	0.10	0.04	0.10	0.04															
Profit Attrib												Total cash costs	\$A/oz	990	1,078	861	898	897	100% Vivien (pre-tax NAV at disc. rate of 8%)	158	0.33	100% Mt Magnet (pre-tax NAV at disc. rate of 8%)	182	0.38	100% Kathleen Valley (pre-tax NAV at disc. rate of 8%)	17	0.04	Other Exploration	50	0.10	Corporate Overheads	-21	-0.04	Net Cash (Debt)	50	0.10	Tax (NPV future liability)	-86	-0.18	Options	0	0.00	Hedges	0	0.00	Total	350	0.73
Balance Sheet												C3: (c) + Royalty	\$A/oz	1,148	1,266	1,006	1,064	1,073	Analyst: Scott Williamson	+61 8 9268 3045	Last Updated: 14/07/2016																											
Cash												All in sustaining costs (AISC)	\$A/oz	1,207	1,261	1,031	1,086	988	*tbc capital* could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.	Sources: IRESS, Company Information, Hartleys Research																												
Other Current Assets												AUD/USD	AS/US\$	0.81	0.73	0.72	0.72	0.75																														
Total Current Assets												Gold	US\$/oz	1187	1182	1363	1380	1380																														
Property, Plant & Equip.												Gold	AS/oz	1473	1610	1892	1920	1844																														
Exploration												Hedging	Jun 15	Jun 16	Jun 17	Jun 18	Jun 19																															
Investments/other												Hedges maturing?	No	Yes	Yes	No	No																															
Total Non-Curr. Assets												Sensitivity Analysis	Valuation	0.73	FY17 NPAT	85.3																																
Total Assets												Base Case	0.70 (-4.9%)	74.6 (-12.5%)																																		
Short Term Borrowings												Spot Prices	0.70 (-4.9%)	74.6 (-12.5%)																																		
Other												AUD/USD +/-10%	0.61 / 0.88 (-16.5% / 20.2%)	69.3 / 105.7 (-18.7% / 24.0%)																																		
Total Curr. Liabilities												Gold +/-10%	0.86 / 0.60 (18.2% / -18.2%)	103.7 / 67.7 (21.6% / -20.7%)																																		
Long Term Borrowings												Production +/-10%	0.87 / 0.59 (18.7% / -18.7%)	104.2 / 67.2 (22.2% / -21.2%)																																		
Other												Operating Costs +/-10%	0.68 / 0.79 (-7.6% / 7.6%)	78.5 / 92.9 (-8.0% / 8.9%)																																		
Total Non-Curr. Liab.												Unpaid Capital	Year Expires	No. (m)	\$m	Avg price	% ord																															
Total Liabilities												30-Jun-16	1.5	0.3	0.20	0.3%																																
Net Assets												30-Jun-17	1.5	0.4	0.25	0.3%																																
Net Debt												30-Jun-18	0.0	0.0	0.00	0.0%																																
Cashflow												30-Jun-19	0.0	0.0	0.00	0.0%																																
Operating Cashflow												30-Jun-20	0.0	0.0	0.00	0.0%																																
Income Tax Paid												TOTAL	3.0	0.7	0.22	0.6%																																
Interest & Other												Share Price Valuation (NAV)	Risked Est. A\$m	158	182	17	50	0.10	0.04	0.10	0.04																											
Operating Activities												100% Vivien (pre-tax NAV at disc. rate of 8%)	158	0.33	100% Mt Magnet (pre-tax NAV at disc. rate of 8%)	182	0.38	100% Kathleen Valley (pre-tax NAV at disc. rate of 8%)	17	0.04	Other Exploration	50	0.10	Corporate Overheads	-21	-0.04	Net Cash (Debt)	50	0.10	Tax (NPV future liability)	-86	-0.18	Options	0	0.00	Hedges	0	0.00	Total	350	0.73							
Property, Plant & Equip.												Total	350	0.73																																		
Exploration and Devel.												Analyst: Scott Williamson	+61 8 9268 3045	Last Updated: 14/07/2016																																		
Other												*tbc capital* could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.	Sources: IRESS, Company Information, Hartleys Research																																			
Investment Activities												Ratio Analysis	Unit	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18	30 Jun 19																														
Borrowings												Cashflow Per Share	A\$ cps	11.1	9.4	24.2	21.2	19.5																														
Equity or "tbc capital"												Cashflow Multiple	x	5.2	6.1	2.4	2.7	2.9																														
Dividends Paid												Earnings Per Share	A\$ cps	3.9	5.5	18.4	15.8	13.5																														
Financing Activities												Price to Earnings Ratio	x	14.7	10.4	3.1	3.6	4.3																														
Net Cashflow												Dividends Per Share	AUD	-	-	-	-	-																														
Shares												Dividend Yield	%	0.0%	0.0%	0.0%	0.0%																															
Ordinary Shares - End												Net Debt / Net Debt + Equity	%	-46%	-64%	-165%	-237%	-367%																														
Ordinary Shares - Weighted												Interest Cover	X	24.9	na	na	1409.3																															
Diluted Shares - Weighted												Return on Equity	%	18%	21%	41%	26%	18%																														

