

Ramelius Resources

RMS gives 2020 vision

ADD (no change)

Current price:	A\$0.79
Target price:	A\$0.95
Previous target:	A\$1.02
Up/downside:	21.3%
Reuters:	RMS.AX
Bloomberg:	RMS AU
Market cap:	US\$355.5m
	A\$516.4m
Average daily turnover:	US\$2.29m
	A\$3.29m
Current shares o/s	656.4m
Free float:	100.0%

- RMS have released a life of mine (LOM) plan spanning five years and +1Moz.
- FY20 production guidance of 214,500oz at an all-in sustaining cost (AISC) of between A\$1,225/oz and A\$1,325/oz.
- **FY20E:** EBITDA A\$103m and A\$19m cash generation.
- Average production for the next four years ~233kozpa at an average AISC of ~\$1,260/oz.
- Tampia project strategic review resulted in a decision to truck the ore to the Edna May processing facility.

Rolling five-year LOM plan

RMS this morning released their five-year +1Moz LOM plan. Previous estimates stated production of between 230koz and 250koz per year which the LOM broadly confirms with the exception of FY20 (214.5koz) and FY2024 (152koz). The reduction in FY20 ounces can be attributed to the mining of additional low grade (LG) stockpiles at Edna May as a result of the delays in obtaining the clearing permit for the Greenfinch pit. FY24 ounces should be viewed as a base that RMS can build upon with further exploration work. AISC guidance has been given of approximately A\$1,260/oz for the first four years. Higher cost compared to current levels has been primarily attributed to increased labour costs experienced in Western Australia (WA) as well as the mining of lower grade material. The next four years (FY20 to FY23) have an average production rate of 233kozpa at an average AISC of A\$1,260/oz.

Tampia project strategic review

A strategic review of the recently acquired Tampia project has been completed. The review investigated two main options: 1) to construct a mill on site at Tampia or 2) to haul the ore from Tampia to Edna May for processing. The review found that the trucking option generated the best results. As can be expected the trucking option had lower upfront capital (A\$50m vs A\$118m) however a higher AISC (A\$1,119/oz vs A\$1,039/oz). The review also revisited the mining study previously completed by Explaurum, the findings resulted in a reduction of the resource initially stated by Explaurum (675koz to 460koz) due to different estimation techniques and assumptions.

Our view

Even with more reserved output targets and cost assumptions than previously estimated we believe RMS are still on track to generate A\$103m in EBITDA in FY20. Their healthy cash balance and no debt also gives them the optionality of cash management and/or acquiring value accretive projects. The increased mine life and reserve base also makes RMS a target to larger producers looking to add production and longevity. Our target price has reduced to A\$0.95/share due to the delay in production however given the macro economic conditions, RMS's balance sheet and the potential upside of exploration we retain our ADD rating.



Price performance	1M	3M	12M
Absolute (%)	-8.7	12.1	36.5
Relative (%)	-11.3	6.3	29.3

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– N/A

Financial Summary

	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (A\$m)	197.4	341.8	353.3	389.5	424.1
Operating EBITDA (A\$m)	86.2	126.6	107.3	103.2	120.0
Net Profit (A\$m)	17.68	30.76	24.29	36.47	44.95
Normalised EPS (A\$)	0.037	0.058	0.037	0.056	0.068
Normalised EPS Growth		57.3%	(35.8%)	50.1%	23.3%
FD Normalised P/E (x)	21.42	13.59	19.14	14.13	11.46
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	3.89	2.68	3.95	3.65	2.73
P/FCFE (x)	38.15	NA	10.21	59.10	12.47
Net Gearing	(46.3%)	(37.1%)	(41.2%)	(40.4%)	(46.2%)
P/BV (x)	2.44	2.05	1.96	1.50	1.27
ROE		16.4%	10.5%	12.0%	12.0%
% Change In Normalised EPS Estimates			12.8%	(1.2%)	13.4%
Normalised EPS/consensus EPS (x)			1.09	0.61	0.65

