

22-January-2019

# Morningnote

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## Overseas Market Report

Foreign Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ Dow Jones (US)	24706	8:58am 19/01/2019	336	1.38
▲ S&P 500	2671	8:58am 19/01/2019	35	1.32
▲ NASDAQ	7157	9:31am 19/01/2019	73	1.03
▲ FTSE 100 Index	6971	3:50am 22/01/2019	2	0.03
▼ DAX 30	11136	4:00am 22/01/2019	-69	-0.62
▼ CAC 40	4868	4:15am 22/01/2019	-8	-0.17
▲ Nikkei 225 (Japan)	20719	5:20pm 21/01/2019	53	0.26
▲ HKSE	27197	7:23pm 21/01/2019	106	0.39
▲ SSE Composite Index	2611	6:15pm 21/01/2019	15	0.56
▲ NZ 50	9149	8:29am 22/01/2019	51	0.56

## International Markets Roundup

[Morningstar with AAP]: Asian markets finished higher today with shares in China leading the region.

### Asia

Asian markets finished higher today with shares in China leading the region. The Shanghai Composite is up 0.56 per cent while Hong Kong's Hang Seng is up 0.39 per cent and Japan's Nikkei 225 is up 0.26 per cent.

China's economic growth has fallen to a three-decade low in 2018 as business activity lagged amid a tariff war with Washington.

The world's second-largest economy expanded by 6.6 per cent over a year earlier, down from 2017's 6.9 per cent, official data showed on Monday.

Growth in the three months ended December cooled to 6.4 per cent from the previous quarter's 6.5 per cent.

Communist leaders are trying to steer China to slower, more self-sustaining growth based on consumer spending instead of trade and investment.

But the slowdown has been sharper than expected, prompting Beijing to step up government spending and order banks to lend more to shore up growth and avoid politically dangerous job losses.

### Europe

European markets finished mixed as of the most recent closing prices. The FTSE 100 gained 0.03 per cent, while the DAX led the CAC 40 lower. They fell 0.62 per cent and 0.17 per cent respectively.

German glue and detergent maker Henkel fell 10 per cent after warning its profitability would suffer this year as it increases investment in brands and digital technology in bid to reignite growth.

**Magnis Energy Technologies Ltd (MNS)**

-Magnis Energy Technologies Provides Update On The Government of India's Interest in Building India's First Lithium-ion Battery Gigafactory

**ServTech Global Holdings Ltd (SVT)**

-ServTech Global Holdings Trading Halted, Pending Company Announcement

**Objective Corporation Limited (OCL)**

-Objective Provides 1HY 2019 Trading Update

**Ramelius Resources Limited (RMS)**

-Ramelius Resources Provides Stellar High-Grade Drilling Update

**Sandfire Resources NL (SFR)**

-Sandfire Resources Announces Pause in Trading

**Treasury Wine Estates Limited (TWE)**

-Treasury Wine Estates Announces Departure of Chief Operating Officer

The IMF forecasts growth in the euro area to moderate from 1.8 per cent in 2018 to 1.6 per cent in 2019 (0.3 lower than projected last fall) and 1.7 percent in 2020. Growth rates have been marked down for many economies, notably Germany.

**N America**

Markets were closed in the US. However, futures on the S&P 500 Index sank 0.3 per cent as of 4pm New York time.

The IMF has forecast growth for the US to remain unchanged. However, growth is expected to decline to 2.5 per cent in 2019 and soften further to 1.8 per cent in 2020 with the unwinding of fiscal stimulus and as the federal funds rate temporarily overshoots the neutral rate of interest.

"Nevertheless, the projected pace of expansion is above the US economy's estimated potential growth rate in both years," the IMF says. "Strong domestic demand growth will support rising imports and contribute to a widening of the US current account deficit."

