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# The a2 Milk Co (A2M)

## Recent reporting trends

**Recommendation**
**Hold** (unchanged)

**Price**
**A\$5.77**
**Target (12 months)**
**A\$5.70** (unchanged)

**Sector**
**Food Beverage and Tobacco**
**Expected Return**

Capital growth **(1.2%)**

Dividend yield **0.0%**

Total expected return **(1.2%)**
**Company Data & Ratios**

Enterprise value **A\$3,432m**

Market cap **A\$4,171m**

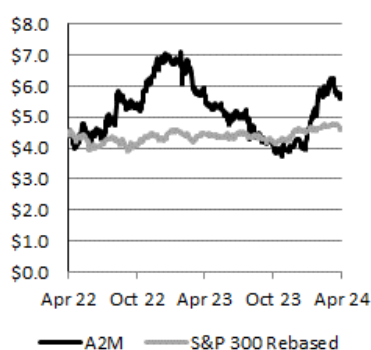
Issued capital **722.9m**

Free float **100%**

Avg. daily val. (52wk) **A\$9.1m**

12 month price range **A\$3.70-6.26**
**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	6.00	3.98	5.90
Absolute (%)	-3.83	44.97	-2.20
Rel market (%)	-3.12	41.70	-6.12

**Absolute Price**


SOURCE: IRESS

**China reporting season and other indicators**

In this note we review post reporting datapoints and China peer group reporting. Key points:

**China IMF reporting season:** Three listed IMF entities have recently reported. In aggregate we noted: (1) Average contribution margin contraction of 500bp with a spread of -1300-to-+120bp in 1H24 (vs. A2M of -180bp); (2) Average revenue growth of -20% YOY (vs A2M of +2% YOY) with revenue per distribution point (where reported) down -15% YOY in NZD terms (vs. A2M of +5% YOY); and (3) CY24e outlook comments generally suggested a stabilising but competitive market.

**SM1 results read throughs:** We noted a -10% YOY and -27% HOH contraction in SM1 prepayments on balance sheet and a +46% YOY increase and an -11% HOH decline in nutritional inventory volumes on SM1's balance sheet. Prepayments reflect near term orders where customers are required to pre-pay for non-dairy ingredients.

**China trade flows:** Imports of IMF into China have remained subdued, down -62% YOY in Mar'24 and down -36% YOY on a R12M basis. While changes in GB standards and inventory distortions are difficult from a pc perspective, the level of imports into China remains at historically low levels and has been since Jun'23.

We have adjusted our forecasts for YTD FX resulting in immaterial NPAT changes (+/- 1% FY24-26e). Our A\$5.70ps target price is unchanged.

**Investment view; Hold rating unchanged**

Our Hold rating is unchanged. The PRC label transition has been executed well to date, with reported IMF revenues sustained in a falling market (at NZ\$1.1Bn on a R12M basis at 1H24). However, A2M (at ~16x FY24e EBITDA) is trading at a reasonably large premium to China facing IMF (~10-11x FY24e EBITDA) and global Dairy entities (~12-13x FY24e EBITDA). In the near term, competitor commentary continues to suggest a difficult sector trading backdrop and we note overall levels of inbound inventory movements into China remain subdued.

**Earnings Forecast**

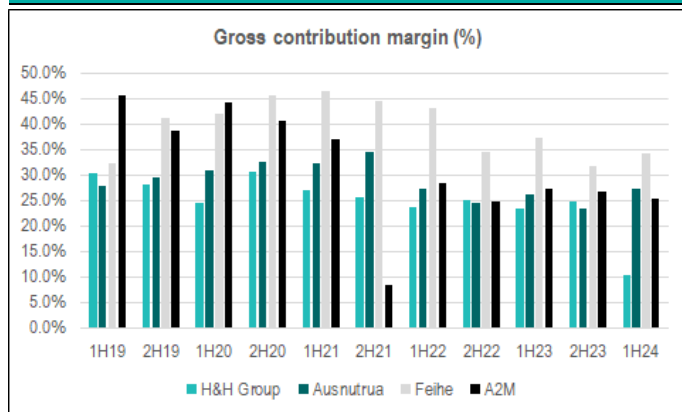
Year end June	2023	2024e	2025e	2026e
Sales (NZ\$m)	1592.9	1663.5	1773.9	1863.7
EBITDA (NZ\$m)	219.3	235.3	269.6	310.0
NPAT (adjusted) (NZ\$m)	155.6	172.0	198.4	231.6
NPAT (reported) (NZ\$m)	97.4	138.2	198.4	231.6
EPS (adjusted) (NZ cps)	21.1	23.7	27.3	31.9
EPS growth (%)	28.8	12.1	15.3	16.7
PER (x)	29.7	26.5	23.0	19.7
FCF Yield (%)	2.6	4.3	5.3	6.3
EV/EBITDA (x)	17.0	15.9	13.9	12.1
Dividend (NZ Cps)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	13.5	13.5	13.6	13.7

