

Analyst

Jonathan Snape 613 9235 1601

Authorisation

Sam Haddad 612 8224 2819

Nufarm Ltd (NUF)

Market Indicators

Recommendation

Buy (unchanged)

Price

\$4.71

Target (12 months)

\$5.40 (unchanged)

GICS Sector

Food Beverage and Tobacco

Expected Return

Capital growth	14.6%
Dividend yield	1.3%
Total expected return	15.9%

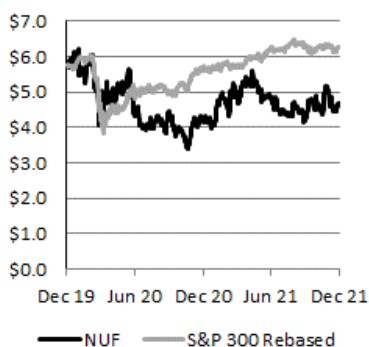
Company Data & Ratios

Enterprise value	\$2,943m
Market cap	\$1,789m
Issued capital	379.9m
Free float	84%
Avg. daily val. (52wk)	\$6.9m
12 month price range	\$3.945-5.60

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	5.16	4.32	4.34
Absolute (%)	-9.88	7.64	7.14
Rel market (%)	-8.84	9.69	-2.61

Absolute Price



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED
 ABN 25 006 390 772
 AFSL 243480

Looking at trade flows and acreage

This is a compendium of crop protection trade flows and acreage information that we review as drivers of supply and demand in NUF's core markets. Key takeaways:

Ag-chem volume to Australia: China, India and Japan account for ~65-70% of imports of herbicides, fungicides and insecticides into Australia. Our analysis of trade flows demonstrates a -8% YOY reduction in exports to Australia from these producers in Oct'21, but a +13% YOY uplift on a R3M basis, which removes monthly distortions.

Ag-chem volume flows to USA: China and India account for ~65-70% of imports of herbicides, fungicides and insecticides into USA. Our analysis of trade flows demonstrates a +140% YOY uplift in exports to the USA from these producers in Oct'21 and +135% YOY uplift on a R3M basis, which removes monthly distortions.

Ag-chem volume flows in EU: The majority of trade flows in the EU are from EU member countries. EU-intra data captures both imports from member states and other countries. Our analysis of the data illustrates a +12% YOY uplift in Aug'21 for the total EU and a +10% YOY uplift in NUF centric countries (France, Germany, Spain, Italy and Poland). On a R3M basis the YOY uplift is +6% and +6%, respectively. Of the NUF member states that have reported for Sep'21 (France and Spain), there is a +12% YOY uplift.

There are no changes to our forecasts or target price in this note. Our analysis of trade flows continues to demonstrate strong flows of ag-chem product to core NUF markets. In addition, at this stage, initial acreage, crop development and crop projections are generally supportive of demand in FY22e in core NUF markets.

Investment view: Buy rating unchanged

There is no change to our Buy rating. We see NUF as better placed to navigate a normalisation in Australian demand levels, given recovering acreages in North America and Europe. Beyond seasonal factors the creation of new revenue streams in oils and biofuels should emerge as a theme in FY23e and beyond.

Earnings Forecast

Year end Sep	2021	2022e	2023e	2024e
Sales (\$m)	3215.7	3212.0	3252.4	3315.6
EBITDA (\$m)	361.1	384.6	397.5	400.6
NPAT (reported) (\$m)	65.1	83.1	95.0	99.2
NPAT (adjusted) (\$m)	61.3	83.1	95.0	99.2
EPS (adjusted) (cps)	16.1	21.8	24.9	26.0
EPS growth (%)	n.a.	n.a.	14.3	4.4
PER (x)	29.3	21.6	18.9	18.1
FCF Yield (%)	8.4	1.3	2.9	2.7
EV/EBITDA (x)	8.1	7.7	7.4	7.3
Dividend (€ps)	4.0	6.0	7.0	8.0
Franking (%)	0.0	0.0	0.0	0.0
Yield (%)	0.8	1.3	1.5	1.7
ROE (%)	3.3	4.3	4.8	4.9

SOURCE: BELL POTTER SECURITIES ESTIMATES

DISCLAIMER:
 THIS REPORT MUST BE READ WITH THE DISCLAIMER ON PAGE 8 THAT FORMS PART OF IT.