SOURCE: MORGANS, COMPANY REPORTS

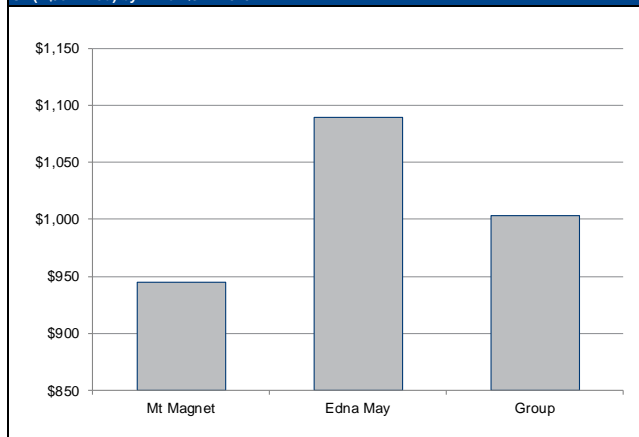
Figure 1: Business snapshot

Ramelius Resources (as at 17-06-19)		RMS AU / RMS.AX		Mining	
Market cap (A\$m):	515.2	Rating:		ADD	
Shares outstanding (m):	656.4	Price (A\$):		0.79	
Free float (%):	100%	Target price (A\$):		0.95	
Company website:	www.rameliusresources.com.au	Upside/downside to target price (%):		21.3%	

Company description

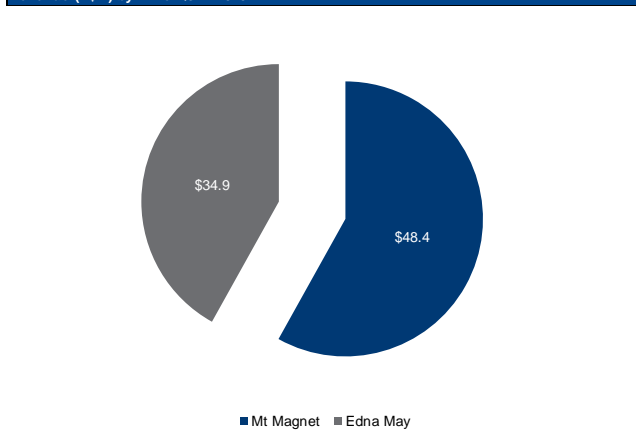
Ramelius Resources (RMS) is a Western Australia focused gold producer that listed on the ASX in 2003 and has been in production since 2006. Currently RMS 100% owns the Mount Magnet, Edna May, Vivien, Marda and Tampia Hill gold mines.