## VALUATION

Fig. 1: Earnings changes

Unit	30 Jun 15	30 Jun 16			30 Jun 17			30 Jun 18			
		old	new	% diff	old	new	% diff	old	new	% diff	
Au Production	koz	87	105	109	4%	131	140	7%	107	125	16%
All in sustaining costs (AISC)	A\$/oz	1,178	1,190	1,163	-2%	1,168	1,158	-1%	1,230	1,232	0%
<b>Net Revenue</b>	<b>A\$m</b>	<b>131.9</b>	<b>187.7</b>	<b>176.3</b>	<b>-6%</b>	<b>233.3</b>	<b>264.8</b>	<b>13%</b>	<b>191.8</b>	<b>240.1</b>	<b>25%</b>
<b>Total Costs</b>	<b>A\$m</b>	<b>-85.8</b>	<b>-115.6</b>	<b>-117.6</b>	<b>2%</b>	<b>-129.1</b>	<b>-120.9</b>	<b>-6%</b>	<b>-108.8</b>	<b>-112.2</b>	<b>3%</b>
EBITDA	A\$m	46.1	72.1	58.7	-18%	104.2	143.9	38%	82.9	127.8	54%
- margin		0.3	0.4	0.3	-13%	0.4	0.5	22%	0.4	0.5	23%
Depreciation/Amort	A\$m	-24.7	-26.7	-26.8	1%	-27.6	-25.9	-6%	-26.2	-26.5	1%
<b>EBIT</b>	<b>A\$m</b>	<b>21.4</b>	<b>45.4</b>	<b>31.9</b>	<b>-30%</b>	<b>76.7</b>	<b>118.0</b>	<b>54%</b>	<b>56.8</b>	<b>101.4</b>	<b>78%</b>
Net Interest	A\$m	-0.9	-1.4	4.5	-420%	-2.8	4.5	-262%	-4.5	4.5	-200%
<b>Norm. Pre-Tax Profit</b>	<b>A\$m</b>	<b>20.5</b>	<b>44.0</b>	<b>36.4</b>	<b>-17%</b>	<b>73.9</b>	<b>122.4</b>	<b>66%</b>	<b>52.3</b>	<b>105.8</b>	<b>102%</b>
Norm. Tax Expense	A\$m	-2.8	-13.2	-10.9	-17%	-22.2	-36.7	66%	-15.7	-31.7	102%
- rate		13.5%	30.0%	30.0%	0%	30.0%	30.0%	0%	30.0%	30.0%	0%
Reported Tax Expense	A\$m	-4.5	-13.2	-10.9	-22.2	-36.7	66%	-15.7	-31.7	102%	
<b>Normalised NPAT</b>	<b>A\$m</b>	<b>17.8</b>	<b>30.8</b>	<b>25.5</b>	<b>-17%</b>	<b>51.7</b>	<b>85.7</b>	<b>66%</b>	<b>36.6</b>	<b>74.1</b>	<b>102%</b>
Abnormal Items	A\$m	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Reported Profit	A\$m	16.1	30.8	25.5	-17%	51.7	85.7	66%	36.6	74.1	102%
Minority	A\$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
<b>Profit Attrib</b>	<b>A\$m</b>	<b>16.1</b>	<b>30.8</b>	<b>25.5</b>	<b>-17%</b>	<b>51.7</b>	<b>85.7</b>	<b>66%</b>	<b>36.6</b>	<b>74.1</b>	<b>102%</b>
capex + exploration	A\$m	20.2	24.0	22.0	-8%	14.0	30.0	114%	14.0	30.0	114%
Net Debt	A\$m	-31.4	-55.6	-52.8	-5%	-122.4	-134.8	10%	-169.6	-203.3	20%
Dividends Per Share	cps	-	-	-	-	-	-	-	-	-	

