BELL POTTER

Speculative

See key risks on p6 and early stage company risk warning on p9.
Speculative securities may not be suitable for Retail clients.

6 March 2024

Analyst
Bradley Watson 618 9326 7672

Authorisation
Regan Burrows 618 9326 7677

Santana Minerals Ltd (SMI)

First glimpse of the mining plan

Recommendation
Buy (unchanged)
Price
$1.30
Valuation
$1.90 (previously $1.70)
Risk
Speculative

GICS Sector

Materials

Expected Return	
Capital growth	**46.2%**
Dividend yield	**0.0%**
Total expected return	**46.2%**
Company Data & Ratios	
Enterprise value	**$220m**
Market cap	**$231m**
Issued capital	**177.8m**
Free float	**88%**
Avg. daily val. (52wk)	**$273k**
12 month price range	**$0.485-$1.565**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.42	0.76	0.81
Absolute (%)	-8.5	71.1	60.5
Rel market (%)	-12.8	62.6	52.8

Absolute Price

SOURCE: IRESS

Rise-and-Shine Initial Mining Assessment (IMA) announced.

Key points of the IMA reported include: (1) a combined open pit and underground mining inventory of 18.6Mt at 2.7g/t Au containing 1,630koz of gold (prev. BPe 1,260koz), comprised of, (2) an open pit inventory of 12.1Mt at 2.5g/t Au containing 972koz, and (3) an underground inventory of 6.5Mt at 3.1g/t Au containing 656koz. (4) An implied ore processing rate of 1.5Mtpa. (5) A total cash operating surplus of A$3.0b (pre-tax, pre-capital costs), from average operating cash costs of A$1096/oz (real). No guidance on capital costs or project valuation were reported. Following the strong operating outcomes of the IMA, SMI announced it would commence a Pre-feasibility Study for the project, which we expect results for in 2HCY24.

Valuation changes.

We update our valuation for the results of the IMA, changes include: (1) our forecast mining inventory is updated to 18.6Mt at 2.7g/t Au containing 1.63Moz of gold (prev. 1.26Moz), (2) we add BPe A$120m sustaining capital costs for underground mining, (3) we align our operating cost estimates with those of the IMA, and (4) increase our forecast All-in-Sustaining Costs to A$1,850/oz (nominal, +A$100/oz over previous), as a result of the changes. Our initial open pit gold production remains of 110kozpa which rises to 120kozpa upon underground mining commencement from year 6.

Investment view: BUY (Spec.), Val$1.90ps (prev $1.70ps).

Following our valuation changes, we increase our valuation by 11.8% on the increased Mining Inventory, and maintain our Speculative Buy recommendation. Support for our recommendation includes: (1) our valuation for the Project, for which we estimate an un-risked project NPV of $770m (DCF analysis, nominal, post-tax, 10% discount rate, 2024 dollars), a $90m increase from a previous estimate, and a risked/diluted project value of $346m, (2) we anticipate that SMI's value will continue to be re-rated as it achieves the Project's development, approvals, and funding milestones, (3) the Project holds significant additional prospectivity for un-discovered gold deposits, and further discovery could highlight increased gold production potential.

Earnings Forecast

Year end June 30	2023a	2024e	2025e	2026e
Sales (A$m)	-	-	-	-
EBITDA (A$m)	(1.3)	(2.1)	(2.4)	(1.8)
NPAT (reported) (A$m)	(6.9)	(1.4)	(1.0)	(0.1)
NPAT (adjusted) (A$m)	(6.9)	(1.4)	(1.0)	(0.1)
EPS (adjusted) (¢ps)	(0.8)	(0.8)	(0.5)	(0.1)
EPS growth (%)	457.9	(83.3)	(32.2)	(89.9)
PER (x)	(28.4)	(170.4)	(251.4)	(2,492.0)
FCF Yield (%)	(5.1)	(6.5)	(7.0)	(3.1)
EV/EBITDA (x)	-	-	-	-
Dividend (¢ps)	-	-	-	-
Yield (%)	-	-	-	-
Franking (%)	-	-	-	-
ROE (%)	(17.6)	(2.5)	(1.1)	(0.1)