C1 (A\$/oz Prod) by Mine Q3 FY2019



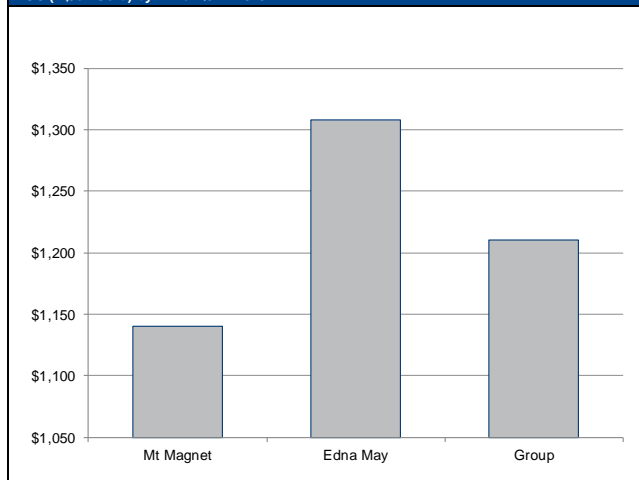
Source: Morgans

Revenue (A\$m) by Mine Q3 FY2019



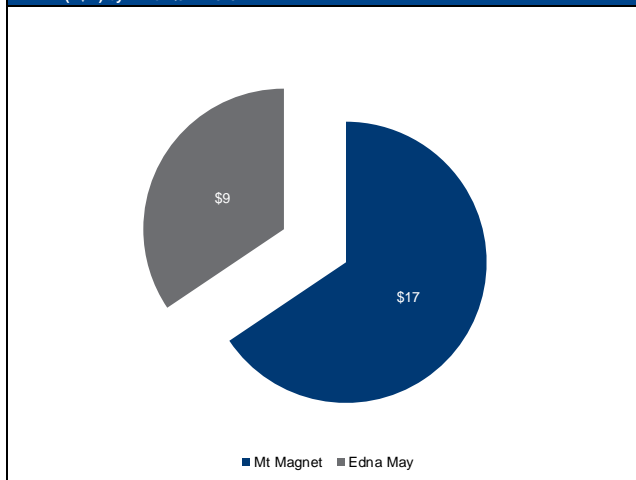
Source: Morgans

AISC (A\$/oz Sold) by Mine Q3 FY2019



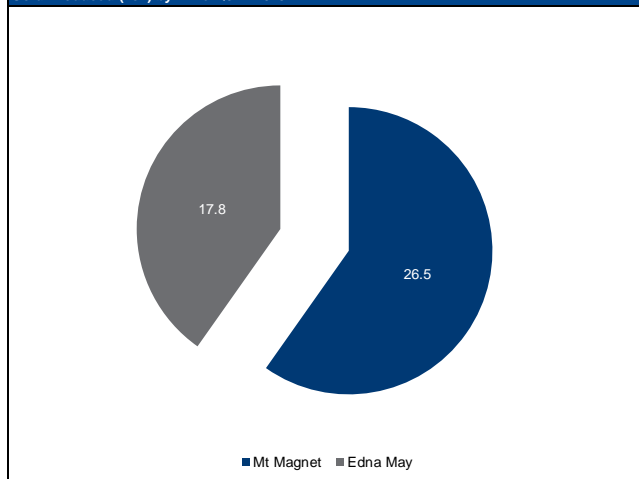
Source: Morgans

EBITDA (A\$m) by Mine Q3 FY2019



Source: Morgans

Gold Produced (koz) by Mine Q3 FY2019



Source: Morgans

Key drivers / risks

Key Industry Drivers

Gold price as a proxy of global market sentiment.
AUD:US exchange rate

Key risks

Most sensitive inputs are gold price and exchange rate hence they are the key risks.
Operational risks include the development of Tampia Hill that contains some refractory ore (refractory ore requires additional processing to the ore that RMS currently excavate) and overseeing a growing number of operations.

Upcoming catalysts

Development of Tampia Hill.
Possible dividend payments or M&A activity

Source: Morgans

Figure 2: Financial summary

Income statement (A\$M)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Sales Revenue	\$197	\$342	\$353	\$390	\$424
Cost of goods sold	-\$119	-\$209	-\$218	-\$272	-\$292
Gross Profit	\$78	\$132	\$135	\$117	\$132
Other Income/Costs	\$8	-\$6	-\$28	-\$14	-\$12
EBITDA	\$86	\$127	\$107	\$103	\$120
Depreciation & Amortisation	-\$60	-\$81	-\$73	-\$54	-\$59
EBIT	\$26	\$46	\$34	\$50	\$61
Interest Income	\$1	\$1	\$2	\$3	\$3
Finance Cost	-\$1	-\$2	-\$1	\$0	\$0
Impairments	-\$2	\$0	\$0	\$0	\$0
Profit before Income Tax	\$25	\$45	\$35	\$52	\$64
Income Tax Expense	-\$7	-\$15	-\$11	-\$16	-\$19
NPAT - Reported	\$18	\$31	\$24	\$36	\$45

Cashflow Statement (A\$M)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Operating EBITDA	\$86	\$127	\$113	\$113	\$128
Interest Received	\$1	\$1	\$2	\$3	\$3
Finance Cost	\$0	\$0	\$0	\$0	\$0
Income Tax Paid	\$0	\$0	\$0	\$0	\$0
Other	-\$4	-\$9	\$12	\$2	-\$1
Net operating Cashflow	\$83	\$119	\$128	\$118	\$130
Payments for PP&E	-\$5	-\$5	-\$5	-\$5	-\$4
Development Capex	-\$52	-\$66	-\$50	-\$84	-\$69
Proceeds from Asset Sales	\$1	\$0	\$0	\$0	\$0
Acquisition of Subsidiaries	\$0	-\$38	\$0	\$0	\$0
Payment for Exploration / Acquisition	-\$15	-\$14	-\$17	-\$10	-\$8
Other Investing Cashflows	-\$1	-\$1	-\$4	\$0	\$0
Net Cash from Investing Activities	-\$73	-\$123	-\$76	-\$99	-\$81
Repayment of Debt	\$0	\$0	\$0	\$0	\$0
Proceeds from Debt	\$0	\$0	\$0	\$0	\$0
Dividends Paid	\$0	\$0	\$0	\$0	\$0
Proceeds from Issues of Shares	\$25	\$0	\$0	\$0	\$0
Other Financing Cashflows	-\$2	\$0	\$0	\$0	\$0
Net Cash from Financing Activities	\$23	\$0	\$0	\$0	\$0
Net Inc/Dec in Cash and Cash Equivalents	\$34	-\$4	\$52	\$19	\$49