Commodities	Latest Price	Time/Date (AEST)	Change	% Change
▼ Aluminium	1848	5:21am 22/01/2019	-14	-0.78
▼ Copper	5952	5:21am 22/01/2019	-78	-1.29
▼ Nickel	11736	5:21am 22/01/2019	-35	-0.30
▼ Gold	1276	5:19am 22/01/2019	-2	-0.15
▼ Silver	15.3	5:01am 22/01/2019	-0.1	-0.37
Oil - West Texas crude	54.0	5:10am 22/01/2019	--	--
▲ Lead	2007	5:21am 22/01/2019	18	0.92
▲ Zinc	2597	5:21am 22/01/2019	6	0.23
Ore	75	9:10am 19/01/2019	0	--

Currency	Latest Price	Time/Date (AEST)	Change	% Change
▼ \$A vs \$US	0.7157	8:29am 22/01/2019	-0.0003	-0.03
▼ \$A vs GBP	0.5552	8:29am 22/01/2019	-0.0019	-0.35
▼ \$A vs YEN	78.49	8:29am 22/01/2019	-0.01	-0.02
▼ \$A vs EUR	0.6297	8:29am 22/01/2019	-0.0003	-0.05
▲ \$A vs \$NZ	1.0630	8:29am 22/01/2019	0.0017	0.16
▼ \$US vs Euro	0.8796	8:29am 22/01/2019	-0.0002	-0.02
▼ \$US vs UK	0.7755	8:29am 22/01/2019	-0.0023	-0.30
▲ \$US vs CHF	0.9972	8:29am 22/01/2019	0.0021	0.21
▲ \$A vs \$CA	0.9518	8:29am 22/01/2019	0.0011	0.12

**Australian Market Report**

Australian Equities	Latest Price	Time/Date (AEST)	Change	% Change
▲ All Ordinaries	5954	7:20pm 21/01/2019	12	0.21
▲ S&P/ASX 200	5890	7:20pm 21/01/2019	11	0.18
10-year Bond Rate	2.31	7:38am 22/01/2019	--	--
▲ 90 Day Bank Accepted Bills SFE-Day	2.01	7:39am 22/01/2019	0.01	0.50
▲ 3-yr Bond Rate	1.80	7:39am 22/01/2019	0.01	0.56

## Local Markets Are Expected to Open Flat

Ahead of the local open SPI futures were 1 point lower at 5,826.

Monday 21 January - close [Morningstar with AAP]: The Australian share market has continued its strong start to the year closing higher on Monday, bolstered by energy and financial sectors.

The benchmark S&P/ASX200 index was up 10.8 points, or 0.18 per cent, to 5,890.4 at 1630 AEDT on Monday, while the broader All Ordinaries was up 12.3 points, or 0.21 per cent, higher at 5,953.5.

According to Pepperstone head of research Chris Weston, despite pessimistic predictions for the start of 2019 most areas on the ASX continue to perform well partly due to a fear of missing out.

"We came into this year sour on global economics, people were concerned about a liquidity drain, and it's hardly abundant but markets are going up, so something is happening" Mr Pepperstone said.

"If it keeps going up then people feel like they have to be involved even if they hate what they are seeing."

At the close on Monday the consumer discretionary sector was the star performer, with Aristocrat Leisure up 3.18 per cent to \$24.31, and Super Retail up 2.83 per cent to \$6.90.

Flight Centre was also up 2.2 per cent to \$45.07 followed by Breville up 1.51 per cent to \$10.74.

Oil prices remain firm helped along by a spike in local energy stocks following renewed trade hopes.

Santos rose 0.66 per cent to \$6.10, while Origin Energy was up 0.56 per cent to \$7.24 at the close.

Major miners were also in the green with BHP up 0.27 per cent to \$33.20 after being accused of underpaying a total of up to \$300 million in iron ore royalties to the West Australian government dating back to 2004.

Fortescue Metals rose 2.59 per cent to \$4.75 while Rio Tinto fell down per 0.17 per cent to \$80.51.

Stocks for market darling Afterpay Touch have fallen following record December sales and soaring share prices which rose over 12 per cent on Friday, decreasing 5.28 per cent to \$15.25 at Monday's close.

Three of the big four banks finished in the black with ANZ performing the best rising 0.46 per cent rise to \$26.19.