Trade flows and acreage

In this report we are tracking chemical flows from major suppliers into NUF markets and acreage developments across those markets. We see trade flows as an important indicator of not only demand but also product availability. At a high level we are tracking by market the following:

Australia: We are tracking ABARE acreage reports as an indicator of demand. We are overlaying this with exports as reported by customs in India, China and Japan of Herbicides, Fungicides and Insecticides as a proxy for supply. These three suppliers account for 65-70% of Australia’s imported product and as such we see it as a reasonable proxy for available supply.

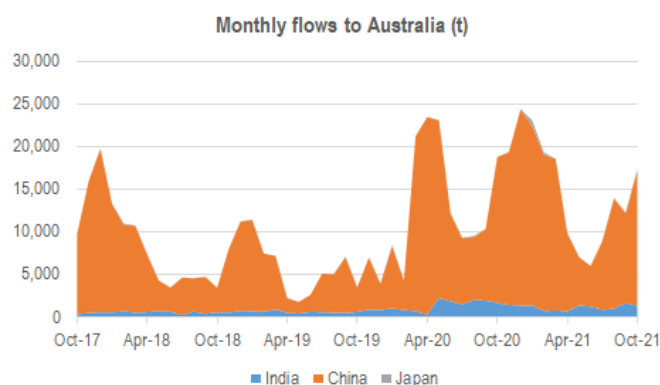
United States: We are tracking USDA acreage reports as an indicator of demand across soybean, corn and wheat. We are overlaying this with exports as reported by customs in India and China of Herbicides, Fungicides and Insecticides as a proxy for supply. These two suppliers account for 65-70% of US imported product and as such we see this as a reasonable proxy for available supply.

Europe: We are tracking COCEREAL acreage reports as an indicator of demand across grains and oilseeds. We are overlaying this with EU-intra trade flows reported by EUROSTAT. The majority of product supplied in the EU-27 is manufactured in the EU-27, EU-intra flows capture trade flows from within and outside the EU. We further refine the data down to core NUF markets of France, Germany, Spain, Poland, and Italy.

AUSTRALIA

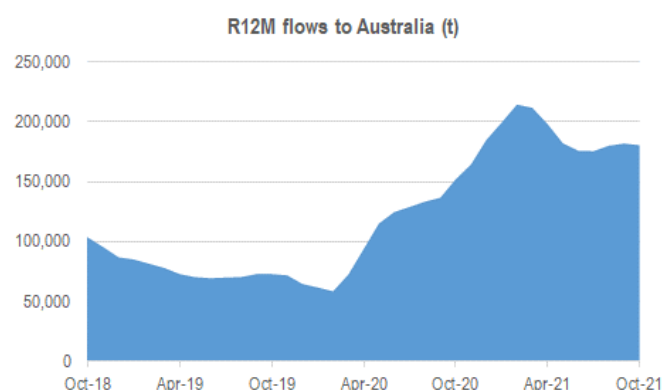
Supply of ag-chem products from the top three exporters to Australia was down -8% YOY in Oct’21, but up +13% YOY on a R3M basis (which disaggregates monthly volatility) in a volume sense. On a R12M basis imports of ag-chem volumes is up+19% YOY and in the year ended Sep’21 was up +33% YOY.

Figure 1 - Monthly supply ag-chem - major suppliers (t)



SOURCE: BASED ON CHINA, JAPAN AND INDIAN CUSTOMS DATA

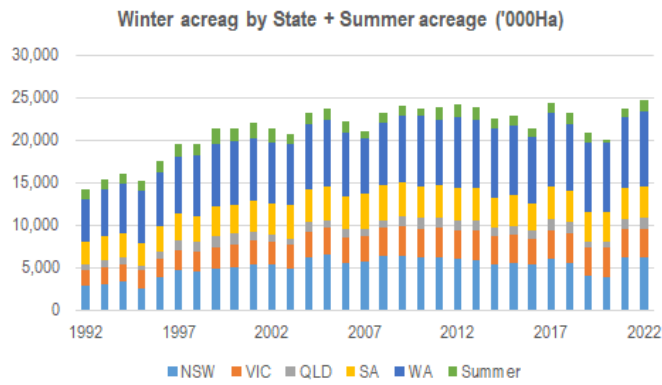
Figure 2 - R12M supply of ag-chem - major suppliers (t)



