

Metals X^{1,4}

BUY

MLX-ASX

April 26, 2016

Last: **A\$1.12**
 ▲ Target: **A\$1.98**

ABML directors recommend MLX offer

Purchase at cash and working capital with Nifty for free

With approval from Hindalco the company now holds 80.8% of ABY and the acquisition looks set to proceed. The purchase is at a 32% premium to current share price and provides a cash sweetener of 8c/share as well as providing generous upside to the project through MLX shares. For existing MLX shareholders, the circa A\$100m (GMPe) acquisition cost for the Nifty Project and ABY cash looks extremely accretive against our valuation of A\$214m. We estimate that ABY currently holds cash in the region of A\$80m and has cash and working capital of circa A\$100m. This acquisition effectively acquires the company for cash and working capital with the high quality Nifty Project coming for free. We value the Nifty Mine at A\$134m. In addition, the operation comes with pre-existing offtake at competitive contract rates.

Opportunity to turn around undervalued operation

MLX has a proven track record of turning undervalued assets around through strong technical knowhow and a balance sheet to support the necessary investment. The company intends to improve stoping efficiency and grade control at the project and restart the decline. These measures should bring on additional mining areas and enable increased underground production to allow a ramp up to nameplate plant through-put of 2.5mtpa.

Potential split out of gold assets from base metal assets

Now Nifty is within the MLX portfolio it bolsters MLX's base metal production portfolio and we feel there may now be an opportunity to split the business into separate gold and base metals businesses. This will likely have the advantage of MLX's gold division attracting the 'gold premium' being seen in the valuations of ASX gold peers but arguably absent at present.

Maintain BUY rating and lift price target to A\$1.98/sh

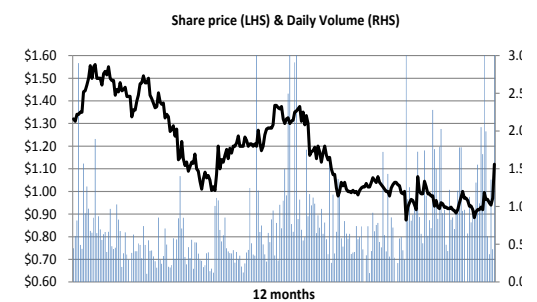
Our SOTP valuation based price target has lifted to reflect the accretive acquisition of ABY's cash balance and the Nifty Copper mine. We have also taken the opportunity to modify our gold production expectations across the MLX portfolio. We have modelled a A\$25m bridging loan to support the transaction. Our SOTP valuation now includes our NPV₁₀ of A\$134m for Nifty, an assumed ABY cash balance of A\$80m (GMPe) and a cost to MLX of A\$100m in scrip and cash (GMPe).

What's changed	Old	New
Rating	BUY	BUY
Target (A\$)	\$1.73	\$1.98
Gold Production 2015 (koz)	150.90	150.90
Gold Production 2016E (koz)	193.96	189.69
Gold Production 2017E (koz)	371.17	311.26
Tin Production 2015 (kt)	7.07	7.07
Tin Production 2016E (kt)	6.83	6.91
Tin Production 2017E (kt)	6.93	6.56
Copper Production 2015 (Kt)		
Copper Production 2016E (Kt)		33.49
Copper Production 2017E (Kt)		40.61

Share Data	
Share o/s (m, basic)	476.2
52-week high/low (A\$)	1.56/0.88
Market cap (A\$m)	\$589.70
EV (A\$m)	\$465.97
Net debt (A\$m)*	-\$123.73
Projected return	77%
NAV0%/share	\$2.45
NAV8%/share	\$1.98
P/NAV0%	0.46
P/NAV8%	0.57