National Australia Bank and Westpac Banking lifted 0.08 per cent and 0.19 per cent respectively, while Commonwealth Bank fell 0.25 per cent to \$73.05.

The Aussie dollar has dropped, buying 71.69 US cents from 71.92 US cents on Friday.

ON THE ASX:

The benchmark S&P/ASX200 index was up 10.8 points, or 0.18 per cent, to 5,890.4 at 1630 AEDT on Monday, while the broader All Ordinaries was up 12.3 points, or 0.21 per cent, higher at 5,953.5.

The benchmark S&P/ASX200 index was up 10.8 points, or 0.18 per cent, to 5,890.4.

The All Ordinaries was up 12.3 points, or 0.21 per cent, at 5,953.5

The NZX 50 added 50.86 points (0.56%) to 9,148.57

#### Companies Reporting Today (ASX 300):

ASX Code	Company Name	Report
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\* Estimated based on release date of previous report

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**Market Sensitive Announcements**


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08:28 AM

**GR Engineering Services Limited (GNG) -GR Engineering Services Enters Into Contract with Tellus**

GR Engineering Services entered into an engineering, procurement and construction contract (Contract) with Tellus Holdings (Tellus). The Contract is for the engineering design, procurement and construction of infrastructure for a fully integrated facility for the long-term storage, recovery and permanent isolation of hazardous and intractable waste and an associated kaolin mining operation located 75km northeast of Koolyanobbing, in the Shire of Coolgardie, within the goldfields region of WA. The Contract price is \$50m, with the works to be delivered under a guaranteed maximum price (GMP) model.

08:34 AM

**Saracen Mineral Holdings Limited (SAR) -Saracen Mineral Holdings Provides Quarterly Activities Report for December 2018**

Saracen Mineral Holdings provided quarterly activities report for December 2018. The Company reported that the production for the December 2018 quarter was 88,833oz at an all-in sustaining cost (AISC) of A\$1,067/oz. Production for the December 2018 half was a record 177,774oz at an AISC of A\$1,030/oz. FY 2019 guidance is increased to 345-365,000oz, with AISC maintained at A\$1,050-1,100/oz. The cash and equivalents are of A\$142.6m at 31 December 2018. A\$60m FY 2019 exploration budget continues ramping up with A\$12.3m invested in the quarter.

08:39 AM

**Saracen Mineral Holdings Limited (SAR) -Saracen Mineral Holdings Provides Activities Presentation on December 2018 Quarter**

Saracen Mineral Holdings provided presentation on quarterly activities in December 2018 quarter. The Company reported that FY 2019 guidance is increased to 345-365,000oz, with AISC maintained at A\$1,050-1,100/oz. A\$60m FY 2019 exploration budget continues ramping up with A\$12.3m invested in the quarter. It reported the cash and equivalents of A\$143m at 31 December 2018. 7 year production outlook, and specifically FY 2020 group production guidance, will be revised in the September 2019 quarter.

08:44 AM

**Ausdrill Limited (ASL) -Ausdrill Secures Mining Services Contracts Totalling \$171m**

Ausdrill announced it has recently secured the mining services contracts totalling \$171m. The Company's recently acquired subsidiary, Barminco, has been awarded a three-year underground mining services contract at the Rosemont Gold Project from Regis Resources worth \$113m. Barminco has also recently been awarded a contract from Western Areas to perform decline rehabilitation and development works at the nickel miner's new Odysseus mine. The Company has been awarded a contract from Consolidated Minerals for the provision of exploration drilling services at the Woodie Woodie manganese mine located in the Pilbara region of WA.

08:48 AM

**Sandfire Resources NL (SFR) -Sandfire Resources Notes Regarding Media Reports in Relation to Takeover Offer for MOD**

Sandfire Resources noted media reports overnight referring to an approach by the Company to MOD Resources (MOD) in connection with a potential takeover offer by the Company for MOD. The Company confirmed that it has written to MOD to express its interest in exploring a potential combination of the two companies. Any such transaction would be conditional upon satisfactory completion of due diligence, the recommendation of the MOD board and execution of binding documentation, among other things. Given the preliminary, indicative and non-binding nature of the approach, there can be no assurance at this stage whether a transaction will eventuate.