Source: Hartleys Estimates

Our sum of parts valuation for RMS is based on the Mt Magnet operations combined with the Vivien and Kathleen Valley satellite projects.

We model the Kathleen Valley and Vivien satellite projects in line with Company guidance and feasibility studies. At Kathleen Valley we model a further <1 year minelife producing ~40kozpa @ AISC of <A\$1,000/oz. At Vivien we model a 4 year minelife producing ~50kozpa @ AISC of <A\$1,000/oz from FY17 onwards. The Mt Magnet operations combined with the two satellite projects has a production profile of ~125kozpa @ AISC of ~A\$1,250/oz for ~3 years. We model the Mt Magnet operations to continue for a further ~2 years at ~60kozpa @ AISC of ~A\$1,250/oz (for a total minelife of ~5 years).

We believe RMS is well positioned for brownfield exploration success at Mt Magnet and we value the exploration upside potential with a nominal A\$50m. We see upside potential within and around the Kathleen Valley and Vivien projects and throughout the highly prospective Mt Magnet tenement package.

Fig. 2: Hartleys Sum of Parts Valuation for RMS

	A\$m	A\$/share
100% Vivien (pre-tax NAV @ 10%)	158.1	0.33
100% Mt Magnet (pre-tax NAV @ 8%)	181.6	0.38
100% Kathleen Valley (pre-tax NAV @ 8%)	17.3	0.04
Other Exploration	50.0	0.10
Corporate Overheads	-20.9	-0.04
Net Cash (Debt)	49.7	0.10
Tax (NPV future liability)	-86.8	-0.18
Options	0.5	0.00
Hedges	0.0	0.00
<b>Total</b>	<b>349.6</b>	<b>0.73</b>