Financial Data			
YE June 30	FY15	FY16E	FY17E
Gold production (koz)	150.90	189.69	311.26
AISC(A\$/oz)	\$1,100	\$1,549	\$1,193
Tin production (kt)	7.07	6.91	6.56
AISC(A\$/t)	\$18,858	\$19,450	\$19,178
Copper production (Kt)	n.a	33.49	40.61
AISC (A\$/lb)	n.a	\$2.49	\$2.62
Capex (A\$m)	-\$52	-\$94	-\$77
Free cashflow (A\$m)	\$41.9	-\$1.7	\$45.9
EPS	\$0.10	\$0.02	\$0.12
FCFPS	\$0.17	\$0.00	\$0.16
P/E	11.4	55.3	9.3
P/FCF	6.7	518.2	7.1
EV/EBITDA	8.9	13.7	2.2

All figures in A\$ unless otherwise noted. * includes ABY cash



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The transaction

MLX has announced its intentions to increase its off-market takeover offer to acquire all of the shares in ABML by:

- increasing the scrip consideration to 1 Metals X share for every 4.5 ABML share held; and
- adding a cash component of \$0.08 per ABML share,

Hindalco, ABML's major shareholder, has informed ABML that it intends to accept the Increased Offer within three business days of the date on which each of the following conditions has been satisfied or waived by Hindalco:

- no bona fide superior proposal being announced by a third party in the next 5 business days;
- Metals X lodging and providing the Formal Variation in respect of the Increased Offer; and
- written approval from the Reserve Bank of India, which is unconditional or subject only to conditions reasonably acceptable to Hindalco, that Hindalco may dispose of its ABML shares and subscribe for Metals X shares (RBI Approval).

Given Hindalco's 51% shareholding in ABML, control of ABML will pass to Metals X if the above conditions are satisfied. Hindalco's acceptance of the Increased Offer would result in Metals X acquiring 80.8% of the outstanding shares ABML.

The offer period is now extended to 29 July 2016 to allow RBI approval and time for additional shareholders to consider the offer.

Our View

We now have confidence that this acquisition will go ahead. This acquisition follows MLX's proven strategy of acquiring undervalued assets and turning them into profitable operations.

The purchase is at a ~30% premium to current share price and a >85% premium to the Aditya Birla (ABY) market valuation prior to the offer being made by MLX in October 2015. The purchase provides a cash sweetener of 8c/share as well as providing generous upside to the project through MLX shares.

For existing MLX shareholders, the circa A\$100m acquisition cost for the Nifty Project and ABY cash looks extremely accretive against our valuation of A\$214m. We estimate that ABY currently holds cash in the region of A\$80m and has cash and working capital of circa A\$100m. This acquisition effectively acquires the company for less than working capital with the high quality Nifty Project coming for free. We value the Nifty Mine at A\$134m and consequently see considerable upside on the current market valuation. In addition, the operation comes with pre-existing offtake at competitive contract rates.

Part of the reason the project is currently undervalued reflects the history of the project and a likely lack of faith in ABY management to get the most from the operation. We believe that the 'sink hole' accident in 2014, where a number of inadequately backfilled stopes collapsed, likely reflects poor management at the time rather than overly difficult mining conditions. As a result of

the 'sink hole' ABY management sterilized a vast amount of mine reserves through what MLX believe was an overly cautious write down of reserves from 14Mt to 8.7Mt. This potentially undervalues the in-situ mineralisation at Nifty.

In addition, ABY was running on a very strict budget and we feel had not invested adequately in underground infrastructure and the mine and process plant are consequently running at <1.7mtpa compared to nameplate 2.5mtpa.

MLX has a proven track record of turning undervalued assets around through strong technical knowhow and a balance sheet to support the necessary investment. The company intends to improve stoping efficiency and grade control at the project and restart the decline. These measures should bring on additional mining areas and enable increased underground production to allow a ramp up to nameplate plant through-put of 2.5mtpa. These changes are expected to cost A\$5-8m in initial capital. The plant is currently running a 2 week on 1 week off campaign due to the lower production from underground.

As indicated above, MLX management believe the write down of reserves was far too aggressive and see considerable upside on currently quoted reserves.

Now Nifty is within the MLX portfolio it bolsters MLX's base metal production portfolio and we feel there may now be an opportunity to split the business into separate gold and base metals businesses. This will likely have the advantage of MLX's gold division attracting the 'gold premium' being seen in the valuations of ASX gold peers but arguably absent in the market valuations of diversified miners such as MLX and IGO currently.