08:52 AM

**Sims Metal Management Limited (SGM) -Sims Metal Management Provides Update on 1H FY 2019 Preliminary Earnings and Changes to Segments and Reporting**

Sims Metal Management announced it expects 1H FY 2019 underlying EBIT of \$110m, based on preliminary results that are still subject to management sign off, Board sign off, and audit review. The Company also announced that it is enhancing financial disclosure by providing greater transparency over its North America Metals and Global Trading segments, as well as presenting underlying results to exclude the impact of financial hedges that do not qualify for hedge accounting (non-qualifying hedges). The Company will release its results for 1H FY 2019 on 20 February 2019.

08:56 AM

**Metals X Limited (MLX) -Metals X Provides Update on 2018 Resource Definition Drilling Programs in the Region 6 and Region 9 targets at Nifty**

Metals X provided update on its 2018 resource definition drilling programs in the Region 6 and Region 9 targets at its Nifty Copper Operations (Nifty). Regions 6 and 9, located within the down-plunge eastern extension of the Nifty underground copper deposit, are proximal to existing development and mining areas, extending more than 300 metres eastward of the historic Central Zone. Drilling throughout 2018 has continued to define copper mineralisation within Regions 5, 6, 7 and 9 at Nifty. Mineralisation is hosted variably within the Middle Carbonate Unit (MCU) and Lower Carbonate Unit (LCU). Planning for additional resource definition drilling programs during 2019 is well advanced and is expected to commence during the second half of 2019.

09:02 AM

**New Century Resources Limited (NCZ) -New Century Resources Provides Quarterly Activities Report for December 2018**

New Century Resources provided quarterly activities report for December 2018. It reported that the processing plant load is commissioning and ramp up continuing, with positive progress made in overall plant availability and stability during Q4 2018. The progressive improvements in both recovery and grade during the quarter has resulted in a 55% increase in the average monthly production rate of zinc metal. The Company is targeting continued progression toward full nameplate plant recoveries in Q2 2019. The Company reported total 25,000t of zinc concentrate shipments to date (China and Europe). It noted completion of A\$40m senior secured debt facility with NAB.

09:08 AM

**Magnis Energy Technologies Ltd (MNS) -Magnis Energy Technologies Provides Update on The Government of India's Interest in Building India's First Lithium-ion Battery Gigafactory**

Magnis Energy Technologies noted regarding an announcement by The Government of India's Ministry of Heavy Industries and Public Enterprises, regarding BHEL being in dialogue with LIBCOIN on the building of India's first lithium-ion battery (LIB) Gigafactory beginning at 1GWh and scaling up to 30GWh. LIBCOIN is a consortium made up of the Company, Duggal Family Trust and Charge CCCV (C4V) and has a vision to build large LIB gigafactories globally with the focus being on the Indian market. The Company has a 20% non-dilutive ownership in LIBCOIN. The consortium has been in discussions with BHEL for nine months and is the natural choice as a partner on the project as they are synonymous with power generation in India.

09:19 AM

**ServTech Global Holdings Ltd (SVT) -ServTech Global Holdings Trading Halted, Pending Company Announcement**

The securities of ServTech Global Holdings will be placed in trading halt session state at the request of the Company, until the earlier of the commencement of normal trading on 23 January 2019 or when the announcement is released to the market.

09:24 AM

**Objective Corporation Limited (OCL) -Objective Provides 1HY 2019 Trading Update**

Objective provided trading update for the first half of financial year 2019 (1HY 2019), based on unaudited management accounts as at 31 December 2018. The expected headline results for 1HY 2019 are revenue of \$29.2m and EBITDA of \$5.6m. The Company's cash balance as at 31 December 2018 was \$29.3m, a lift of 43% over 31 December 2017. Recurring revenue for 1HY 2019 was \$20.8m, representing 71% of total revenue, increasing from \$19.1m for 1HY 2018, which represented 57% of operating revenue.