SOURCE: BELL POTTER SECURITIES ESTIMATES

DISCLAIMER:
THIS REPORT MUST BE READ WITH THE DISCLAIMER ON PAGE 9 THAT FORMS PART OF IT.
DISCLOSURE: BELL POTTER SECURITIES ACTED AS THE JOINT LEAD MANAGER IN THE MAY-23 $15.5M PLACEMENT (AND OWNS SHARES AND SHARE OPTIONS IN SMI) AND RECEIVED FEES FOR THAT SERVICE.

Company overview and asset summary

Company overview

SMI is a gold explorer and developer, focusing on the Bendigo-Ophir Project (the Project) in New Zealand (South Island). To date, four gold deposits have been identified at the Project. The most significant deposit is the Rise-and-Shine (RAS) deposit.

SMI acquired the Project in September 2020. The Project covers 251 square kilometres in the Central Otago goldfields, 90 kilometres northwest of OceanaGold's (OGC.TSE, not rated) world-class Macraes Gold Mine, New Zealand's largest active gold producing mine, having produced over five million ounces of gold since 1990.

The Bendigo-Ophir Project

In February 2024, SMI reported an updated Project Mineral Resource Estimate (MRE) of 38.8Mt at 2.0g/t Au containing 2,445koz of gold (0.5g/t Au cut-off grade). The largest deposit, Rise-and-Shine, has a MRE of 30.8Mt at 2.2g/t Au containing 2,216koz of gold (Indicated + Inferred Mineral Resources).

Geology.

The Project covers ~30km of the Rise-and-Shine Shear Zone (RSSZ). The RSSZ occurs at the contact with two schist units separated by a regional fault, the Thomsons Gorge Fault- (TGF). Four mineralized shoots have been discovered to date in the footwall of the TGF, including: Come-in-Time (CIT), Rise-and-Shine (RAS), Shreks (SHR) and Shreks East (SRE). All four shoots plunge about -25° towards an azimuth of 25°. Gold mineralisation at RAS occurs in the footwall of the Thomson Gully Fault (TGF), a part of the RSSZ.

Initial RAS Mining Assessment (March 2024).

Outcomes from the Initial Mining Assessment included: (1) an Open Pit Inventory of 12.1Mt at 2.5g/t containing 972koz of gold, (2) an Underground Inventory of 6.5Mt at 3.1g/t containing 656koz of gold, (3) a combined inventory of 18.6Mt at 2.7g/t Au containing 1,628koz of gold, (4) a process plant throughput rate of 1.5Mtpa, (5) An operating cash surplus of NZ$3.3b, excluding capital costs and tax.

Project development.

SMI is advancing project development activities for the Project. SMI's forward programme includes: (1) Prefeasibility Study results from mid-CY24, (2) mining permit application in early CY26.

Prospectivity and exploration.

The Project has good potential for further Mineral Resource growth and discovery at the project. The Project covers the 30km long Bendigo-Ophir mineralised trend, which contains the RSSZ. The current MRE is contained within a ~4km strike of the RSSZ. SMI have developed regional targets from previous sampling programs.

Valuation

Our valuation for SMI is based upon our risked and diluted notional development scenario (NDS) for the Bendigo-Ophir Project (Rise-and-Shine Open Pit only). This is included in a 12-month look forward sum-of-the-parts valuation for SMI which includes a notional estimate for exploration value (for assets not valued in our NDS). We also include a discounted cash flow estimate of corporate costs, adjust for SMI's net cash position, and dilute our valuation for in-the-money options, and our allowances for future capital raisings to fund development and exploration. The table below summarises our valuation.

Table 1 - SMI sum-of-the-parts valuation summary, 12-month look forward.