In conclusion, Nifty fits nicely into MLX's current diversified portfolio and is supported by MLX's successful strategy of buying undervalued assets and achieving additional value.

We maintain our view that MLX is substantially undervalued by the market and expect the completion of this transaction and a potential future split of the gold and base metal businesses to result in significant additional value for shareholders.

Updated valuation

We have updated our valuation of MLX to reflect the inclusion of the Nifty copper mine and ABY's estimated cash balance of A\$80m.

We continue to value Metals X on a sum of the parts basis, using a risked NAV calculated for its 100% interest in the Higginsville, South Kal, Murchison, Fortnum, Nifty and Wingellina projects, a 50% interest in Renison and a 75% interest in Rover. Cash and corporate valuations are estimated for 30 June 2016 and merged cash balances (post transaction). Listed investments are valued at market. Corporate costs include head office costs, regional exploration, carry forward tax losses of >A\$100m, the A\$25m bridging loan and the existing gold loan. Exploration upside is assumed using peer analysis on similar exploration portfolios. The target price assumes an additional 50.3m shares are issued to complete the takeover. A summary is shown in the following table.

Figure 1. MLX sum of the parts valuation (A\$m)

Asset	Discount rate	Unrisked NAV (A\$m)	NAV "X" Factor	NAV Target (A\$m)	Target Price (A\$)
Renison (50%)	10%	\$91.5	1.00 X	\$91.5	\$0.17
Murchison	8%	\$207.0	1.00 X	\$207.0	\$0.39
Higginsville	8%	\$137.2	1.00 X	\$137.2	\$0.26
South Kal	8%	\$151.1	0.90 X	\$136.0	\$0.26
Rover	8%	\$74.1	0.50 X	\$37.0	\$0.07
Wingellina	10%	\$217.8	0.10 X	\$21.8	\$0.04
Fortnum	8%	\$106.7	0.90 X	\$96.0	\$0.18
Nifty	10%	\$133.8	1.00 X	\$133.8	\$0.25
Exploration Upside	n.a	n.a	n.a	\$15.0	\$0.03
Rentails (50%)	n.a	n.a	n.a	\$10.0	\$0.02
Cash (est. qtr end)	n.a	n.a	n.a	\$150.4	\$0.29
Listed investments	n.a	n.a	n.a	\$9.3	\$0.02
Corporate (incl.debt & tax credits)	10%	-\$2.4	1.00 X	-\$2.4	-\$0.00
Total NAV				\$1,042.7	\$1.98

Source: GMP research

Nifty Copper Mine Valuation (MLX 100%)

We have modelled the Nifty Mine to increase mill throughput to 2.5mtpa over a 6 year mine life mining 16.5Mt of ore at 1.8% Cu to produce 260kt copper metal in concentrate at an average of 40ktpa Cu.

Figure 2. Nifty Mine assumed mine production plan (100% of project)

Mine Plan	FY17	FY18	FY19	FY20
Total Plant Feed (kt)	2,400	2,500	2,500	2,500
Average Head Grade (% Cu)	1.8	1.8	1.8	1.8
Metallurgical Recovery (%)	94	94	94	94
Copper Produced (kt)	41	42	42	42

Source: GMP research

We have assumed costs based on our experiences of similar mining operations, discussions with management and a review of financial reports.

Figure 3. Nifty modelling assumptions (100% of project)

Assumption	Life of Mine
Underground Mining Cost (A\$/t ore)	45.00
Processing Cost (A\$/t ore)	22.00
G&A Cost (A\$/t ore)	10.00
Concentrate Trucking Cost (A\$/WMT)	58.00
Concentrate Shipping Cost (A\$/WMT)	52.00
Sustaining Capex (A\$m pa)	8.0
Additional capex LOM (A\$m)	58.0
Exploration (A\$m pa)	2.50
Government Royalty (%)	5.0
LOM Average AISC (A\$/t)	5,780
LOM Average Copper Price (A\$/t)	7,540
A\$/US\$ (Long term)	0.75

Source: GMP research

We value the Nifty Copper Project on a post-tax basis, calculating an NPV_{10%} of A\$134m for MLX's 100% ownership of the operation.