Balance Sheet (A\$M)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Cash & Cash Equivalents	\$79	\$75	\$120	\$138	\$188
Trade & Other Receivables	\$2	\$3	\$4	\$5	\$5
Inventories	\$29	\$58	\$42	\$48	\$52
Total Current Assets	\$111	\$138	\$166	\$191	\$245
Development Assets	\$53	\$85	\$74	\$107	\$120
Property, Plant & Equipment	\$19	\$51	\$45	\$47	\$48
Deferred Tax Assets	\$31	\$27	\$0	\$0	\$0
Exploration and Evaluation Expenditure	\$19	\$19	\$92	\$92	\$92
Other Non-Current Assets	\$2	\$2	\$10	\$10	\$10
Total Non-Current Assets	\$125	\$184	\$220	\$255	\$269
Total Assets	\$235	\$322	\$386	\$447	\$514
Trade & Other Payables	\$22	\$32	\$34	\$43	\$46
Provisions	\$3	\$6	\$6	\$6	\$6
Other Current Liabilities	\$0	\$0	\$0	\$0	\$0
Total Current Liabilities	\$25	\$38	\$40	\$49	\$52
Deferred Tax Liabilities	\$19	\$26	\$1	\$1	\$1
Provisions	\$21	\$43	\$43	\$43	\$43
Other Non-Current Liabilities	\$0	\$13	\$11	\$11	\$11
Total Non-Current Liabilities	\$40	\$82	\$56	\$56	\$56
Total Liabilities	\$66	\$120	\$96	\$104	\$107
Issued Capital	\$149	\$150	\$166	\$194	\$194
Reserves	\$1	\$2	\$13	\$13	\$13
Retained Earnings	\$20	\$51	\$83	\$135	\$200
Non-Controlling Interest	\$0	\$0	\$28	\$0	\$0
Total Equity	\$170	\$202	\$291	\$343	\$407

Gold Sold (Koz)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Mt Magnet	81	136	119	146	89
Edna May	40	68	85	69	147
TOTAL GOLD SOLD	121	203	204	215	236

Gold Produced (Koz)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Mt Magnet	83	135	115	146	89
Edna May	42	73	82	69	147
TOTAL GOLD PRODUCED	125	208	197	215	236

Key Metrics	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Gold Price (\$US/oz)	\$1,257	\$1,298	\$1,302	\$1,329	\$1,317
AUD:US	0.75	0.78	0.71	0.7125	0.735
EPS	0.03	0.06	0.04	0.06	0.07
DPS	0.00	0.00	0.00	0.00	0.00
Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EBITDA Margin	44%	37%	30%	26%	28%
P/E	25.9	14.9	23.5	15.7	12.7
EV/EBITDA	4.4	3.0	4.5	4.2	3.2
Free Cashflow Yield	26.6%	38.6%	23.8%	21.9%	24.5%
Net Debt	0%	0%	0%	0%	0%
Net Debt / Equity	0%	0%	0%	0%	0%
Net Debt / EBITDA	0%	0%	0%	0%	0%

Revenue (A\$M)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Mt Magnet	\$132	\$226	\$206	\$267	\$160
Edna May	\$66	\$113	\$147	\$123	\$264
TOTAL REVENUE	\$197	\$339	\$353	\$390	\$424

C1 (A\$/oz Produced)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Mt Magnet	\$866	\$821	\$964	\$1,110	\$1,080
Edna May	\$1,108	\$1,049	\$1,076	\$1,020	\$990
GROUP	\$951	\$901	\$1,011	\$1,081	\$1,024

