

Analyst

Sam Haddad 612 8224 2819

Authorisation

Jonathan Snape 613 9235 1601

Accent Group Limited (AX1)

Lockdowns open buying opportunity

Recommendation
Buy (unchanged)
Price
\$2.34
Target (12 months)
\$2.90 (previously \$3.30)

GICS Sector

Retailing

Expected Return

Capital growth	23.9%
Dividend yield	4.0%
Total expected return	27.9%

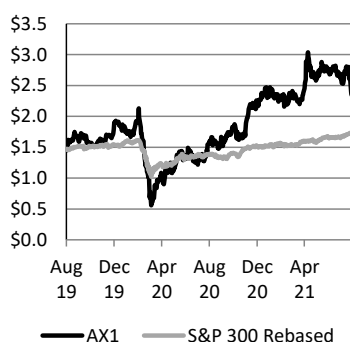
Company Data & Ratios

Enterprise value	\$1,724m
Market cap	\$1,273m
Issued capital	543.9m
Free float	~65%
Avg. daily val. (52wk)	\$3.3m
12 month price range	\$1.45 - \$3.08

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	2.67	2.63	1.43
Absolute (%)	-12.36	-11.03	64.21
Rel market (%)	-14.64	-18.56	40.35

Absolute Price



Strong FY21 result...

AX1 announced a strong FY21 result, with FY21 EBIT lifting 31.8% to \$124.9m, 2.7% ahead BPe \$121.6m. The strong result was driven by: 1) 8.3% like-for-like (LFL) sales growth; 2) online sales lifting 48.5%; 3) 30bps gross margin expansion; 4) operating leverage benefits; and 5) strong store rollout progress with 83 net openings. Note, the FY21 result includes the net benefit of wage subsidies in 1Q21 of \$9.4m.

...although lockdowns materially impacting 1H22

COVID restrictions/lockdowns in July/August have had a material impact, as follows:

- **Trading update for first 7 weeks:** LFL sales (incl. store closures) down -16% (cycling +1.3%). Online providing some cushion to lost in-store sales, although at a reduced extent vs last year (noting Jobkeeper stimulus buoyed sales last year). **Group EBIT impact of at least -\$15m:** Noting this is for July and August alone.
- **Inventory position on the 'heavy side', but a fortunate position given supply chain risks:** AX1 exited FY21 with \$217m in inventory, which we est. to be \$30m on the 'heavy side', although AX1 noted the inventory is new/on-season product. Lockdowns will slow the rebalance of stock levels, which is seeing promotions increase; although at the same time we believe having excess inventory is a preferred position ahead of the key Dec quarter given global supply chain risks.
- **Solid balance sheet to navigate difficult backdrop,** with modest leverage ratio of 0.4x at end-FY21. **Landlord negotiations, round 2:** AX1 flagged it is in the process of engaging with landlords (like last year) to determine appropriate rent terms during lockdowns, thereby containing 1H22 rent cash outlay to a fair level.

Earnings changes & Investment View: Retain Buy, PT \$2.90

We have cut our 1H22 estimates to reflect lockdown impacts. The net effect is our FY22 EPS falls by -21%, although there is no material change in FY23/FY24. Including model roll-forward, our 12-month price target reduces to \$2.90 (previously \$3.30). Notwithstanding the material near-term lockdown impacts, the underlying fundamentals of the business remain strong and attractive. We retain our Buy rating on the stock.