In addition the ABY acquisition includes an estimated cash balance of A\$80m. Consequently we value ABY at A\$214m. We calculate that MLX is purchasing ABY at circa A\$100m (A\$25m cash & ~A\$75m Scrip) a ~30% premium to market but still resulting in an extremely accretive transaction for MLX shareholders.

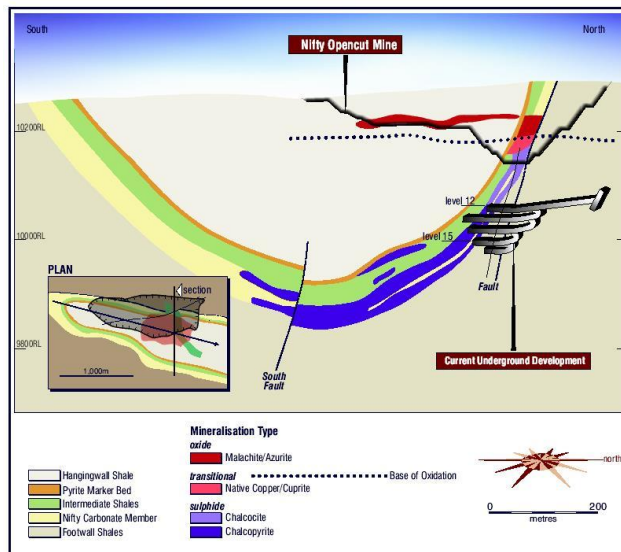
Nifty Copper Mine, Western Australia (100%)

The project hosts a 40mt copper resource with an average grade of 2.0% Cu. The project is located 350km east of Port Hedland within the Great Sandy Desert of Western Australia.

Geology, resources and reserves

- Nifty hosts SEDEX style copper mineralisation within a sequence of shales.
- Mineralisation is predominantly in the form of Chalcopyrite
- The project hosts copper resources of 39.65Mt @ 1.97% Cu for 787kt Cu.
- The project hosts a reserve of 8.7Mt @ 1.94% Cu for 169kt Cu. However, this reserve reflects substantial downgrading of the previous 14Mt reserve by ABY and MLX sees substantial upside in the size of this reserve

Figure 4. Nifty Geological cross section



Source: Aditya Birla Minerals

Mining & Processing

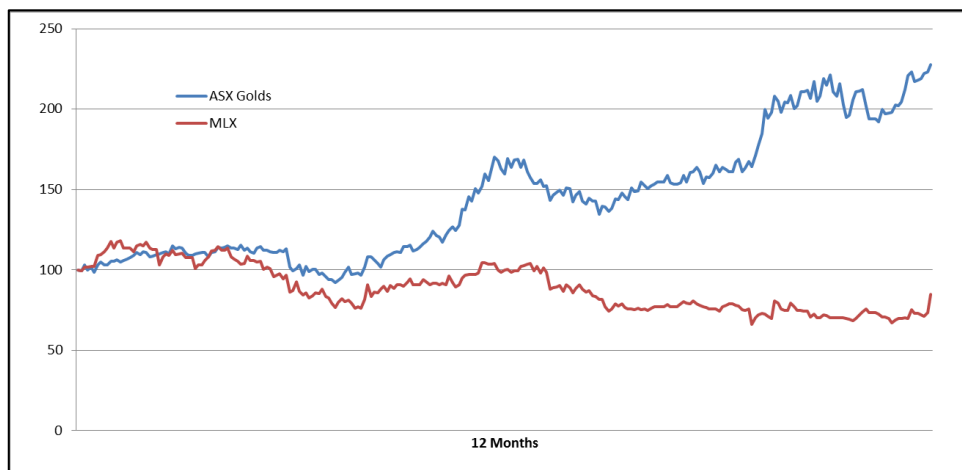
- Nifty is an underground mining operation. Ore is mined from large stopes at relatively low costs per tonne. However, production from underground appears to be restricted through poor mine access and poor grade control practices. MLX intend to restart the decline and improve mining methods to lift annual production to 2.5mtpa of ore.
- In 2014 the mine underwent a ‘sink hole’ incident where poorly backfilled stopes collapsed into the mine. As a result the company lost production and market capitalisation. The company also chose to sterilize a wide area of reserves around the sink hole.
- Processing utilizes a 2.5mtpa copper flotation plant. The operation currently operates on a 2 weeks on 1 week off campaign basis and achieves <1.7mtpa. MLX expect to have the plant running at 2.5mtpa capacity year round.