Ordinary shares (m)		195.0
Options in the money (m)		40.9
Diluted (m)		235.9
Sum-of-the-parts	**$m**	**$/sh**
Project (risked NPV10, nominal 2024 dollars, post-tax)	346	1.77
Corporate overheads and exploration expenses	-26	(0.13)
Exploration assets	70	0.36
Subtotal	**389**	**2.00**
Net Cash (debt)	52	0.26
Total (undiluted)	**441**	**2.26**
Add options in the money (m)	40.9	-
Add cash	3	0.01
Total (diluted)	**444**	**1.88**

As a result of changes made with this update, we increase our rounded valuation by 11.8% to a $1.90ps and maintain our Speculative Buy rating.

We update our NDS for the details included in March 2024 Initial Mining Assessment (IMA). We continue to make our own assumptions for capital costs, which were not included in the IMA, and are expected with the Pre-feasibility Study. For the Project, we estimate an un-risked/un-diluted project value of $770m (previously $680m, DCF analysis, nominal, post-tax, 10% discount rate, discounted to March 2024) and a risked/diluted project value of $346m (previously $310m). Key valuation assumptions include:

- Mining Inventory: We update our forecast production to the IMA total inventory, 18.6Mt at 2.7g/t Au containing 1,628koz of gold (prev. 17.5Mt at 2.25g/t Au for 1.26Moz).
- Ore processing rate: We update our forecast ore processing rate to 1.5Mtpa (prev. 1.75Mtpa), in line with the IMA (800ktpa from underground from year 6, with open pit making up the balance).
- Metallurgical recovery: 90%, per test work completed to date, and the IMA.
- Capital costs: our initial capital cost estimates are unchanged at $10m Resource definition and feasibility study costs, preceding, construction costs of $175m. We add sustaining capital costs of A$120m for underground mine development from year 6.
- Operating costs: Average nominal life-of-mine AISC of ~A$1,850/oz (prev. ~A$1,750/oz, reflecting the higher strip ratio, and inclusion of underground mining in the IMA). Costs are estimated using: (1) open pit mining costs of $4.5/t per tonne mined ($3.5/t opex + $1.0/t for mining fleet ownership costs) and an average strip ratio of 12.5:1 (prev. 9:1), (2) underground mining costs of $85/t, (3) a processing cost of $17/t (prev. $25/t), (4) $3.5/t for general and administration costs (prev. $5/t), (5) a Government royalty of 10% of accounting profit (per New Zealand legislation), (6) a 2.5% net-smelter-return owned by the previous project owners and for native title royalties (prev. 1.5%).

- Project schedule: We allow three years for feasibility studies and project approvals, followed by a one-year construction period. We assume production commencement in late 1QCY28, with ramp-up to full production in 1QCY29. We assume underground mine production from 1HFY33 (project year 6 of 13), at 800ktpa, with the balance of processing plant capacity filled from open pit production.
- Revenue and EBITDA: using our gold price forecasts, we estimate total project revenue of $5.8 billion (prev. $4.5 billion), and total project EBITDA of $3.15 billion (prev. $2.4 billion, new annual rate: $240m in FY30, prev. $250m).
- Early-stage project risk discounts: We discount our project value by 40%, allowing for the early development stage. We further discount our valuation by an additional 25% (prev. 30%) to allow for the equity dilution of a project construction capital raising (assuming a 50:50 debt:equity split).

Investment Thesis.

We maintain our Speculative Buy recommendation in accordance with our ratings structure, considering our valuation, and the following points:

- **Bendigo-Ophir Mineral Resource**: In February 2024, SMI updated its Mineral Resource estimate (MRE) for the Project. The MRE (at 0.5g/t cut-off grade, with top cut applied) is estimated from four deposits. The majority of contained gold is reported from the 'Rise-and-Shine' deposit (RAS).
  1. The total MRE is 38.8Mt at 2.0g/t Au for 2.45 Moz of gold.
  2. The 'RAS' MRE is 30.8Mt at 2.2g/t for 2.22 Moz of gold.
- **Exploration prospectivity**: SMI estimates that the 'Rise-and-Shine Shear-Zone' (RSSZ), a regional structural mineralisation control, could strike for up to 30km within SMI's exploration licences. The existing Resource is reported from deposits with a ~4km strike-length of the RSSZ. Consequently, we consider the remaining strike length of the RSSZ within the Project is prospective for further discoveries. The geological setting is similar to OceanaGold's (OGC.TSE, not rated) Macraes Gold Mine (90km to the southeast) which has produced over 5Moz of gold since 1990, and where Resources are reported over ~15 distinct areas along a ~25km strike length of the Hyde-Macraes Shear-Zone.
- **Preliminary metallurgy**: Preliminary metallurgical testwork has demonstrated the potential for good gold recovery via standard gravity-cyanide leach testwork, and that RAS is free milling (non-refractory, unlike Macraes, which is refractory). Gold recoveries averaged ~90% across six samples, with scope for optimisation.
- **Forward plan**: SMI's forward plan is focused on increasing MRE contained gold, and geological and metallurgical confidence. Regional exploration for new deposits will also continue. The forward plan includes:
  1. Continued expansion and Resource definition at the four known deposits.
  2. Initial drill testing of regional anomalies, regional mapping and geochemistry.
  3. Commencement of feasibility studies and approvals processes necessary to establish a gold mining and processing operation.
- **Management:** SMI has an experienced Board and Management team with a track record of mine development (including in New Zealand) and shareholder value creation.
- **Near-term catalysts**: In the near-term catalysts relate to (1) pre-feasibility study result reporting, expected from mid-CY24, and (2) further metallurgical testwork.
- **Opportunity set:**
  1. Project development: SMI is to commence feasibility studies and approvals processes for the Project, on existing Resources. We expect that, in the fullness of time, the Project will reposition SMI as a competitive mid-tier gold producer. We expect SMI's market value to re-rate as it progresses through the project development phases.
  2. Gold discovery: the Project holds significant additional prospectivity for un-discovered gold deposits. Further discovery success of the kind already achieved could highlight Tier-1 gold production potential.
  3. Acquisition: In our view, given existing Resources and development potential, and the possibility for further discovery, SMI could make an attractive acquisition target for other gold producers.

Resource sector risks

Risks include, but are not limited to:

- **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.
- **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 capital cost fluctuations:** The cost and availability of 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 producing Resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **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. Exploration and development companies with no sales revenues are reliant on access to equity markets and debt financing to fund the advancement and development of their projects.
- **Resource growth and mine life extensions:** The viability of future operations and the earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives, which is in turn dependent upon exploration success, of which there are no guarantees.
- **Regulatory changes risks:** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Sovereign risks:** Mining companies' assets are subject to the sovereign risks of the jurisdiction within which they are operating.
- **Geopolitical risks:** Mining companies' assets are subject to geopolitical risks, arising from events in, and outside, the jurisdictions they operate in.
- **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.

Santana Minerals Ltd
as at 6 March 2024

Recommendation	Buy, Speculative
Price	$1.30
Valuation	$1.90

Table 2 - Financial summary

PROFIT AND LOSS

Year ending June	Unit	2022a	2023a	2024e	2025e	2026e
Revenue	$m	-	-	-	-	-
Expense	$m	(1.0)	(1.3)	(2.1)	(2.4)	(1.8)
EBITDA	**$m**	**(1.0)**	**(1.3)**	**(2.1)**	**(2.4)**	**(1.8)**
Depreciation	$m	-	-	-	-	-
EBIT	**$m**	**(1.0)**	**(1.3)**	**(2.1)**	**(2.4)**	**(1.8)**
Net interest expense	$m	(0.0)	(0.0)	-	-	-
Unrealised gains (Impairments)	$m	-	(5.6)	-	-	-
Other	$m	(0.0)	0.1	0.7	1.4	1.7
PBT	**$m**	**(1.0)**	**(6.9)**	**(1.4)**	**(1.0)**	**(0.1)**
Tax expense	$m	-	-	-	-	-
NPAT (reported)	**$m**	**(1.0)**	**(6.9)**	**(1.4)**	**(1.0)**	**(0.1)**
NPAT (underlying)	$m	(1.0)	(6.9)	(1.4)	(1.0)	(0.1)