C1 (A\$M)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Mt Magnet	\$72	\$111	\$111	\$162	\$96
Edna May	\$46	\$76	\$88	\$70	\$145
GROUP	\$119	\$187	\$199	\$232	\$241

AISC (A\$/oz Sold)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Mt Magnet	\$1,169	\$1,186	\$1,165	\$1,270	\$1,240
Edna May	\$1,169	\$1,203	\$1,195	\$1,270	\$1,240
GROUP	\$1,169	\$1,191	\$1,177	\$1,270	\$1,240

AISC (A\$M)	Jun-17A	Jun-18A	Jun-19E	Jun-20E	Jun-21E
Mt Magnet	\$94	\$161	\$138	\$185	\$110
Edna May	\$47	\$81	\$102	\$87	\$182
GROUP	\$141	\$242	\$240	\$272	\$292

Valuation	A\$M	A\$/sh
DR (%)		11.5%
Mt Magnet NPV	\$244	\$0.37
Edna May NPV	\$166	\$0.25
Total Current NPV (A\$M)	\$410	\$0.63
Other Exploration (A\$M)	\$140	\$0.21
Corporate Cost (A\$M)	-\$30	-\$0.05
Cash & Cash Equivalents (A\$M)	\$105	\$0.16
Total Valuation (A\$M)	\$625	\$0.95
Shares In Issue (million)	656	
Target Price (A\$/Share)		\$0.95

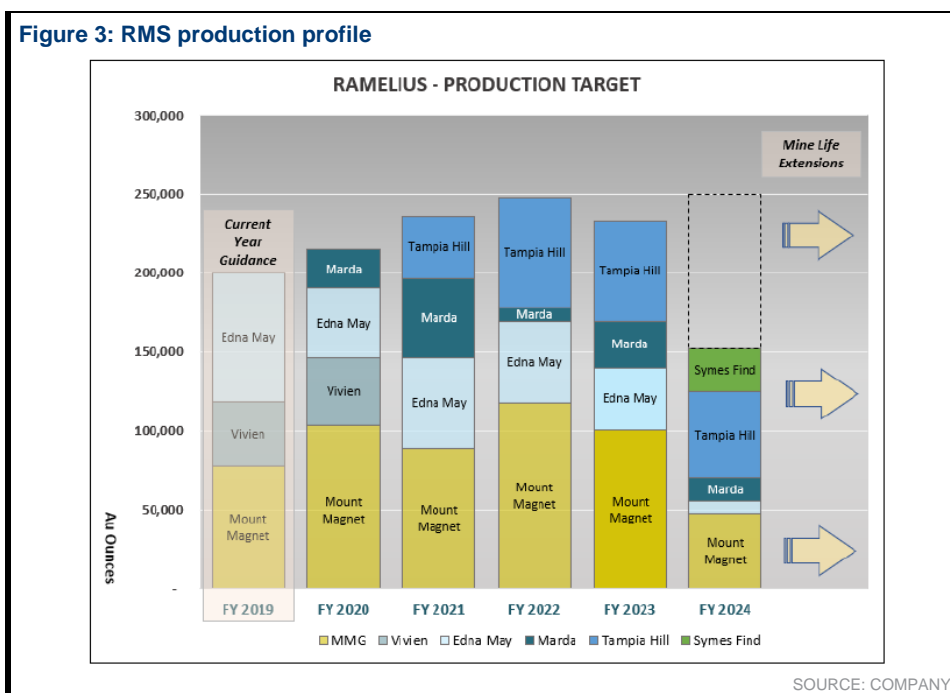
SOURCE: MORGANS RESEARCH, COMPANY

Five-year rolling LOM plan

Overview

RMS this morning released their five-year +1Moz LOM plan and it will be the basis of a five-year rolling plan. This plan provides investors visibility regarding the location and quantities of production for the short to medium term. Previous estimates stated production of between 230koz and 250koz per year which the LOM broadly confirms with the exception of FY20 (214.5koz) and FY2024 (152koz). The reduction in FY20 ounces can be attributed to the mining of additional LG stockpiles at Edna May as a result of the delays in obtaining the clearing permit for the Greenfinch pit. FY24 ounces should be viewed as a base that RMS can build upon with further exploration work. Figure 3 gives a breakdown of the quantity and location of production.