SOURCE: BELL POTTER SECURITIES ESTIMATES

# A2M earnings drivers

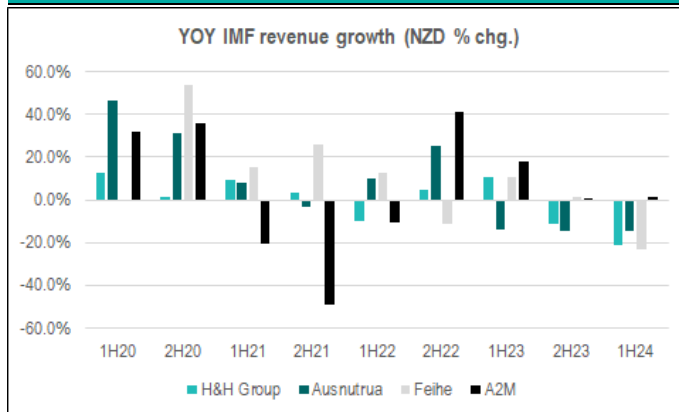
**Reporting season takeouts:** Three listed IMF entities have recently reported. In aggregate we noted: (1) Average contribution margin contraction of 500bp with a spread of -1300-to-+120bp in 1H24 (vs. A2M of -180bp); and (2) Average revenue growth of -20% YOY (vs A2M of +2% YOY) with revenue per distribution point (were reported) down -15% YOY in NZD terms (vs. A2M of +5% YOY).

Figure 1 - China IMF contribution margins (%) – Juen YE



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES. CONTRIBUTION MARGIN = GROSS MARGIN – MARKETING-DISTRIBUTION

Figure 2 - YOY IMF revenue growth - NZD basis (%) – June YE

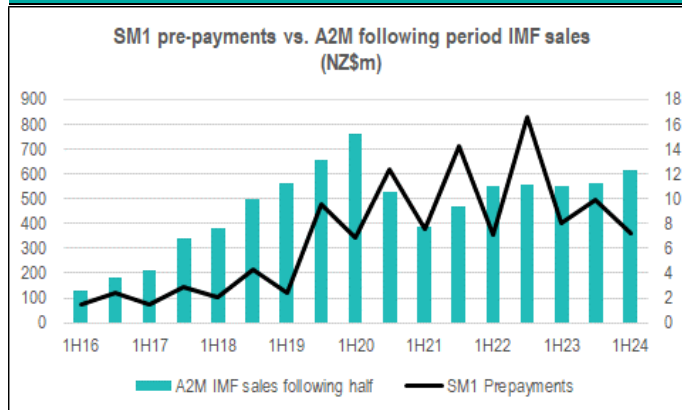


SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

In general, CY24 outlook comments pointed to: (1) Ausnutria: an ongoing trend of industry contraction and an intensification of market competition. Though it noted the year of the dragon will likely provide some benefit to the IMF sector; (2) H&H Group: expects the BNC segment in mainland China to stabilise, with an expected stabilisation in the birth rate; (3) China Feihe: noted an expectation for the IMF market to be stable; and (4) Danone noted in its quarterly sales update that growth had been achieved on the back of market share gains and online was outgrowing MBS channels.