Possible spin-out of gold assets from base metal assets

The chart below shows how the ASX listed gold sector has been undergoing substantial appreciation in market value over the last six months due to improved gold prices, a favourable FX rate and lower operating costs. As a diversified producer with a diversified exploration portfolio investors appear not to have applied the same gold premium to MLX despite 75% of FY15 revenue coming from the gold division and the proportion of gold revenue continuing to grow.

A spin out of the purely gold assets to a pure gold vehicle would likely attract this gold premium and realise value for shareholders. MLX’s management has discussed this as an option on several occasions. In our view, now that the company has an operating copper asset to complement its operating tin asset, the base metals business and the gold business could operate independently of each other as separate businesses and achieve greater combined market valuations than the current diversified miner.

Figure 5. MLX share price performance versus our Aussie Gold sector composite

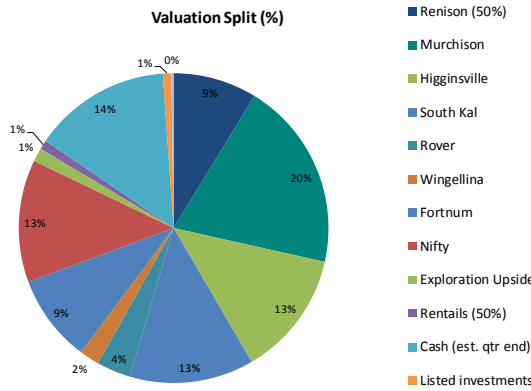


Source: GMP, Factset. NB: Our Aussie Gold sector Composite consists of 23 ASX listed gold producers including MLX

Ticker	MLX:ASX
Recommendation	BUY
Target Share price (A\$)	1.98
Current Share price (A\$)	1.12
Implied Return (%)	77%
P/NAV (x)	0.45

Financial Yr. End	30 June
Shares on issue (m)	526.5
Market Cap (A\$m)	589.7
Enterprise Value (A\$m)	466.0
Cash (est. qtr end) (A\$m)	150.4
Debt(A\$m)	26.7

Valuation						Financials (A\$m)						
Asset	Discount rate	Unrisked NAV (A\$m)	NAV "X" Factor	NAV Target (A\$m)	Target Price (A\$)	A\$m	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Renison (50%)	10%	\$91.5	1.00 X	\$91.5	\$0.17	Profit & Loss						
Murchison	8%	\$207.0	1.00 X	\$207.0	\$0.39	Revenue	\$315.3	\$357.2	\$837.2	\$912.6	\$1,021.0	\$1,109.5
Higginsville	8%	\$137.2	1.00 X	\$137.2	\$0.26	Cost of Sales	\$254.9	\$306.5	\$570.2	\$607.4	\$681.5	\$774.4
South Kal	8%	\$151.1	0.90 X	\$136.0	\$0.26	Gross Profit	\$60.3	\$50.7	\$267.0	\$305.2	\$339.5	\$335.0
Rover	8%	\$74.1	0.50 X	\$37.0	\$0.07	EBITDA	\$52.2	\$34.1	\$213.1	\$248.9	\$279.9	\$275.6
Wingellina	10%	\$217.8	0.10 X	\$21.8	\$0.04	Net Profit before tax	\$40.9	\$11.2	\$140.7	\$163.8	\$179.3	\$150.9
Fortnum	8%	\$106.7	0.90 X	\$96.0	\$0.18	Tax Payable	\$0.0	\$1.8	(-\$10.8)	(-\$11.8)	(-\$13.2)	(-\$37.6)
Nifty	10%	\$133.8	1.00 X	\$133.8	\$0.25	Profit after tax	\$40.9	\$13.0	\$129.9	\$152.0	\$166.1	\$113.2
Exploration Upside	n.a	n.a	n.a	\$15.0	\$0.03	Balance Sheet						
Rentails (50%)	n.a	n.a	n.a	\$10.0	\$0.02	Assets						
Cash (est. qtr end)	n.a	n.a	n.a	\$150.4	\$0.29	Cash	\$99.0	\$150.4	\$196.3	\$261.7	\$429.0	\$580.8
Listed investments	n.a	n.a	n.a	\$9.3	\$0.02	PPE & Exp. & Dev.	\$325.5	\$433.2	\$565.2	\$571.4	\$520.3	\$447.8
Corporate (incl.debt & tax credits)	10%	-\$2.4	1.00 X	-\$2.4	-\$0.00	Total Current Assets	\$158.1	\$231.9	\$384.1	\$449.4	\$616.8	\$768.6
Total NAV				\$1,042.7	\$1.98	Total Assets	\$487.4	\$678.9	\$963.4	\$1,034.9	\$1,151.2	\$1,230.5