SOURCE: BASED ON CHINA, JAPAN AND INDIAN CUSTOMS DATA

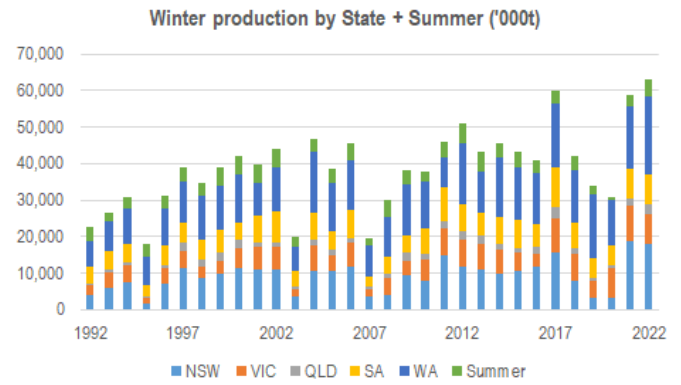
The 2021-22 winter cropping acreage is forecast at an all-time high at 23.2m Ha and up +3% YOY. The 2021-22 summer crop acreage is forecast a 10yr high at 1.4m Ha and up +36% YOY. The combined 2021-22 summer and winter cropping acreage forecast is an all-time high at 24.7m Ha and up +4% YOY, which is 9% above the 10yr average and 8% above the 20yr average. Winter crop production is forecast at an all-time high and up +5% YOY and summer crop production is a 10yr high and up +49% YOY. The combined summer and winter crop forecast for 2021-22 is an all-time high and 36% above the 10yr average and 51% above the 20yr average.

Figure 3 - Australian winter and summer acreage ('000Ha)



SOURCE: ABARES

Figure 4 - Summer and winter crop production ('000t)

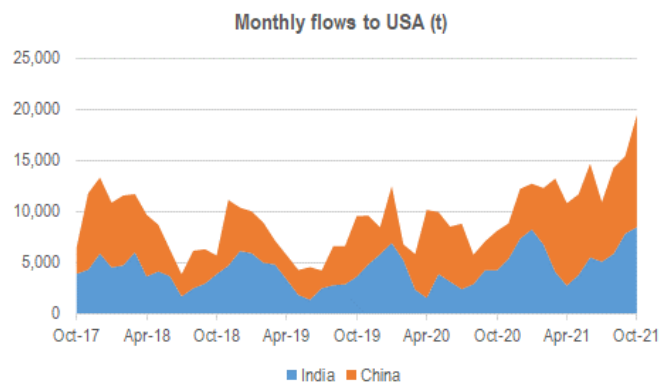


SOURCE: ABARES

USA

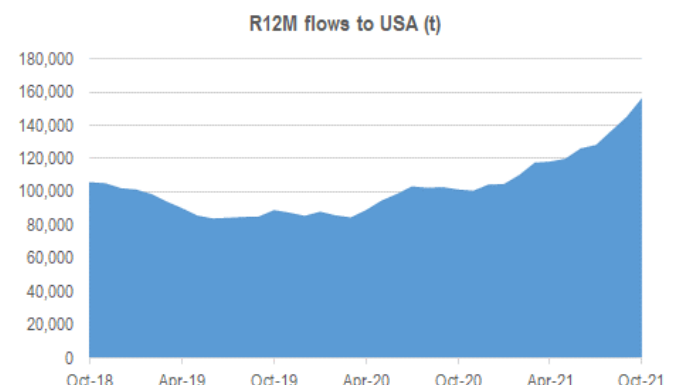
Supply of ag-chem products from the top three exporters to Australia was up +140% YOY in Oct'21 and up +135% YOY on a R3M basis (which disaggregates monthly volatility) in a volume sense. On a R12M basis imports of ag-chem volumes is up+54% YOY and in the year ended Sep'21 was up +41% YOY.