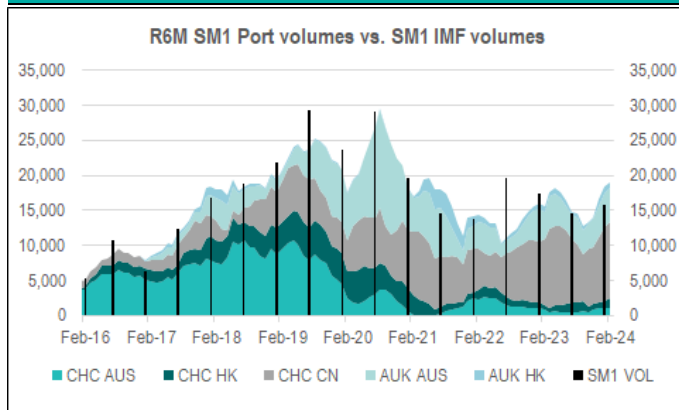
**SM1 indicators:** We noted a -10% YOY and -27% HOH contraction in SM1 prepayments and +46% YOY increase and an -11% HOH decline in nutritional inventory volumes on SM1's balance sheet. Prepayments reflect near term orders where ingredients have been acquired and inventories SM1 expectations of required inventory (though both reflect total demand).

Figure 3 – SM1 pre-payments vs following 6mths A2M sales



SOURCE: COMPANY DATA

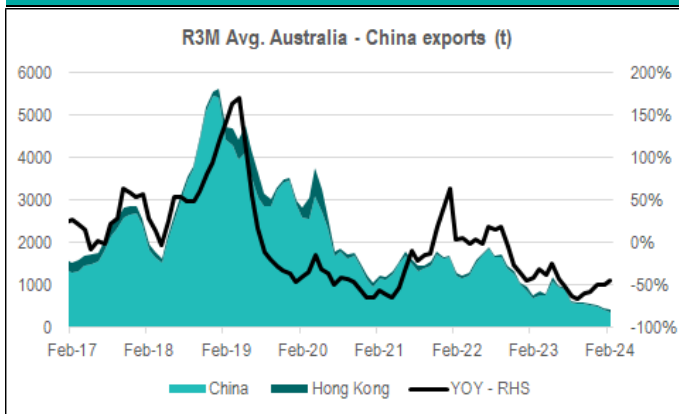
Figure 4 – R6M export volumes vs. SM1 reported nutritional vols.



SOURCE: STATS NZ

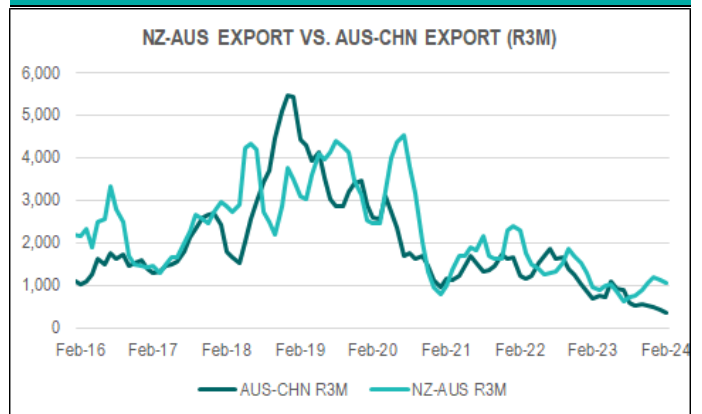
**Australian Shipments:** Export activity ex-Australia into China has remained subdued and at historically low levels. The misalignment between inbound volumes from NZ and outbound to China is at its widest since 2020.