Figure 3: RMS production profile



AISC guidance has been given of approximately A\$1,260/oz for the first four years. Higher cost guidance compared to current levels has been primarily attributed to increased labour costs experienced in WA as well as the mining of lower grade material. The next four years (FY20 to FY23) have an average production rate of 233kozpa at an average AISC of A\$1,260/oz. Figure 4 summarises the production and AISC guidance for the LOM plan, the FY24 costs will be inflated due to the lower production output however this may reduce if RMS are able to ‘fill-in’ the profile through exploration and evaluation.

Figure 4: RMS AISC guidance

	FY2020*	FY2021	FY2022	FY2023	FY2024	Total/Average
AISC (\$/oz)	1,225 - 1,325	1,190 - 1,290	1,220 - 1,320	1,200 - 1,300	1,280 - 1,380	1,220 - 1,320
Capital (A\$m)	80-90	65-75	25-35	30-40	30-40	230-280
Production (oz)	214,500	235,500	248,000	234,500	152,000	1,084,500

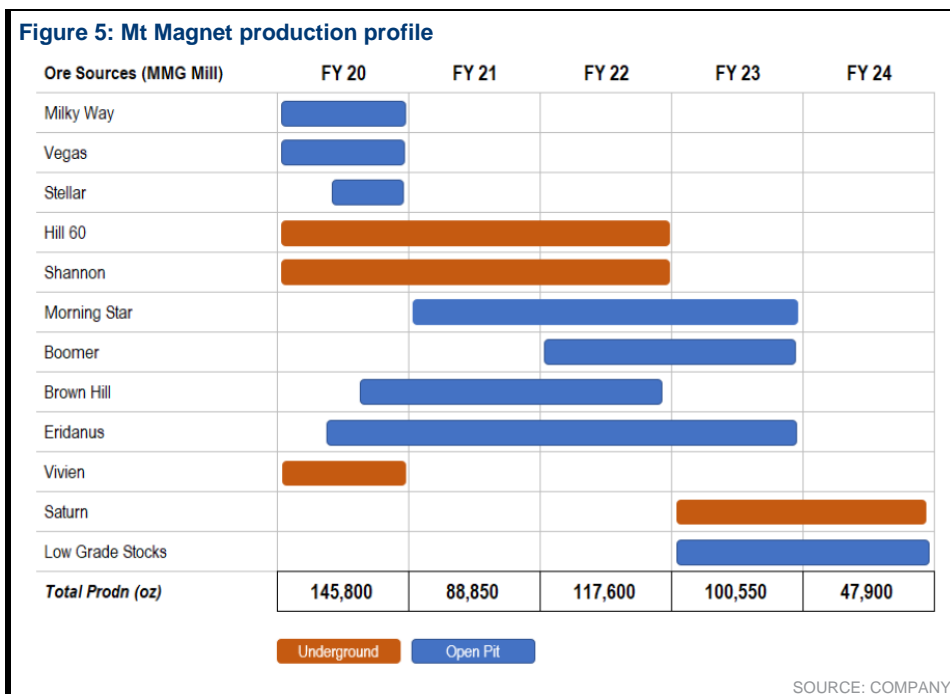
*A breakdown of Quarterly gold production by source, AISC and Capital requirements for FY20 will be provided in July 2019, as per the Company’s normal reporting practice.

SOURCE: COMPANY

FY20E EBITDA of A\$103m and cash generation of A\$19m (after elevated capital expenditure [\$25m] required for Tampia) strengthens RMS’s balance sheet and gives them the optionality of cash management (dividends) and/or acquiring value accretive projects. At this stage no dividend payments have been modelled. The increased mine life and reserve base also makes RMS a more relevant target to larger producers looking to add production and longevity.