CASH FLOW

Year ending June	Unit	2022a	2023a	2024e	2025e	2026e
OPERATING CASHFLOW						
Receipts	$m	-	-	0.6	-	-
Payments	$m	(1.0)	(1.3)	(3.1)	(2.4)	(1.8)
Tax	$m	-	-	-	-	-
Net interest	$m	0.0	0.1	0.7	1.4	1.7
Other	$m	-	-	-	-	-
Operating cash flow	$m	**(1.0)**	**(1.2)**	**(1.8)**	**(1.0)**	**(0.1)**
INVESTING CASHFLOW						
Property, plant and equipment	$m	(0.2)	(0.2)	-	-	-
Mine development	$m	-	-	-	-	-
Exploration & evaluation	$m	(4.0)	(9.3)	(13.1)	(16.8)	(7.7)
Other	$m	-	-	-	-	-
Investing cash flow	$m	**(4.1)**	**(9.5)**	**(13.1)**	**(16.8)**	**(7.7)**
Free Cash Flow	$m	**(5.2)**	**(10.7)**	**(14.9)**	**(17.8)**	**(7.8)**
FINANCING CASHFLOW						
Share issues/(buy-backs)	$m	3.7	25.5	19.5	38.4	19.2
Debt proceeds	$m	-	-	-	-	-
Debt repayments	$m	-	-	-	-	-
Dividends	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Financing cash flow	$m	**3.7**	**25.5**	**19.5**	**38.4**	**19.2**
Change in cash	$m	(1.5)	14.8	4.6	20.6	11.4

BALANCE SHEET

Year ending June	Unit	2022a	2023a	2024e	2025e	2026e
ASSETS						
Cash & short term investments	$m	2.5	17.2	21.8	42.4	53.7
Accounts receivable	$m	0.2	0.6	-	-	-
Property, plant & equipment	$m	0.2	0.3	0.3	0.3	0.3
Mine development expenditure	$m	-	-	-	-	-
Exploration & evaluation	$m	16.8	21.7	34.8	51.6	59.3
Other	$m	0.2	0.2	0.2	0.2	0.2
Total assets	$m	**19.9**	**40.0**	**57.1**	**94.5**	**113.6**
LIABILITIES						
Accounts payable	$m	0.6	1.0	-	-	-
Income tax payable	$m	-	-	-	-	-
Borrowings	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
Total liabilities	$m	**0.6**	**1.0**	**-**	**-**	**-**
SHAREHOLDER'S EQUITY						
Share capital	$m	52.5	78.0	97.5	135.9	155.1
Reserves	$m	(0.4)	0.7	0.7	0.7	0.7
Retained earnings	$m	(32.8)	(39.7)	(41.1)	(42.1)	(42.2)
Total equity	$m	**19.3**	**39.0**	**57.1**	**94.5**	**113.6**
Weighted average shares	m	126.8	150.2	186.4	194.9	208.8