Figure 5 - Monthly supply ag-chem - major suppliers (t)



SOURCE: BASED ON CHINA AND INDIAN CUSTOMS DATA

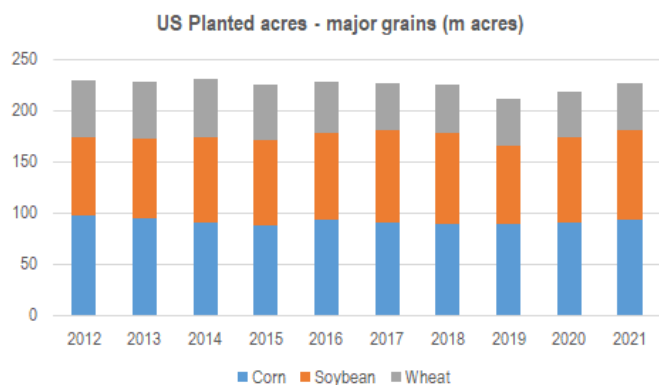
Figure 6 - R12M supply of ag-chem - major suppliers (t)



SOURCE: BASED ON CHINA AND INDIAN CUSTOMS DATA

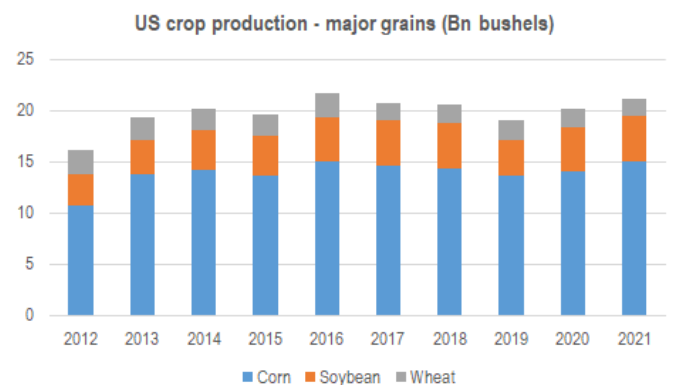
Total acreage sown to corn, soybean and wheat in the US is forecast up +4% YOY in 2021 and 1% above the 2012-21 avg. Production is forecast to lift +5% YOY and % above the 2012-21 average.

Figure 7 - US acreage forecast - major crops (m acres)



SOURCE: USDA

Figure 8 - US production - major crops (Bn bushel)



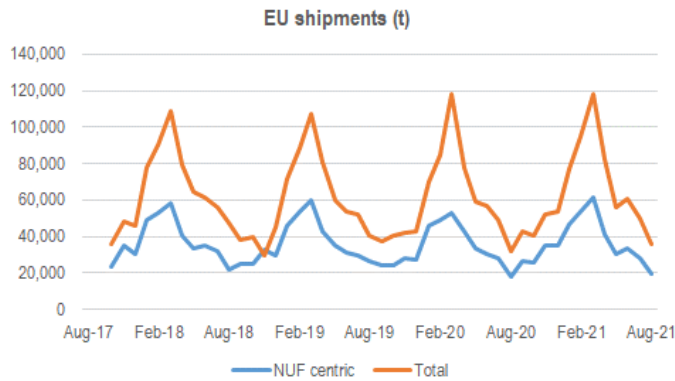
SOURCE: USDA

As we are in the midst of the US harvest we would not expect a material update until early CY22e. Farmer demand windows for ag-chem in the USA peak in March-July for corn and soybean.

EUROPE

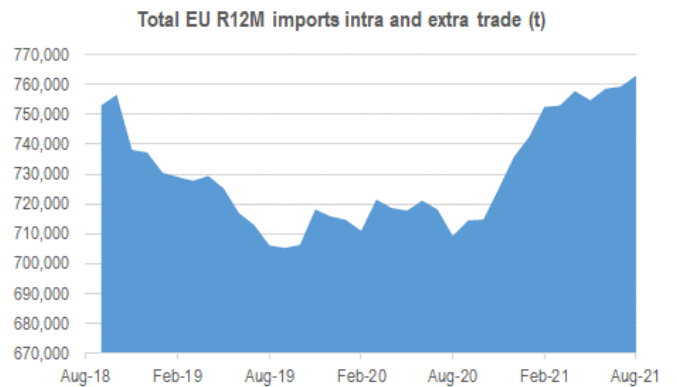
The volume of imports of ag-chem products into the EU-27 (including member State movements) was up +12% YOY in Aug'21 and up +10% when we focus on core NUF markets (France, Germany, Poland, Spain & Italy). On R3M imports were up +6% YOY in both NUF centric markets and the EU-27.