Figure 5 –Finished IMF exports Australia - China



SOURCE: BASED ON ABS DATA

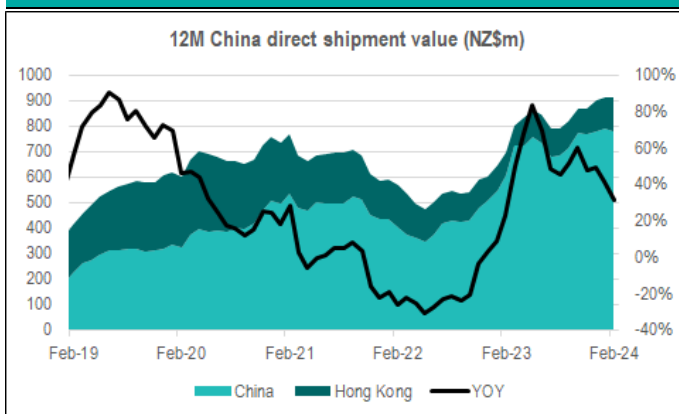
Figure 6 - R3M AUS-CHN exports vs. imports from NZ (t)



SOURCE: BASED ON STATSNZ AND ABS DATA

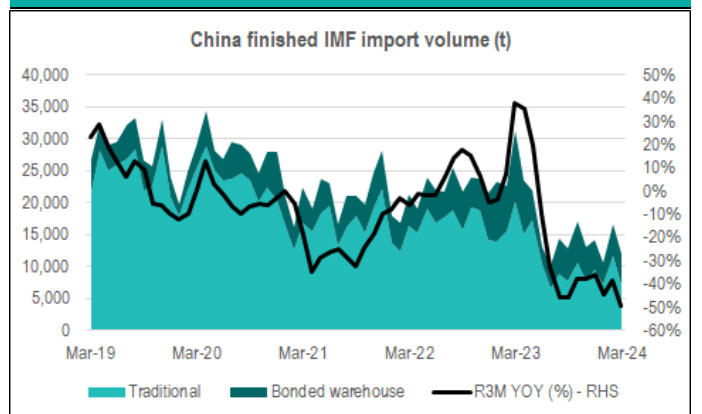
**China activity levels:** HK and China shipments (ex-SM1 ports) has demonstrated +8% YOY growth in value ex traditional SM1 ports 2H24TD (YTD up +13% YOY). Total imports of IMF into China (both traditional and bonded) have continued to demonstrate high double digit YOY declines are at historically low levels, down -62% YOY in Mar'23, with NZ landed volumes down -37% YOY and Australian landed volumes down -82% YOY.

Figure 7 - R12M China shipments value ex-SM1 ports (NZ\$m)



SOURCE: STATSNZ

Figure 8 – Total landed finished IMF China (t)



SOURCE: CIQ DATA

# A2M Overview

## COMPANY DESCRIPTION

The a2 Milk Company (A2M) is in the business of producing, marketing and selling branded dairy and infant milk formula (IMF) products in Australia, New Zealand, China, US and UK. A2M branded milk contains only A2 Protein rather than both A1 and A2 proteins which are found in Regular Cows' Milk. The business model of A2M is to focus on consumer facing products with a target on the functional food markets where a premium can be generated.

## TARGET PRICE

Our target price for A2M is A\$5.60ps and derived utilising our ROIC based methodology. In deriving our target price we have utilised: (1) FY23e ROIC pre-US losses of 53.8% lifting to 60.6% in FY25e; (2) a pre-tax WACC of 10.8%; and (3) AUDNZD cross rate consistent with the spot. To this we incorporate a value for A2M's holding in SM1 at market.

## RISKS

A2M is a high growth FMCG business with exposures to an agricultural supply chain. Risks associated in an investment in A2M include but are not isolated 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.

**Scientific risk:** The A2M brand proposition is built primarily on the potential digestive well-being benefits of A1 Protein Free milk products compared to Regular Cows' Milk products which contain both A1 Protein and A2 Protein. There is the risk of research or information being published that diminishes or rejects the scientific arguments or consumers' experiences as to the benefits of the consumption of A1 Protein Free dairy products. As a result, the A2M brand may lose its differentiated position and it may become difficult for A2M to continue to position its products as premium products sold at a premium price.

**Intellectual Property:** A2M's business relies in part on its intellectual property portfolio, including brands and trademarks, patents, proprietary processes and know-how. Some forms of registered intellectual property, including patents, are of fixed duration and will expire over time. As any of A2M's registered intellectual property expires, or if it is invalidated or removed from intellectual property registers, this will adversely impact on A2M's ability to claim and enforce exclusive rights in such intellectual property. Because of the importance of its intellectual property, A2M may also need to defend its intellectual property or take action against third parties that infringe or claim rights in its intellectual property. Such action may include litigation, which may be protracted and expensive, and which may result in negative publicity.