A\$m	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Liabilities						
Borrowings	\$1.7	\$26.7	\$1.7	\$1.7	\$1.7	\$1.7
Total Current Liabilities	\$63.2	\$138.7	\$121.8	\$87.0	\$87.0	\$87.0
Total Liabilities	\$141.0	\$223.4	\$246.0	\$211.2	\$211.2	\$211.2
Cashflow Generation						
Operating cashflow	\$83.9	\$81.1	\$186.9	\$204.0	\$268.2	\$240.2
Debt Funding	\$43.7	\$25.0	\$0.0	\$0.0	\$0.0	\$0.0
Capital Expenditure	(-\$51.6)	(-\$93.6)	(-\$77.0)	(-\$93.0)	(-\$51.0)	(-\$54.5)
Free cashflow	\$41.9	(-\$1.7)	\$45.9	\$65.3	\$167.4	\$151.7
Dividend Payouts						
Dividend paid	(-\$12.3)	(-\$3.9)	(-\$39.0)	(-\$45.6)	(-\$49.8)	(-\$34.0)
Dividend per share	\$0.03	\$0.01	\$0.07	\$0.09	\$0.09	\$0.06
Dividend yield	2.52%	0.66%	6.61%	7.73%	8.45%	5.76%
Ratios and Key Financial Data						
EPS (AUDc)	10c	2c	12c	13c	17c	10c
FCFPS (A\$)	17c	0c	16c	21c	41c	35c
P/E ratio (x)	11.4	55.3	9.3	8.4	6.7	10.7
P/FCF (x)	6.7 X	518.2 X	7.1 X	5.4 X	2.7 X	3.2 X
EV/EBITDA (x)	8.9 X	13.7 X	2.2 X	1.9 X	1.7 X	1.7 X
Current ratio (x)	2.5	1.7	3.2	5.2	7.1	8.8
Shares on Issue (M)	416.0	526.5	526.5	526.5	526.5	526.5

Reserve and Resources Statement (attributable)				
Status	Tonnes (Mt)	Grade	Contained	EV/Oz.t
Gold Reserves	53.0	2.0	3,493,000	\$133
Gold Resources	270.2	2.0	16,958,813	\$27
Nickel Reserve	167.5	1.0	1,645,000	\$283
Nickel Resource	216.5	1.0	2,067,000	\$225
Tin Reserve	13.8	0.7	90,000	\$5,177
Tin Resource	18.2	0.8	147,200	\$3,166
Copper Reserve	8.7	1.9	168,586	\$2,764
Copper Resource	58.8	1.6	920,795	\$506

Directors & Management		Major Shareholders	
Non-Ex Chairman	Peter Newton	Apac Resources	22.7%
CEO/Director	Peter Cooke	Jinchuan	10.0%
Executive Director	Warren Hallam	Blackrock	8.0%
Non Executive Director	Andrew Ferguson	Ruffer	5.1%
Non Executive Director	Paul Cmrlc	Peter Cook	4.3%
Non Executive Director	Simon Heggen	Total	50.1%
Non Executive Director	Xie Penggen		