Figure 9 - EU intra monthly imports ag-chem (t)



SOURCE: EUROSTAT

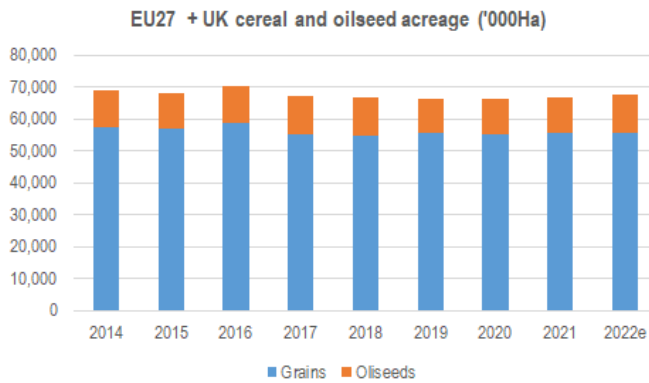
Figure 10 - R12M EU intra imports (t)



SOURCE: EUROSTAT

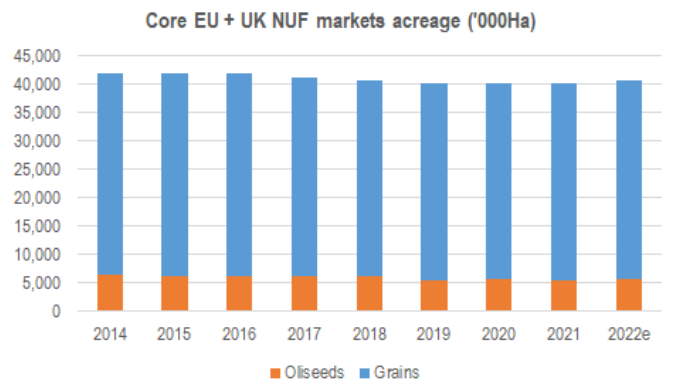
The 2022 acreage in the EU27+UK is forecast up +1% YOY, as is the acreage forecast in NUF core markets. Production down -1% YOY in both the EU27+UK and NUF core markets after lifting +3% and +4% YOY, respectively, in 2021.

Figure 11 – EU27 + UK acreage forecast - major crops (m acres)



SOURCE: USDA

Figure 12 – Core NUF markets



SOURCE: USDA

Investment Summary

COMPANY DESCRIPTION

NUF is a leading supplier of off-patent agricultural chemicals (~77% of the contestable market), seeds and seed treatments globally, with a marketing presence in over 30 countries and sales in over 100 countries.

VALUATION

Our target price for NUF is \$5.40ps. In deriving our target we have incorporated an ROIC based methodology utilising a value for the base business on Normalised earnings, while accounting for the material dislocation between SIB Capex and reported depreciation & amortisation following the Century and FMC acquisitions. Major assumptions in this target price derivation include an underlying cash ROIC of 14.5% in FY22e lifting to 15.5% in FY23e and a WACC hurdle of 9.1%. This derives an EV/EBITDA multiple of 7.4x FY21e and 7.7x FY22e EBITDA. Net debt includes factored payables which we view as synthetic debt funding.

RISKS

Key risks in an investment in NUF include but are not limited to:

COVID-19: The substantial impact of COVID-19 on the global and domestic economies is creating enormous volatility and uncertainty in global share markets. The forecasts in the report may be subjected to significant changes if this situation continues for an extended period of time.

Climate: As an input supplier to global agriculture, demand for crop protection products is influenced by climatic conditions that help determine the timing and extent of cropping activity as well as weed, pest and disease pressures. Climatic conditions will vary from region to region. While certain conditions may increase demand for crop protection products, extreme climatic conditions, such as prolonged drought, may reduce demand for those products. In addition the timing and duration of seasonal breaks can also impact the demand for particular products.

Changes in commodity prices: Commodity prices dictate planting intentions. Weak commodity prices can be associated with lower levels of cropping activity and demand for crop protection products. In addition rotation between crops can affect the level of demand for crop protection, with some crops requiring a higher investment in crop chemicals than others.