Mt Magnet

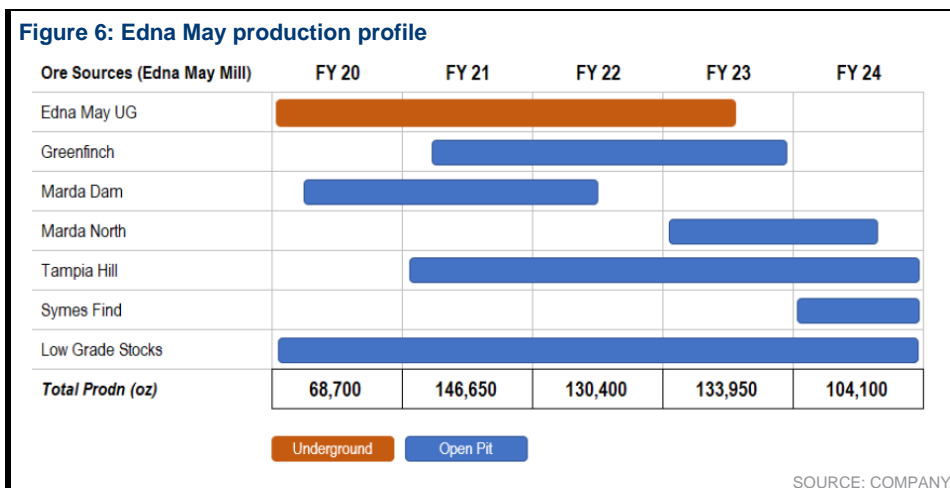
Mt Magnet will continue to do the heavy lifting for RMS in FY20 as Edna May feed sources are developed. The mill is planned to continue to operate at its current 1.9-2.0mtpa rate fed by a mixture of open pit and underground sources (Figure 5).



It should be noted that high grade Vivien underground ore has only been included for FY20 however additional drilling has produced encouraging results, as Vivien ore is higher grade (5.9g/t resource grade) compared to Mt Magnet (2.0g/t resource grade) any additional material may increase the ounces produced in FY21 and beyond.

Edna May

As previously mentioned Mt Magnet production will dominate FY20 as feed sources for Edna May are developed. The delay in Greenfinch (due to clearing permit issues) has pushed back ounces from the operation and therefore mill feed will need to be supplemented by the LG stockpile. The mill will reduce from its current 2.7mtpa rate to 2.0mtpa to accommodate both Marda and Tampia ore. The reduced throughput will be compensated by feeding higher grade material, Edna May historical grade (1.0-1.2g/t) is lower than the new feed expected from Marda (2.4g/t) and Tampia (2.8g/t). Figure 6 gives a breakdown of ore sources for the Edna May mill.



Edna May underground has been fast-tracked to partly compensate for the delay in Greenfinch however complementary LG material will be required to feed the mill resulting in comparatively lower production and AISC in the short term.

Tampia strategic project review

The strategic review aimed to determine the best economic outcomes for the development of the project.

The review also revisited the mining study previously completed by Explaurum. The findings of the study included a reduction of the resource initially stated by Explaurum from 675koz to 480koz/460koz due to different estimation techniques and assumptions (Figure 7).

Figure 7: Tampia resource review

Resource Block Model

Parameter	EXU Feasibility Study (May 2018)	RMS Milling Option (May 2019)	RMS Haulage Option (May 2019)
Block size	20m x 20m x 5m	5m x 10m x 5m + subcells	5m x 10m x 5m + subcells
Estimation Technique	Multiple Indicator Kriging (MIK) with Conditioned Localised Indicator Kriging (LIK) step to 5 x 5 x 2.5m	Inverse Distance ¹ & Ordinary Kriging	Inverse Distance ¹ & Ordinary Kriging
Top Cuts	None	11 domains - 20 to 150g/t	11 domains - 20 to 150g/t
Minimum orebody width	1 metre	2-3 metres	2-3 metres
Bulk Density	2.8 fresh waste, 3.1 fresh ore	3.1 mafic (& ore), 2.7 felsic	3.1 mafic (& ore), 2.7 felsic
Resource Cut-off grade	0.30g/t oxide, 0.45g/t fresh	0.45g/t	0.60g/t
<i>Mineral Resource</i>	<i>11.7Mt @ 1.79g/t – 675koz</i>	<i>9.4Mt @ 1.6g/t – 480koz</i>	<i>8.2Mt @ 1.7g/t – 460koz</i>