Earnings Forecast

Jun Year end	2021a	2022e	2023e	2024e
Sales (A\$m)	992.8	1,030.1	1,236.8	1,346.7
EBITDA (A\$m)	242.0	237.5	286.2	313.7
NPAT (reported) (A\$m)	76.9	62.4	90.6	103.2
NPAT (underlying) (A\$m)	76.9	62.4	90.6	103.2
EPS underlying (cps)	14.2	11.5	16.7	19.0
NPAT (adjusted) (A\$m)	78.5	64.0	92.2	104.8
EPS adjusted (cps)	14.5	11.8	17.0	19.3
EPS adjusted growth (%)	36.7%	-18.6%	44.1%	13.6%
PER (on adjusted EPS) (x)	16.2	19.9	13.8	12.1
EV/EBITDA (x)	7.1	7.3	6.0	5.5
Dividend (eps)	11.3	9.3	13.3	15.2
Yield (%)	4.8%	4.0%	5.7%	6.5%
Franking (%)	100%	100%	100%	100%

Strong FY21 result, EBIT up 31.8% vs pcp

Headline result

Accent Group Ltd (AX1) announced underlying FY21 EBIT up +31.8% YoY to \$124.9m (BPe ~\$121.6m). FY21 like-for-like (LFL) sales increased +8.3% (cycling +1.6%). Including 83 net new store openings, FY21 total sales was \$992.8m, up 19.6% vs pcp. Online sales lifted 48.5% vs pcp, representing ~12% of FY21 total sales.

Underlying NPAT was \$76.9m vs BPe \$75.4m. On an adjusted NPAT basis (i.e. before post tax identifiable amortisation) the profit result was \$78.5m (vs BPe \$77.0m).

A final dividend of 3.25cps (100% franked) was declared, down vs 4.0cps paid last year..

Figure 1 provides a summary of the result.

Figure 1 - Actual vs expected summary									
	Actuals History (FY20 and beyond is post AASB-16)					Actual FY21	Expected FY21e		Actual vs Expected
	1H20	2H20	FY20	1H21	2H21				
Total Revenue	454.2	375.6	829.8	478.1	514.7	992.8	923.4		7.5%
% - Growth (pcp)	13.6%	-5.2%	4.2%	5.3%	37.0%	19.6%			
EBITDA	107.4	96.0	203.4	138.4	103.6	242.0	243.0		-0.4%
%-Margin	23.6%	25.6%	24.5%	29.0%	20.1%	24.4%	26.3%		-1.9%
% - Growth (pcp)	75.2%	101.8%	86.8%	29.0%	7.9%	19.0%			
Depn & Amort.	-15.1	-16.8	-31.9	-19.6	-17.0	-36.5	-43.9		-16.9%
EBIT	55.5	39.2	94.8	81.8	43.1	124.9	121.6		2.7%
%-Margin	12.2%	10.4%	11.4%	17.1%	8.4%	12.6%	13.2%		-0.6%
% - Growth (pcp)	17.2%	18.1%	17.6%	47.3%	9.8%	31.8%			
Net Interest	-7.1	-7.3	-14.4	-6.6	-7.3	-13.9	-14.1		
Profit before Tax	48.4	31.9	80.3	75.2	35.8	111.0	107.5		3.3%
Tax	-14.8	-9.8	-24.6	-22.4	-11.7	-34.1	-32.1		
Associates/Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Underlying NPAT	33.6	22.1	55.7	52.8	24.1	76.9	75.4		2.0%
%-Margin	7.4%	5.9%	6.7%	11.0%	4.7%	7.7%	8.2%		-0.4%
% - Growth (pcp)	3.3%	0.3%	2.1%	57.3%	9.1%	38.1%			
Add-back ident. amort'n	0.8	0.8	1.6	0.8	0.8	1.6	1.6		
Adjusted NPAT	34.4	22.9	57.3	53.6	24.9	78.5	77.0		2.0%
% - Growth (pcp)	3.2%	0.2%	2.0%	56.0%	8.7%	37.1%			
Abnormals post tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Reported NPAT	33.6	22.1	55.7	52.8	24.1	76.9	75.4		2.0%
DPS (cps)	5.3	4.0	9.3	8.0	3.3	11.3	11.7		-0.5

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Growth plan update:

- New Stores – At least 65 new stores expected to open in FY22 across all banners. On track to reach 700 stores in FY22.
- StyleRunner – Target 60+ stores in ANZ within next 3 years.
- Glue store – Target of 60 stores by December 2023.
- Online – planned to grow to 30% of sales over time.
- Vertical brand sales – expected to grow to more than \$70m in FY22.
- Pivot – 15 stores planned to be trading by December 2022.
- The Trybe – 11 stores currently trading strongly, additional stores planned to open in 1H22.
- Wholesale – Skechers distribution agreement extended by 6 years to December 2032.