Failure to execute on cost and working capital initiatives: A failure to execute on reducing costs by ~\$15m and reducing average working capital to sales to 35-37%, is likely to see NUF generate a ROFE below expectations impacting both earnings and valuation.

Failure to execute the Century and FMC acquisitions: NUF has invested A\$840m in acquiring the Century and FMC portfolios in Europe, securing revenues of ~A\$280m and EBITDA of A\$110-115m. Failure to execute on incorporating these portfolios into the NUF stable or failure to achieve re-registration of key molecules could impact the performance of NUF.

Omega 3: incorporated into our earnings forecasts is an expectation that NUF is successful in commercialising its omega 3 canola product. Failure to achieve this outcome would likely impede the ability of NUF in achieving our future projections.

Technology adoption: The introduction and adoption of technology in agriculture, such as GM crops, may influence the demand for crop protection and conventional seed products. In addition the introduction and adoption of formulations that supersede current products may limit demand for some of NUF's products.

Key Supply contracts: NUF relies on the supply of a number of key raw materials, intermediates and active ingredients in order to produce and supply its range of crop protection products. Commercial terms relating to the supply of those inputs can vary and are subject to negotiation with third parties. Pricing and other terms associated with these arrangements can impact the margins associated with the sale of related products

Currency: Global crop protection companies such as NUF purchase inputs and determine selling prices in a range of international currencies, reflecting the geographic reach of their operations and are therefore exposed to fluctuations in exchange rates.

Glyphosate risk: On 10 August 2018, a California jury found Monsanto liable to the amount of US\$289m as a result of allegations their glyphosate-based product Round-Up caused a man's cancer. There is risk that glyphosate sales around the world are adversely impacted given both the intense legal and community pressure on this product. There is also a risk of future litigation for suppliers of glyphosate-based products, including NUF.

Regulatory risks: The crop protection industry is highly regulated with government controls and standards imposed on all aspects of the industry's operations. Crop protection products are subject to regulatory review and approval in all markets in which they are sold, with the requirements of regulatory authorities varying from country to country. Regulatory policies can have an impact on the availability and usage of crop protection products and, in some cases, can result in the restriction or removal of certain products from the market, which can have a material adverse effect on the financial performance of NUF.

Nufarm Ltd

as at 14 December 2021

Recommendation
Price
Target (12 months)