Ore Reserve & Mine Plan

Parameter	EXU Feasibility Study (May 2018)	RMS Milling Option (May 2019)	RMS Haulage Option (May 2019)
Ore Reserve Cut-off Grade	0.30g/t oxide, 0.45g/t fresh	0.5 rec. g/t all material	0.9 rec. g/t all material
Ore Reserve	7.2Mt @ 2.09g/t – 485koz	3.0Mt @ 2.3g/t – 223koz	2.2Mt @ 2.8g/t – 200koz
Mineral Resource	0.8Mt @ 1.89g/t – 48koz	2.0Mt @ 1.3g/t – 80koz	1.2Mt @ 1.5g/t – 57koz
Mine Plan	8.0Mt @ 2.07g/t – 534koz	5.0Mt @ 1.9g/t – 303koz	3.4Mt @ 2.4g/t – 257koz
Processing Rate & LoM	1.5Mtpa, 6 years	1.5Mtpa, 3-5 years	750ktpa, 3-5 years

SOURCE: COMPANY

The techniques and assumptions used for the Tampia project review by RMS are more conservative than that used by Explaurum.

The chief aim of the review was to investigate two main development options:

1. To construct a mill on site at Tampia or
2. To haul the ore from Tampia to Edna May for processing

The haulage option produced significantly better rates of return and NPV outcomes than the milling option (Figure 8).

Figure 8: Tampia Project review – key financials

Parameter	EXU Feasibility Study (May 2018)	RMS Milling Option (May 2019)	RMS Haulage Option (May 2019)
Upfront Capital Cost	\$118.5M	\$118.5M	\$50M
AISC	A\$998/oz	A\$1,039/oz	A\$1,119/oz
Gold Price	A\$1,650/oz	A\$1,900/oz	A\$1,900/oz
Cashflow	\$196M	\$39M	\$82M
NPV	\$125M (@ 8%)	\$24M (@ 5%)	\$67M (@ 5%)
IRR	47%	16%	66%

SOURCE: COMPANY

As can be expected the haulage option has a lower upfront capital (\$50m [Figure 9], 50% of which is to be deployed in FY20) however a higher operating cost (AISC A\$1,119/oz) compared to the milling option (A\$118.5m upfront capital and AISC A\$1,039/oz).

Figure 9: Tampia Project review – upfront capital comparison

Upfront Capital Costs			
Parameter	EXU Feasibility Study (May 2018)	RMS Milling Option (May 2019)	RMS Haulage Option (May 2019)
Process Plant	\$96.6M	\$96.6M	\$35.8M (Flotation & UFG)
Site Infrastructure & Establishment	\$11.1M	\$11.1M	\$9.3M
Road upgrade	N/A	N/A	\$4.9M
Contingency	\$10.8M	\$10.8M	N/A
Total Initial Capital Cost	\$118.5M	\$118.5M	\$50M

SOURCE: COMPANY

Valuation

Even with more reserved output targets and cost assumptions than previously estimated, RMS are still on track to generate free cash of A\$19m (after extensive capital investment in Tampia) as well as EBITDA of A\$103m in FY20. Their healthy cash balance and no debt also gives them the optionality of cash management and/or acquiring value accretive projects. The increased mine life and reserve base also makes RMS a more relevant target for larger producers looking to add production and longevity.

Our target price has reduced to A\$0.95/sh due to the delay in production however given the macro economic conditions, RMS’s balance sheet and the potential upside of exploration we retain our ADD rating.

Figure 10 demonstrates the RMS share price sensitivity to fluctuations in the gold price and/or the US exchange rate.

Figure 10: RMS share price sensitivity

		Gold Price		
		-5%	-	+5%
Exchange rate (AUD:US)	-5%	\$0.95	\$1.14	\$1.33
	-	\$0.77	<u>\$0.95</u>	\$1.13
	+5%	\$0.61	\$0.78	\$0.95

SOURCE: COMPANY

Queensland

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Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

Victoria

Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Richmond	+61 3 9916 4000
South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Western Australia

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
Perth	+61 8 6462 1999

South Australia

Adelaide	+61 8 8464 5000
Exchange Place	+61 8 7325 9200
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

Australian Capital Territory

Canberra	+61 2 6232 4999
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Northern Territory

Darwin	+61 8 8981 9555
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Tasmania

Hobart	+61 3 6236 9000
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