09:48 AM

**Ramelius Resources Limited (RMS) -Ramelius Resources Provides Stellar High-Grade Drilling Update**

Ramelius Resources reported results for infill drilling targeting the high-grade gold intersections reported from the Stellar open pit, at its Mt Magnet operation in WA, in December 2018. New close-spaced RC infill drilling was completed from the open pit floor to test mineralisation within and immediately below the current pit design. The grade control infill drilling shows the two super high-grade intercepts (+200g/t Au) reported on 10 December 2018 relate to separate, limited extent, high-grade quartz veins. The infill results have been promising, with numerous high-grade hits occurring within a moderately mineralised 10-20m wide lode zone.

09:55 AM

**Sandfire Resources NL (SFR) -Sandfire Resources Announces Pause in Trading**

Trading in the securities of Sandfire Resources will be temporarily paused pending a further announcement.

09:58 AM

**Treasury Wine Estates Limited (TWE) -Treasury Wine Estates Announces Departure of Chief Operating Officer**

Treasury Wine Estates confirmed that Robert Foye, Chief Operating Officer has left the Company, effective immediately, due to a breach of the Company's internal policies unrelated to the Company's trading performance. Tim Ford, Deputy Chief Operating Officer will assume the role of Chief Operating Officer and take responsibility for oversight of the Company's operating regions across the global business, reporting to CEO, Michael Clarke. The Company reiterates it will announce its audit reviewed interim results for fiscal 2019 on 14 February 2019.

## Research Report Summaries

## Morningstar Rating

★★★

## Share Price

9.190

## Sims Metal Management Limited (SGM) - No-Moat Sims' Fiscal 2019 Forecasts Reduced After 1H Earnings Disappoint; FVE Unchanged

**Analyst Note**—Weak pricing for Zorba, a mixed, nonferrous scrap metal product, and soft sales volumes into China and Turkey impacted no-moat Sims Metal in the second quarter of fiscal 2019. Sims now expects to reveal first-half group EBIT of AUD 110 million next month. Second-quarter fiscal 2019 earnings are expected to be around 25% below the approximate AUD 63 million Sims achieved in the first quarter. With headwinds from Zorba pricing and Turkish ferrous volumes unlikely to abate near term, we reduce our full-year fiscal 2019 EBIT forecast by 16% to AUD 203 million. But our long-term expectations for Sims are unchanged and we maintain our AUD 10.10 per share fair value estimate. With Sims shares off near 50% since June 2018, they appear fairly valued for the first time in three years. Despite this, a margin of safety still doesn't exist and we require further share price weakness before considering investment.

We've reduced our fiscal 2019 EBIT forecast for the European metals segment from AUD 20 million to AUD 3 million, reflecting near-term Zorba pricing and ferrous volume headwinds. Volumes were negatively impacted by Turkish customers' requirements for higher-quality ferrous scrap. Sales volumes of scrap products into China have also been impacted by China's "National Sword" policy, aimed at reducing imported waste materials. Segment volumes fell 5.1% to 770,000 tonnes in the first half. Further, margins were negatively impacted by reduced Zorba pricing. Sims now expects first-half fiscal 2019 segment EBIT of AUD 1.4 million segment.

We've also reduced our EBIT expectations for Sims' North American operations by 18% to AUD 102 million with Zorba prices also impacting SA Recycling, Sims' North American joint venture. SA Recycling's margins contracted, with U.S. shredder feed prices unresponsive to the near-40% reduction in Zorba pricing during the half year. Sims now expects an EBIT contribution of AUD 16.8 million from SA Recycling in first-half fiscal 2019.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	120.10	203.50	142.09	133.08
EPS c	59.94	98.73	69.52	65.11
P/E x	18.88	15.59	13.22	14.11
EPS Growth %	219.78	64.72	-29.59	-6.34
DPS c	40.00	40.00	36.15	33.85
Yield %	3.53	2.60	3.93	3.68
Franking %	80.0	80.0	100.0	100.0