Buy
\$4.71
\$5.40

Table 1 - Financial summary

Sep Year end	Pre-AASB16 Jul YE			Post AASB16 Sep YE				
	2018	2019	2020	2020	2021	2022e	2023e	2024e
Profit & Loss (A\$m)								
Sales revenue	3307.8	3757.6	2848.4	2933.5	3215.7	3212.0	3252.4	3315.6
... Change		13.6%	-24.2%		9.6%	-0.1%	1.3%	1.9%
EBITDA	385.7	420.3	235.8	245.2	361.1	384.6	397.5	400.6
Deprec. & amort	(120.6)	(171.7)	(201.4)	(183.1)	(208.0)	(208.4)	(208.4)	(208.4)
EBIT	265.1	248.6	34.4	62.1	153.1	176.1	189.0	192.1
Interest expense	(118.3)	(116.9)	(96.2)	(61.3)	(54.6)	(50.5)	(47.6)	(47.6)
Pre-tax profit	146.8	131.7	(61.8)	91.8	121.5	138.5	144.5	144.5
Tax expense	(48.8)	(42.6)	(18.8)	(30.6)	(38.5)	(43.6)	(45.4)	(45.4)
... tax rate	33%	32%	-30%	33%	32%	31%	31%	31%
Minorities	0.4	-	-	-	-	-	-	-
Net Profit	98.4	89.1	(80.6)	61.3	83.1	95.0	99.2	99.2
Abs. & extras	(114.0)	(50.8)	(375.5)	3.9	-	-	-	-
Reported Profit	(15.6)	38.3	(456.1)	65.1	83.1	95.0	99.2	99.2
Amortisation	82.4	133.7	143.6	150.2	150.7	150.7	150.7	150.7
Pref & hybrid dividends	(14.9)	(14.6)	(18.3)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)
Underlying NPATA	141.1	168.0	1.6	156.4	178.5	190.4	194.6	194.6
Cashflow (A\$m)								
EBITDA	385.7	420.3	235.8	245.2	361.1	384.6	397.5	400.6
Net Interest Expense	(90.4)	(102.6)	(82.6)	(55.2)	(44.7)	(40.6)	(37.7)	(37.7)
Tax Paid	(53.8)	(42.1)	(118.2)	(31.3)	(34.5)	(41.0)	(44.5)	(44.5)
Change in Wkg Capital	(283.9)	(137.7)	(195.0)	190.5	(43.9)	(11.3)	(17.7)	(17.7)
Other	(45.7)	(39.8)	(93.0)	(60.8)	-	-	-	-
Operating Cash Flow	(88.2)	98.1	(253.0)	404.3	261.5	304.6	300.7	300.7
Dividends paid	(50.2)	(34.1)	(17.1)	(10.2)	(32.8)	(32.8)	(36.6)	(36.6)
Capex	(192.8)	(174.6)	(168.9)	(147.1)	(190.0)	(185.0)	(185.0)	(185.0)
Free Cash Flow	(331.2)	(110.6)	(439.1)	247.0	38.7	86.8	79.1	79.1
Asset Sales	6.1	2.1	1,284.5	0.8	-	-	-	-
Acquisitions	(778.9)	(1.4)	-	-	-	-	-	-
Other	(26.3)	(59.1)	105.4	(124.8)	-	-	-	-
Equity Issues/Reduction	436.5	296.0	-	-	-	-	-	-
(Inc.)/dec. in net debt	(693.8)	126.9	950.9	123.0	38.7	86.8	79.1	79.1
Balance Sheet (A\$m)								
Cash & near cash	301.7	505.7	686.6	423.9	724.2	615.4	702.2	681.3
Receivables	1,199.6	1,378.8	982.2	859.0	811.7	863.9	874.8	891.8
Inventories & WIP	1,179.7	1,228.2	932.8	1,046.9	976.2	1,027.8	1,040.8	1,061.0
Other Current assets	31.6	133.8	15.9	22.6	22.7	22.7	22.7	22.7
Current assets	2,712.6	3,246.5	2,617.5	2,352.5	2,534.8	2,529.9	2,640.5	2,656.8
Fixed assets	338.7	393.6	332.9	325.9	330.6	344.3	361.5	378.7
Right of use asset	-	-	106.7	110.7	110.7	110.7	110.7	110.7
Intangibles	1,688.3	1,719.0	1,339.0	1,328.9	1,243.8	1,264.5	1,232.1	1,199.7
Other assets	311.7	317.4	245.8	258.2	262.8	262.8	262.8	262.8
Non current assets	2,338.7	2,430.0	1,917.7	1,913.1	1,837.3	1,871.6	1,856.4	1,841.2
Total assets	5,051.4	5,676.5	4,535.2	4,265.6	4,372.1	4,401.5	4,496.9	4,498.0
Creditors	1,131.3	1,221.3	933.0	861.0	933.4	993.5	1,006.0	1,025.5
Current borrowings	527.1	495.0	320.4	216.1	234.4	200.0	200.0	200.0
Lease liabilities	-	-	18.4	18.2	18.1	18.1	18.1	18.1
Other current liabilities	52.7	55.5	84.2	79.6	55.5	118.3	145.3	170.7
Current liabilities	1,711.0	1,771.7	1,337.6	1,156.7	1,223.4	1,311.7	1,351.3	1,396.2
Non-current borrowings	1,148.7	1,257.8	662.4	670.4	663.0	550.0	550.0	450.0
Lease liabilities	-	-	126.6	125.4	125.5	125.5	125.5	125.5
Other liabilities	220.0	242.0	265.0	266.3	238.7	238.7	238.7	238.7
Non-current liabilities	1,368.7	1,499.9	1,053.9	1,062.1	1,027.2	914.1	914.1	814.1
Total liabilities	3,079.7	3,271.6	2,391.5	2,218.8	2,250.6	2,225.9	2,265.4	2,210.3
Net assets	1,971.6	2,404.9	2,143.6	2,046.7	2,121.5	2,175.6	2,231.5	2,287.7
Share capital	1,537.5	1,834.6	1,834.9	1,834.9	1,835.9	1,835.9	1,835.9	1,835.9
Reserves	(309.1)	(249.5)	79.8	74.7	95.0	92.5	90.0	87.5
Retained earnings	496.3	475.9	(18.0)	(109.8)	(56.3)	0.3	58.6	117.4
Hybrid Equity	246.9	343.9	246.9	246.9	246.9	246.9	246.9	246.9
Outside equity interests	-	-	-	-	-	-	-	-
S/holders' funds	1,971.6	2,404.9	2,143.6	2,046.7	2,121.5	2,175.6	2,231.5	2,287.7
Net Debt (Cash)	1,374.1	1,247.1	296.3	462.6	173.3	134.6	47.8	(31.3)
Net Debt (Cash) - Hybrid adju	1,624.1	1,497.1	643.8	712.6	520.8	482.1	395.3	316.2