Trading update for start of 1H22 (first 7 weeks):

- LFL retail sales (combined figure across all banners) down -16% (cycling +1.3%). Note, this is inclusive of the impact of mandated temporary store closures.
- Digital sales over the last 3 weeks (with NSW and VIC largely closed) up 66.7% vs pcp.
- Group EBIT impact due to COVID related disruptions across July and August will be at least -\$15m.
- Given ongoing uncertainty surrounding impact of COVID-19, no forward sales or profit guidance for FY22 was provided.

Forecast changes

We have cut our 1H22 estimates to reflect lockdown impacts. The net effect is our FY22 EPS falls by -21%, although there is no material change (<3%) in FY23/FY24. Including model roll-forward, our 12-month price target reduces to \$2.90 (previously \$3.30).

Figure 2 shows changes for FY22e – FY24e.

Figure 2 – Earnings revisions summary										
		FY22e			FY23e			FY24e		
		Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	\$m	1132.6	1030.1	-9.0%	1251.9	1236.8	-1.2%	1334.8	1346.7	0.9%
EBITDA	\$m	260.6	237.5	-8.9%	290.7	286.2	-1.6%	315.3	313.7	-0.5%
EBITDA Margin	%	23.0%	23.1%	0.0%	23.2%	23.1%	-0.1%	23.6%	23.3%	-0.3%
Underlying NPAT	\$m	78.7	62.4	-20.7%	92.0	90.6	-1.5%	105.5	103.2	-2.2%
Adjusted NPAT	\$m	80.3	64.0	-20.3%	93.6	92.2	-1.5%	107.1	104.8	-2.1%
Underlying EPS	¢ps	14.5	11.5	-20.7%	16.9	16.7	-1.5%	19.4	19.0	-2.2%
DPS	¢ps	12	9	-24.6%	14	13	-1.5%	16	15	-2.2%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Accent Group Limited

Company Description

Accent Group Limited (AX1) is an investment holding company which owns/operates a number of footwear businesses in the performance, comfort and active lifestyle sectors. These include multi-branded retailers, The Athlete's Foot Australia, Platypus and Hype, as well as a number of mono-branded retail stores for Merrell, Skechers, Vans & Timberland. AX1 also has an emerging presence in youth apparel through its Glue Store platform. The group has exclusive distribution rights for a number of international brands across ANZ including Skechers, Vans, Merrell, CAT, Saucony, Timberland, Sperry, Palladium, Stance and Dr Martin.

Investment Strategy

We rate AX1 Buy with a PT of \$2.90. AX1's strategic focus has moved from acquisition and integration, to innovation in its core business and expansion through new concepts and small targeted acquisitions. AX1 has a leading omni-channel capability with The Athlete's Foot, Platypus, Skechers and Hype as its key footwear retail platforms. AX1 also has a number of new footwear concepts including The Trybe, PIVOT and online marketplace 'Cremm'. Through a "high service & more tailored" market position, AX1 seeks to achieve greater differentiation vs peers as well as create perceived value across its retail platforms.

Valuation

Our blended 12-month price target is \$2.90. Our SOTP (EV/EBITDA basis) is \$2.89, while our DCF is \$2.91 (WACC of 10.2%). We take a simple average of the two.