**Emergence of new competition:** A2M's business model relies on A2M branded products being differentiated from other dairy products in each market in which it operates because they consist of, or are made using, A1 Protein Free milk. There is a risk that a competitor or competitors may launch A1 Protein Free milk products, and this risk may increase over time as A2M patents expire. There is also a risk that competitors may develop branding that creates confusion between a2MC branded products and Regular Cows' Milk products or otherwise reduces the perception of A2M branded products as differentiated A1 Protein Free milk products

**Supply chain disruption:** A2M's business model and supply chain are dependent on contractual arrangements with third parties which provide essential processing, production

or distribution functions for A2M branded products globally. There is the risk that the operations of one or more third parties change in a material and adverse way or that one or more third parties could reduce their support for the A2M brand. This could reduce A2M's ability to maintain supply to its customers in the short to medium term and reduce its ability to maintain its position in existing markets or enter new markets. This may also necessitate the need for A2M to invest in manufacturing capacity that would likely be returns dilutionary.

**Brand risk:** In common with many other food companies, there is a risk that raw materials may deteriorate or that products may become contaminated, tampered with, adulterated or otherwise unsafe or unfit for sale or consumption within the supply chain due to various factors, including human error and equipment failure. Potential adverse consequences for A2M include regulatory penalties, termination of distribution arrangements, liability associated with adverse health effects on consumers, product recall and disposal costs, loss of stock, delay in supply and financial costs.

**Regulatory risk:** A2M and its strategic suppliers and contractors require certain licences, approvals and consents in order to conduct their businesses. There is a risk that any such licences, approvals or consents that are material to a2MC in operating its business will not be renewed or will be renewed on more restrictive or onerous terms, or in limited circumstances, revoked.

**China regulatory risk:** At this stage we are projecting no material change in China C2C law changes which would likely have a detrimental impact on the level of sales in the Australian IMF business, but following a transition would be more than mitigated by faster growth in the China business where gross margins are higher than those achieved in Australia. As such while we are cognisant that a change in Chinese C2C trading regulations can impact near term earnings, we don't necessarily view this as detrimental to the company's longer-term growth trajectory.

**Key personnel risk:** A2M's performance is dependent on the ability of its senior executives and key personnel to manage and grow its business. Continuity and retention of senior executives and key personnel are important for the ongoing implementation of A2M's strategy.

**Execution risk:** Part of our optimism centres around management's ability to generate a profitable return in the US and UK fresh dairy markets. Failure to execute this strategy may impact stock performance and its ability to realise our target price.

# The a2 Milk Co

as at 22 April 2024

Recommendation

Hold

Price

A\$5.77

Target (12 months)