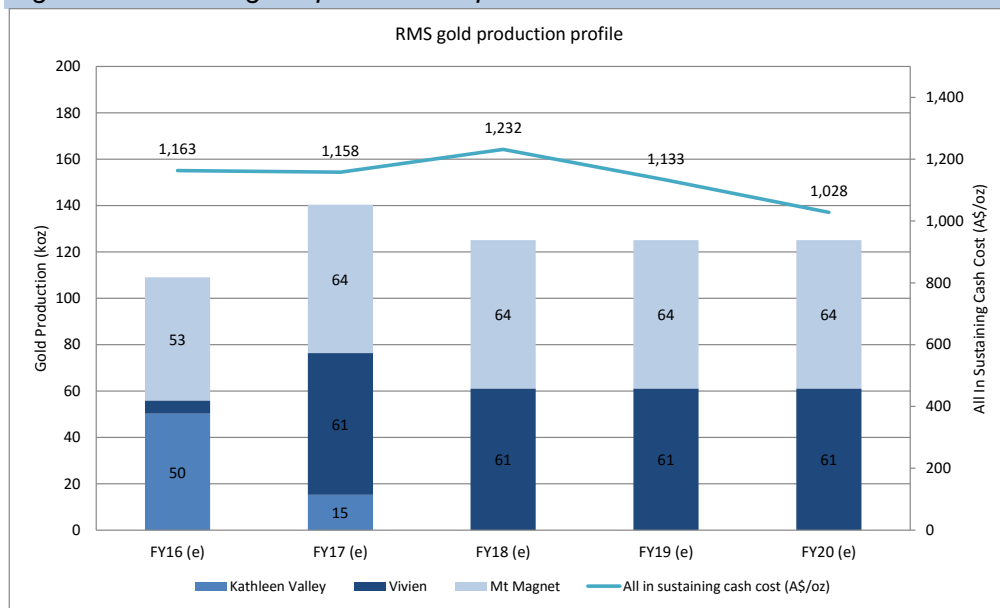
Source: Hartleys Estimates

We model the Mt Magnet operations combined with the Vivien & Kathleen Valley satellite projects

We assume a nominal A\$50m value for exploration upside

Hartleys sum of parts valuation for RMS is A\$0.73/share

**Fig. 3: RMS gold production profile**



We model a production profile of ~125kozpa for ~4 years followed by ~60kozpa for a further ~1 years

Source: Hartleys Estimates

### PRICE TARGET

Our price target is based on our sum of parts valuation for the Mt Magnet operations combined with the two satellite projects with a production profile of ~125kozpa @ AISC of ~A\$1,100/oz for ~4 years. We model the Mt Magnet operations to continue for a further ~1 years at ~60kozpa @ AISC of ~A\$1,200/oz (for a total minelife of ~5 years). Our price target has weighting for our valuation at spot and consensus pricing.

Hartleys 12 month price target is \$0.77/share

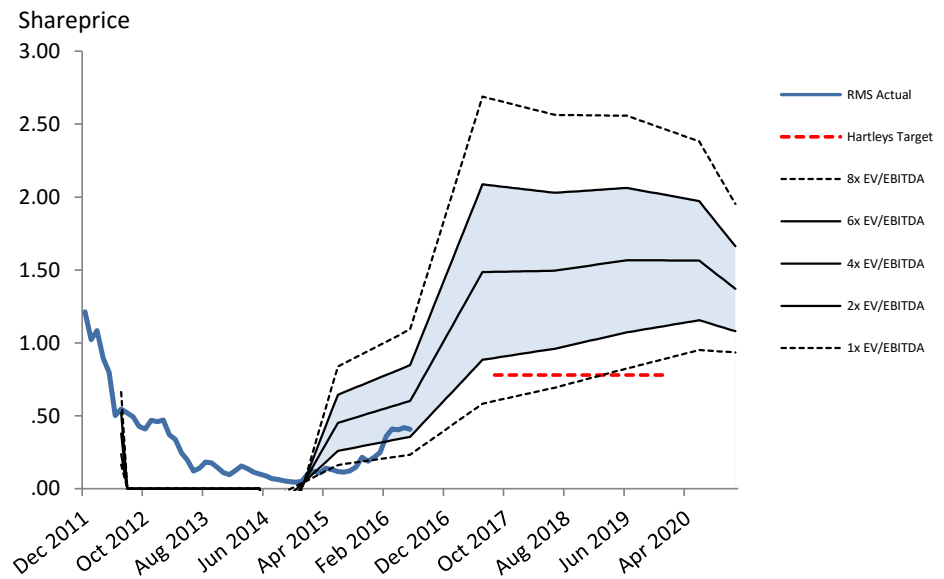
**Fig. 4: RMS Price Target Methodology**