FINANCIAL RATIOS

Year ending June	Unit	2022a	2023a	2024e	2025e	2026e
VALUATION						
NPAT	$m	(1.0)	(6.9)	(1.4)	(1.0)	(0.1)
Reported EPS	c/sh	(0.8)	(4.6)	(0.8)	(0.5)	(0.1)
Adjusted EPS	c/sh	(0.8)	(0.8)	(0.8)	(0.5)	(0.1)
EPS growth	%	- 88.6	457.9	- 83.3	- 32.2	- 89.9
PER	x	-5886.6x	-28.4x	-170.4x	-251.4x	-2492.0x
DPS	c/sh	-	-	-	-	-
Franking	%	-	-	-	-	-
Yield	%	-	-	-	-	-
FCF/share	c/sh	- 4.5	- 6.6	- 8.4	- 9.1	- 4.0
P/FCFPS	x	-1060.9x	-19.7x	-15.5x	-14.2x	-32.4x
EV/EBITDA	x	0.0x	0.0x	0.0x	0.0x	0.0x
EBITDA margin	%	-	-	-	-	-
EBIT margin	%	-	-	-	-	-
Return on assets	%	- 5.2	- 17.2	- 2.5	- 1.1	- 0.1
Return on equity	%	- 5.4	- 17.6	- 2.5	- 1.1	- 0.1
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	- 2.5	- 17.2	- 21.8	- 42.4	- 53.7
ND / E	%	- 12.7	- 44.1	- 38.2	- 44.8	- 47.3
ND / (ND + E)	%	- 37.5	334.8	- 115.2	- 85.3	- 81.1
EBITDA / Interest	x	-	-	-	-	-

VALUATION

	current		+12 months		+24 months	
Ordinary shares (m)		**177.8**		**194.9**		**194.9**
Options in the money (m)		40.9		40.9		40.9
Diluted (m)		**218.7**		**235.8**		**235.8**
Sum-of-the-parts	**$m**	**$/sh**	**$m**	**$/sh**	**$m**	**$/sh**
Project - Bendigo Orphir	313	1.76	346	1.77	383	1.97
Corporate	(35)	(0.20)	(26)	(0.13)	(14)	(0.07)
Exploration assets	70	0.39	70	0.36	70	0.36
Subtotal	**348**	**1.96**	**389**	**2.00**	**439**	**2.25**
Net Cash (debt)	11	0.06	52	0.26	36	0.19
Total (undiluted)	**358**	**2.02**	**441**	**2.26**	**475**	**2.44**
Add options in the money (m)	40.9	-	40.9	-	40.9	-
Add cash	41.9	0.19	3.5	0.01	3.5	0.01
Total (diluted)	**400**	**1.83**	**444**	**1.89**	**478**	**2.03**

CAPITAL STRUCTURE

Total shares on issue	m		177.8
Share price	**$/sh**		**1.30**
Market capitalisation	$m		231.2
Net cash	$m		10.7
Enterprise value (undiluted)	**$m**		**220.5**
Options outstanding (m)	m	(price $0.00 per share)	40.9
Options (in the money)	m		40.9
Issued shares (diluted for options)	m		218.7
Market capitalisation (diluted)	m		284.3
Net cash + options	$m		52.5
Enterprise value (diluted)	**$m**		**231.8**

MAJOR SHAREHOLDERS

Shareholder	%	m
Regal Partners Limited	7.7	13.7
Frederick James Bunting	7.6	13.4
GoldOz Limited	4.3	7.7
Merrill Lynch & Co. Inc., Banking Investments	4.1	7.2
Timothy Clifton	3.2	5.7
Lonergan Foundation Pty Limited	2.1	3.7
Goldstream Finance Limited	1.9	3.4
Norman Seckold	1.6	2.9

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.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
John Hester	Healthcare	612 8224 2871	jhester
Thomas Wakim	Healthcare	612 8224 2815	twakim
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Joseph House	Industrials	613 9325 1624	jhouse
Daniel Laing	Industrials	612 8224 2886	dlaing
Hayden Nicholson	Industrials	613 92351757	hnicholson
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
Andy MacFarlane	Real Estate	612 8224 2843	amacfarlane
Regan Burrows	Resources	618 9236 7677	rburrows
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9325 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
James Williamson	Resources	613 9235 1692	jwilliamson
Associates			
Leo Armati	Associate Analyst	612 8224 2846	larmati
Connor Eldridge	Associate Analyst	612 8224 2893	celdridge
Baxter Kirk	Associate Analyst	613 9235 1625	bkirk
Kion Sapountzis	Associate Analyst	613 9235 1824	ksapountzis
Ritesh Varma	Associate Analyst	613 9235 1658	rvarma

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Bell Potter Securities Limited
ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1601, 16/F
Prosperity Tower, 39 Queens Road Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York
NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929