Risk to Investment Thesis

Key risks to our investment thesis include (but are not limited to):

- **COVID-19:** The substantial impact of COVID-19 on the global & domestic economies is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subject to significant changes if this situation continues for an extended period of time.
- **Slowdown in consumer spending and rise in unemployment** – AX1's product portfolio is mainly footwear and clothing which are discretionary items. AX1 targets the premium end of the market in a number of its retail platforms and hence exposed to consumer trading down behaviour risk (albeit PIVOT should capture some of this).
- **Increased competition** – Increased competitive intensity via price/product range may place pressure on sales/margins. This includes the threat of **online competition**.
- **Brand equity deterioration** – Due to poor product quality. For Wolverine brands, if the product story is not good out of the US, than this may impact the brands in ANZ.
- **Loss of distribution licenses with Wolverine World Wide** – A large component of wholesale earnings is derived from the distribution of Wolverine brands.
- **Movements in \$A/\$US** – Can impact sourcing cost/earnings. AX1 employ a hedging program: 6 months out (as a min. term) at 50% until an order is placed at which point this rises to 70% hedged. As stock arrival nears, AX1 increases hedge cover >70%.
- **Impairment risk** – due to difficult market conditions or the deterioration in brand equity.
- **Prolonged adverse weather** – AX1 has a high exposure to outdoor footwear/apparel.

Accent Group Limited

as at 19 August 2021

Recommendation
Price
Target (12 months)

Buy
\$2.34
\$2.90

Table 1 - Financial summary

Jun Year end	2019	2020	2021	2022e	2023e	2024e
Profit & Loss (A\$m)						
Sales revenue	796.4	829.8	992.8	1,030.1	1,236.8	1,346.7
... Change	13.3%	4.2%	19.6%	3.8%	20.1%	8.9%
EBITDA	108.9	203.4	242.0	237.5	286.2	313.7
... Change	19.8%	86.8%	19.0%	-1.9%	20.5%	9.6%
Deprec. & amort.	(28.3)	(31.9)	(36.5)	(41.1)	(41.7)	(41.3)
EBIT	80.6	94.8	124.9	104.4	145.7	166.9
Net Interest	(3.6)	(14.4)	(13.9)	(15.2)	(16.2)	(19.4)
Pre-tax profit	77.0	80.3	111.0	89.1	129.5	147.4
Tax expense	(22.4)	(24.6)	(34.1)	(26.7)	(38.8)	(44.2)
... tax rate	29%	31%	31%	30%	30%	30%
Associates	-	-	-	-	-	-
Minorities/Prefs	(0.0)	-	-	-	-	-
Underlying Net Profit	54.6	55.7	76.9	62.4	90.6	103.2
... Change	20.0%	2.1%	38.1%	-18.9%	45.3%	13.9%
Abs. & extras.	(0.7)	-	-	-	-	-
Reported Profit	53.9	55.7	76.9	62.4	90.6	103.2
Underlying Net Profit	54.6	55.7	76.9	62.4	90.6	103.2
Add-back ident. amort'n	1.6	1.6	1.6	1.6	1.6	1.6
Adjusted Net Profit	56.2	57.3	78.5	64.0	92.2	104.8
... Change	19.4%	2.0%	37.1%	-18.5%	44.1%	13.6%
Assumed AASB16 adjustment to Underlying EBITDA	(81.7)	(85.7)	(85.7)	(101.4)	(108.4)	(108.4)
Underlying EBITDA (Pre-AASB16)	121.7	121.7	156.3	143.0	184.7	205.3
Cashflow (A\$m)						
EBITDA	108.9	203.4	242.0	237.5	286.2	313.7
Working capital changes	(25.8)	(6.8)	(38.5)	3.4	(4.6)	(9.6)
Net Interest Expense	(4.1)	(4.6)	(2.6)	(15.2)	(16.2)	(19.4)
Tax	(28.6)	(12.3)	(53.2)	(22.9)	(36.2)	(41.9)
Other operating items	15.4	(13.0)	11.7	(2.8)	1.7	1.7
Operating Cash Flow	65.7	166.7	159.4	200.1	231.0	244.4
Capex	(24.8)	(23.8)	(26.2)	(25.8)	(30.9)	(33.7)
Free Cash Flow	40.8	142.8	133.2	174.3	200.1	210.7
Acquisitions	(11.8)	(9.0)	(18.4)	-	-	-
Disposals	-	-	-	-	-	-
Payment of leases	-	(67.3)	(86.8)	(88.0)	(113.5)	(121.3)
Dividends paid	(44.7)	(48.8)	(65.0)	(37.3)	(69.3)	(78.2)
Other investing items	-	-	-	-	-	-
Equity	1.8	0.8	1.0	-	-	-
Core debt increase/(reduction)	12.5	-	15.0	(49.1)	(17.3)	(11.2)
Balance Sheet (A\$m)						
Cash	36.7	54.9	34.1	15.0	15.0	15.0
Receivables	29.8	33.3	39.7	43.7	48.1	52.4
Inventories & WIP	131.5	129.1	216.9	196.5	210.6	229.4
Other current assets	5.8	13.3	14.1	14.1	14.1	14.1
Current Assets	203.8	230.6	304.8	269.3	287.9	310.9
Receivables	-	-	-	-	-	-
Assoc & investments	-	-	-	-	-	-
Fixed Assets (PP&E)	86.2	97.7	115.5	105.3	99.8	97.7
Right-of-use Assets	-	233.0	271.3	292.6	313.1	334.3
Intangibles	352.9	358.6	372.7	367.5	362.2	356.8
Other non-curr assets	26.8	36.3	47.8	47.8	47.8	47.8
Non Current Assets	465.8	725.6	807.4	813.3	822.9	836.6
Total Assets	669.6	956.2	1,112.2	1,082.6	1,110.8	1,147.5
Short term debt	30.0	15.0	40.0	20.0	20.0	20.0
Creditors	99.5	93.7	149.4	136.5	150.4	163.8
Provisions	25.2	39.5	32.5	29.7	31.3	32.9
Other curr liabilities	12.4	86.3	118.2	126.6	134.6	143.0
Current Liabilities	167.1	234.6	340.2	312.7	336.4	359.8
LT debt (incl. leases)	56.1	308.0	338.1	311.7	315.3	325.8
Creditors	-	-	-	-	-	-
Provisions	16.0	1.6	0.7	0.7	0.8	0.8
Other non curr liabilities	27.0	2.9	4.2	4.2	4.2	4.2
Non Current Liabilities	99.2	312.4	343.0	316.6	320.3	330.9
Total Liabilities	266.3	547.0	683.2	629.3	656.7	690.7
Net Assets	403.3	409.2	429.0	453.2	454.0	456.8
Share Capital	388.8	389.6	390.6	390.6	390.6	390.6
Reserves	13.1	18.5	26.0	26.0	26.0	26.0
Retained Earnings	1.4	1.1	12.3	36.6	37.4	40.2
Shareholders Equity	403.3	409.2	429.0	453.2	454.0	456.8
Outside Equity Interests	-	-	-	-	-	-
Total Equity	403.3	409.2	429.0	453.2	454.0	456.8
Core Net debt/(cash) \$m	49.4	31.2	67.0	18.0	0.7	(10.5)
Net debt/(cash) [incl. leases] \$m	49.4	346.6	450.9	431.9	443.5	462.5