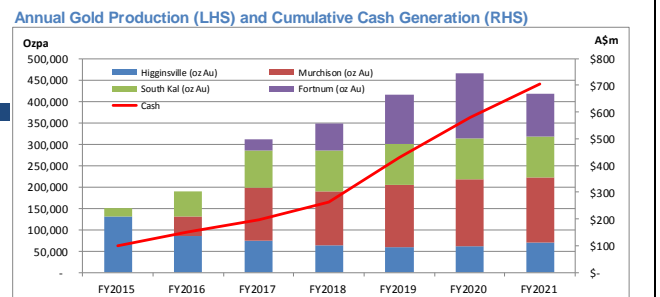
Production Profile (t Sn,Oz Au) (attributable & before payabilities)					
Operation	FY2015	FY2016	FY2017	FY2018	FY2019
Higginsville (oz Au)	131,406	84,781	74,021	62,318	59,685
Renison (t Sn)	7,073	6,914	6,560	6,560	6,560
Murchison (oz Au)	46,608	124,423	126,044	144,013	
South Kal (oz Au)	19,496	58,299	86,200	95,857	95,857
Fortnum (oz Au)	-	0	26,621	63,198	116,115
Nifty (t Cu)	-	33,488	40,608	42,300	42,300
Total gold production (Oz Au)	150,902	189,688	311,265	347,417	415,670

Gold Price and Discount Rate Matrix**							
Disc Rate/ US\$/oz	\$1,000	\$1,100	\$1,150	\$1,200	\$1,250	\$1,300	
15%	\$1.09	\$1.44	\$1.58	\$1.72	\$1.86	\$1.99	
12%	\$1.13	\$1.51	\$1.67	\$1.82	\$1.97	\$2.11	
10%	\$1.16	\$1.56	\$1.73	\$1.90	\$2.05	\$2.21	
8%	\$1.19	\$1.62	\$1.80	\$1.98	\$2.15	\$2.32	
5%	\$1.26	\$1.73	\$1.93	\$2.13	\$2.32	\$2.51	
0%	\$1.39	\$1.96	\$2.21	\$2.45	\$2.68	\$2.91	

All in Sustaining Costs (A\$)*					
Operation	FY2015	FY2016	FY2017	FY2018	FY2019
Higginsville (A\$/oz)	\$967	\$1,476	\$1,372	\$1,222	\$1,235
Renison (A\$/t Sn)	\$18,858	\$19,450	\$19,178	\$19,147	\$19,052
Murchison (A\$/oz)	-	\$1,919	\$1,175	\$1,183	\$1,271
South Kal (A\$/oz)	\$2,002	\$1,360	\$1,104	\$1,085	\$1,084
Fortnum (A\$/oz)	-	-	\$1,067	\$1,174	\$1,004
Nifty (A\$/lb)	-	\$2.49	\$2.62	\$2.70	\$2.66

Mine Life assumption							
Operation	Higginsville	South Kal	CMGP	Renison	Fortnum	Nifty	
Years	10.20	5.20	8.20	8.70	7.00	6.20	

Commodity Prices (A\$)					
AUD / t (oz)	FY2015	FY2016	FY2017	FY2018	FY2019
Gold	\$1,478	\$1,568	\$1,655	\$1,628	\$1,600
Tin	\$22,530	\$22,142	\$26,103	\$25,490	\$23,600
Copper	-	\$6,696	\$6,966	\$7,320	\$7,667
Nickel	\$17,155	\$12,288	\$13,448	\$16,264	\$18,000
AUD:USD	\$0.81	\$0.73	\$0.73	\$0.74	\$0.75



* after byproduct credits. Expensing and capitalising of cash costs will vary and consequently differ from management guidance
 ** Discount rate is 8% for Gold and 10% for all other commodities
 NB: Assumed cash and debt after ABY fully incorporated
 Source: Company data, GMP estimates.

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