## Morningstar Rating

★★★

## Share Price

7.020

## Sandfire Resources NL (SFR) - Potential Acquisition of Mod Resources Could Add Much Needed Reserve Life to Sandfire

**Analyst Note**-Sandfire Resources has approached small-cap ASX-listed Mod Resources, or Mod, to explore a potential acquisition. Prospective copper miner Mod hopes to develop its T3 deposit in Botswana. A prefeasibility study completed in early 2018 outlined aims to produce about 25,000 to 30,000 tonnes of copper a year for about 10 years from a 590,000 tonne copper resource.

Mod has so far rebuffed Sandfire's advances and is instead reportedly looking to raise capital to complete its feasibility study, which is due in March 2019. We have reviewed Mod's plans and operations and can understand the firm's desire to continue to stand alone. The company has extensive copper exploration leases in Botswana and the potential to find more resources in an historically underexplored area. Mod is led by longtime ex-Western Areas managing director Julian Hanna. He presided over the successful exploration and development of Western Areas' Forrester assets. His leadership adds credibility to Mod's growth and capital raising plans, important if the Sandfire approach is to be defended.

Sandfire's approach looks opportunistic with Mod's share price at Friday's close down about 75% from its March 2017 high, selling off with the lower spot copper price and potentially the coming cash call to develop the mine. We can see the logic of a combination as Sandfire is cash-rich but limited by a relatively short reserve life of less than five years. However, we make no change to our Sandfire AUD 6.10 per share fair value estimate given the approach is at an early stage, Mod's size and the likely relative value. The chance of a transaction at this stage seems low with Sandfire yet to make a formal offer. Sandfire's mooted offer price of AUD 0.38 per share for Mod, would translate to a fully diluted acquisition price of about AUD 110 million. This would see Mod make up about 10% of the combined group.

FYE Jun	2017A	2018A	2019E	2020E
Reported Npat \$m	77.51	123.02	86.45	154.94
EPS c	49.16	77.85	53.91	96.62
P/E x	11.95	8.99	13.02	7.27
EPS Growth %	64.68	58.37	-30.75	79.22
DPS c	18.00	27.00	27.00	53.00
Yield %	3.06	3.86	3.85	7.55
Franking %	100.0	100.0	100.0	100.0

### Recommendation Updates Over the Last Week

ASX Code	Company Name	Morningstar Rating	Date Changed	Latest Report
▼ FLT	Flight Centre Travel Group	★★	21/01/2019	Downgrade due to price change
▼ GMA	Genworth Mortgage Insurance Australia	★★★	21/01/2019	Downgrade due to price change
▼ OSH	Oil Search	★★	21/01/2019	Downgrade due to price change
▼ QBE	QBE	★★★	21/01/2019	Downgrade due to price change
▼ TPM	TPG Telecom	★★	21/01/2019	Downgrade due to price change
▼ MMS	McMillan Shakespeare	★★★	18/01/2019	Downgrade due to price change
▼ CSR	CSR	★★★	17/01/2019	Downgrade due to price change
▼ GMG	Goodman Gp	★★	17/01/2019	Downgrade due to price change
▼ A2M	The a2 Milk Company	★★★	16/01/2019	Downgrade due to price change
▼ ATM-NZ	The a2 Milk Company	★★★	16/01/2019	Downgrade due to price change
▼ CPU	Computershare	★★★	16/01/2019	Downgrade due to price change
▼ RMD	ResMed	★★	16/01/2019	Downgrade due to price change
▼ BPT	Beach Energy	★★★	15/01/2019	Downgrade due to price change
▼ MEZ	Meridian Energy	★★	15/01/2019	Downgrade due to price change
▼ PGH	Pact Group Holdings	★★★★	14/01/2019	Downgrade due to price change
▼ SDF	Steadfast Group	★★★	14/01/2019	Downgrade due to price change
▼ VRL	Village Roadshow	★★	14/01/2019	Downgrade due to price change

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