Price	\$2.34
Recommendation	Buy
Diluted issued capital (m)	543.9
Market cap (\$m)	1,272.7
Target Price (A\$m)	\$ 2.90

Jun Year end	2019	2020	2021	2022e	2023e	2024e
Valuation Ratios						
Underlying EPS (eps)	10.1	10.3	14.2	11.5	16.7	19.0
... % change	20.0%	2.1%	37.8%	-19.0%	45.3%	13.9%
Adjusted EPS (eps)	10.4	10.6	14.5	11.8	17.0	19.3
... % change	19.4%	2.0%	36.7%	-18.6%	44.1%	13.6%
PE (on underlying EPS) (x)	23.3	22.8	16.5	20.4	14.0	12.3
PE (on adjusted EPS) (x)	22.6	22.1	16.2	19.9	13.8	12.1
EV/EBITDA (x)	15.83	8.47	7.12	7.26	6.02	5.49
EV/EBIT (x)	21.39	18.19	13.80	16.52	11.83	10.33
NTA (\$ps)	0.09	0.09	0.10	0.16	0.17	0.18
P/NTA (x)	25.16	25.05	22.62	14.86	13.86	12.73
Book Value (\$ps)	0.74	0.76	0.79	0.83	0.83	0.84
Price/Book (x)	3.15	3.10	2.97	2.81	2.80	2.79
DPS (eps)	8.3	9.3	11.3	9.3	13.3	15.2
... % pay-out	82.0%	90.0%	79.5%	80.8%	80.0%	80.0%
Yield (%)	3.5%	4.0%	4.8%	4.0%	5.7%	6.5%
Franking (%)	100%	100%	100%	100%	100%	100%
Capital Return Pays (eps)	-	-	-	-	-	-