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	60%	\$0.73	\$0.78
NPV base case at spot commodity and fx prices	40%	\$0.70	\$0.74
<b>Risk weighted composite</b>		<b>\$0.72</b>	
<b>12 Months Price Target</b>		<b>\$0.77</b>	
Shareprice - Last		\$0.575	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>34%</b>	

Source: Hartleys Estimates

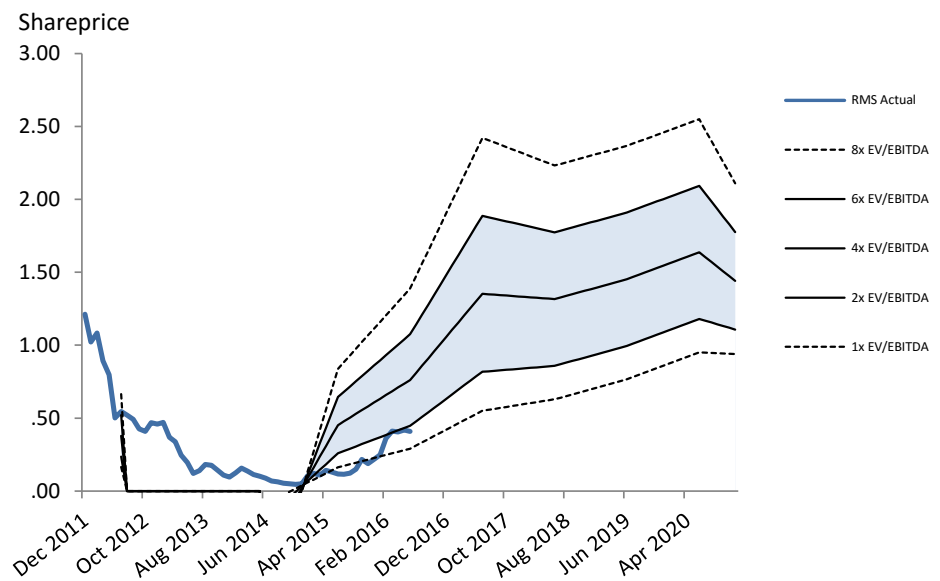
## EV/EBITDA BANDS

**Fig. 5: Using Hartleys base case commodity forecasts**



Source: Hartleys Estimates, IRESS

**Fig. 6: Using spot commodity prices**



Source: Hartleys Estimates, IRESS

## RISKS

**Fig. 7: Key assumptions and risks for valuation**

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Mt Magnet operations	Moderate	Meaningful	RMS is leveraged to the success of the Mt Magnet operations. We model a 4 year minelife combined with Vivien and Kathleen Valley. If Mt Magnet was to cease operations earlier than 4 years our valuation would be at risk to the downside
Model parameters	Moderate	Meaningful	We have made a number of large assumptions in our valuation of RMS, changes in these assumptions can change our valuation to both the upside and downside
Exploration upside potential	Moderate	Meaningful	We assume some exploration upside at Vivien, Kathleen Valley and throughout the Mt Magnet operations. Some downside risk to our valuation exists if RMS has no further exploration success
Vivien Development Risk	Moderate	High	The Vivien project is still in development, if the development is delayed or encounters major issues our valuation will be at risk
<i>Conclusion</i>	<i>We have made some assumptions with regards to resource conversion and exploration potential but believe these are achievable.</i>		

Source: Hartleys Research



# HARTLEYS CORPORATE DIRECTORY

## Research

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Scott Williamson	Resources Analyst	+61 8 9268 3045
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## Corporate Finance

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Paul Fryer	Director	+61 8 9268 2819
Ben Wale	Associate Director	+61 8 9268 3055
Ben Crossing	Associate Director	+61 8 9268 3047
Stephen Kite	Associate Director	+61 8 9268 3050
Scott Weir	Associate Director	+61 8 9268 2821
Rhys Simpson	Manager	+61 8 9268 2851

## Registered Office

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*Note: personal email addresses of company employees are structured in the following manner:firstname\_lastname@hartleys.com.au*

## Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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