Price (A\$ps)	\$4.71
Recommendation	Buy
Target Price (A\$ps)	\$5.40
Diluted issued capital (m)	379.9
Market cap (\$m)	1789.4
Enterprise Value (\$m)	2942.6
Free Float (%)	84%

*Net debt trailing R12M

Sep Year end	2018	2019	2020	2021	2022e	2023e	2024e
Valuation Ratios							
Core EPS (¢ps)				16.1	21.8	24.9	26.0
Change (%)				n.a.	35.6%	14.3%	4.4%
Core EPS pre-amortisation (¢ps)				41.1	46.9	50.0	51.1
Change (%)				n.a.	14.1%	6.7%	2.2%
PE (x)				29.3	21.6	18.9	18.1
PE post-prefs (x)				34.9	24.5	21.1	20.1
PE pre-amortisation (x)				11.5	10.1	9.4	9.2
EV/EBITDA (x)				8.1	7.7	7.4	7.3
EV/EBIT (x)				19.2	16.7	15.6	15.3
NTA (\$ps)				3.31	3.40	3.63	3.86
PINTA (x)				1.42	1.39	1.30	1.22
Book Value (\$ps)				5.58	5.73	5.87	6.02
Price/Book (x)				0.84	0.82	0.80	0.78
DPS (¢ps)				4.0	6.0	7.0	8.0
Payout (%)				24.9%	27.5%	28.1%	30.7%
Yield (%)				0.8%	1.3%	1.5%	1.7%
Franking (%)				0%	0%	0%	0%

Performance Ratios							
EBITDA/sales (%)				8.4%	11.2%	12.0%	12.2%
Core EBITDA/sales (%)				8.7%	12.0%	12.0%	12.1%
EBITA/sales (%)				4.8%	5.5%	5.8%	5.8%
OCF Realisation (%)				150.2%	89.7%	100.4%	97.8%
FCF Realisation (%)				403.6%	74.0%	115.4%	106.6%
ROE (%)				3.3%	4.3%	4.8%	4.9%
ROIC (%)				6.3%	7.6%	8.2%	8.5%
Asset turn (years)				1.74	1.84	1.91	1.92
Capex/Depn (x)				0.71	0.91	0.89	0.89
Interest cover (x)				2.50	3.23	3.74	4.04
Net debt/EBITDA				1.44	1.25	0.99	0.79
Net debt/equity (%)				8.2%	6.2%	2.1%	-1.4%

Segmental Information							
APAC				754.3	858.4	856.4	877.8
Europe				796.2	806.5	871.6	855.0
North America				1,054.3	1,112.4	1,231.9	1,245.4
South America				-	-	-	-
Crop Protection				2,604.8	2,777.3	2,959.9	2,978.2
Seed technologies				198.1	240.6	252.2	274.3
Other (unallocated)				130.6	197.7	-	-
Revenue				2,933.5	3,215.7	3,212.0	3,252.4
APAC				76.0	111.6	105.4	108.0
Europe				102.2	171.7	190.8	198.6
North America				96.9	104.4	113.4	112.5
South America				-	-	-	-
Crop Protection				275.0	387.6	409.6	419.1
Seed technologies				29.5	46.3	48.0	51.3
Other (unallocated)				(59.3)	(72.9)	(73.0)	(73.0)
EBITDA				245.2	361.1	384.6	397.5

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
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
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
Regan Burrows	Resources	618 9326 7677	rburrows
Joseph House	Resources	613 9235 1624	jhouse
Associates			
Michael Ardrey	Associate Analyst	613 9256 8782	mardrey
Daniel Laing	Associate Analyst	612 8224 2886	dlaing

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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