Performance Ratios	2019	2020	2021	2022e	2023e	2024e
Revenue growth (%)	13.3%	4.2%	19.6%	3.8%	20.1%	8.9%
EBITDA growth (%)	19.8%	86.8%	19.0%	-1.9%	20.5%	9.6%
EBITDA/sales margin (%)	13.7%	24.5%	24.4%	23.1%	23.1%	23.3%
EBIT/sales margin (%)	10.1%	11.4%	12.6%	10.1%	11.8%	12.4%
Gross cash conversion (%)	90.4%	90.3%	88.9%	100.3%	99.0%	97.5%
Free cash-flow yield (%)	3.2%	11.3%	10.5%	13.7%	15.7%	16.6%
ROE (%) (on adj NPAT)	14.0%	14.1%	18.5%	14.5%	20.2%	22.8%
ROIC (%)	12.9%	14.8%	19.1%	15.3%	22.5%	26.5%
Capex/Depn (x)	1.0	0.8	0.8	0.7	0.8	0.9
Net interest cover (x)	22.5	6.6	9.0	6.9	9.0	8.6
Core net Debt/EBITDA (pre-AASB16) (x)	0.5	0.3	0.4	0.1	0.0	n/a
Net debt/equity (%)	12.3%	84.7%	105.1%	95.3%	97.7%	101.2%
Net debt/net debt + equity (%)	10.9%	45.9%	51.2%	48.8%	49.4%	50.3%

Half yearly (A\$m)	1H19	2H19	1H20	2H20	1H21	2H21
Sales revenue	399.9	396.4	454.2	375.6	478.1	514.7
EBITDA	61.3	47.6	107.4	96.0	138.4	103.6
Deprec. & amort.	(13.9)	(14.4)	(15.1)	(16.8)	(19.6)	(17.0)
EBIT	47.4	33.2	55.5	39.2	81.8	43.1
Interest expense	(1.6)	(2.0)	(7.1)	(7.3)	(6.6)	(7.3)
Pre-tax profit	45.8	31.2	48.4	31.9	75.2	35.8
Tax expense	(13.3)	(9.2)	(14.8)	(9.8)	(22.4)	(11.7)
... tax rate	29%	29%	31%	31%	30%	33%
Associates	-	-	-	-	-	-
Minorities	(0.0)	(0.0)	-	-	-	-
Underlying Net Profit	32.5	22.1	33.6	22.1	52.8	24.1
Abs. & extras.	(0.3)	(0.3)	-	-	-	-
Reported Profit	32.1	21.7	33.6	22.1	52.8	24.1
Underlying Net Profit	32.5	22.1	33.6	22.1	52.8	24.1
Add-back ident. amort'n	0.8	0.8	0.8	0.8	0.8	0.8
Adj. Net Profit	33.3	22.9	34.4	22.9	53.6	24.9

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			
TS Lim	Banks	612 8224 2810	tslim
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare	612 8224 2849	tnjain
Elyse Shapiro	Healthcare	613 9235 1877	eshapiro
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Joseph House	Resources	613 9235 1624	jhouse
Associates			
Olivia Hagglund	Associate Analyst	612 8224 2813	ohagglund
Michael Ardrey	Associate Analyst	613 9256 8782	mardrey

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 1701, 17/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

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