A\$5.70

Table 1 - Financial summary

Year end June	2019	2020	2021	2022	2023	2024e	2025e	2026e	Rating	Hold
<b>Profit &amp; Loss (NZ\$m)</b>										
Sales revenue	1,304.5	1,731.1	1,206.7	1,446.2	1,592.9	1,663.5	1,773.9	1,863.7	Share price (A\$ps)	\$5.77
... Change	41.4%	32.7%	-30.3%	19.8%	10.1%	4.4%	6.6%	5.1%	Target price (A\$ps)	\$5.70
EBITDA	413.7	552.0	123.4	196.2	219.3	235.3	269.6	310.0	Shares on issue (m)	722.9
Deprec. & amort	(2.2)	(4.4)	(7.5)	(18.9)	(18.2)	(18.2)	(21.2)	(22.7)	Market cap (A\$m)	4171.3
EBIT	411.6	547.6	116.0	177.3	201.1	217.1	248.4	287.3	Enterprise Value (A\$m)	3432.0
Interest expense	4.2	5.7	3.3	4.1	21.8	33.2	37.9	44.4	Converted at AUDNZD of: 1.09 EV: MKt cap less cash and SM1 holding	
Pre-tax profit	415.7	553.4	119.3	181.4	222.9	250.3	286.2	331.7		
Tax expense	(128.0)	(165.2)	(38.6)	(66.6)	(78.0)	(89.9)	(98.3)	(110.3)		
... tax rate	31%	30%	32%	37%	35%	36%	34%	33%		
Minorities	0.0	0.0	0.0	7.9	10.8	11.6	10.5	10.1		
<b>Net Profit</b>	<b>287.7</b>	<b>388.1</b>	<b>80.7</b>	<b>122.6</b>	<b>155.6</b>	<b>172.0</b>	<b>198.4</b>	<b>231.6</b>		
Abs. & extras.	(66.7)	(55.5)	(133.5)	(24.5)	(58.3)	(33.8)	0.0	0.0		
<b>Reported Profit</b>	<b>221.0</b>	<b>332.6</b>	<b>(52.9)</b>	<b>98.2</b>	<b>97.4</b>	<b>138.2</b>	<b>198.4</b>	<b>231.6</b>		
<b>Cashflow (NZ\$m)</b>										
EBITDA	413.7	552.0	123.4	196.2	219.3	235.3	269.6	310.0		
Net Interest Expense	4.2	5.7	3.3	3.0	18.8	33.2	37.9	44.4		
Tax Paid	(133.9)	(197.9)	(97.8)	(23.0)	(34.9)	(94.0)	(94.1)	(104.3)		
Change in Wkg Capital	(1.2)	58.2	53.4	37.0	(103.1)	16.6	0.8	0.6		
Other	6.3	7.6	(16.2)	(13.4)	7.7	0.0	0.0	0.0		
<b>Operating Cash Flow</b>	<b>289.1</b>	<b>425.6</b>	<b>66.2</b>	<b>199.7</b>	<b>107.7</b>	<b>191.1</b>	<b>214.0</b>	<b>250.7</b>		
Capex	(3.4)	(7.2)	(7.3)	(5.2)	(10.4)	(30.3)	(15.3)	(15.3)		
Dividend paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Free Cash Flow</b>	<b>285.7</b>	<b>418.4</b>	<b>58.9</b>	<b>194.5</b>	<b>97.3</b>	<b>160.8</b>	<b>198.7</b>	<b>235.4</b>		
Acquisitions	(162.3)	(21.9)	(57.1)	(214.8)	(3.5)	(6.8)	0.0	0.0		
Disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Share issues	2.9	0.0	2.2	(13.3)	(149.1)	0.0	0.0	0.0		
Other	(2.0)	(7.2)	17.0	(78.6)	(7.0)	0.0	0.0	0.0		
<b>(Inc.) /dec. in net debt</b>	<b>124.4</b>	<b>389.4</b>	<b>21.0</b>	<b>(112.2)</b>	<b>(62.3)</b>	<b>153.9</b>	<b>198.7</b>	<b>235.4</b>		
<b>Balance Sheet (NZ\$m)</b>										
Cash & near cash	464.8	854.2	875.2	887.3	802.2	914.6	1,113.3	1,348.7		
Receivables	52.7	70.7	65.3	83.5	79.2	82.7	88.2	92.7		
Inventories	108.5	147.3	112.2	140.0	193.4	183.0	195.1	205.0		
Other	49.7	56.3	44.3	60.4	47.2	51.4	54.8	57.4		
<b>Current assets</b>	<b>675.7</b>	<b>1,128.5</b>	<b>1,096.9</b>	<b>1,171.2</b>	<b>1,122.1</b>	<b>1,231.8</b>	<b>1,451.4</b>	<b>1,703.9</b>		
Fixed assets	10.3	30.4	17.2	240.5	245.2	246.5	244.9	241.7		
Intangibles	13.0	13.6	15.1	109.3	108.4	107.7	106.9	106.1		
Other	294.5	280.8	242.8	194.7	136.0	126.0	136.0	146.0		
<b>Non current assets</b>	<b>317.8</b>	<b>324.8</b>	<b>275.1</b>	<b>544.6</b>	<b>489.6</b>	<b>480.1</b>	<b>487.8</b>	<b>493.8</b>		
<b>Total assets</b>	<b>993.5</b>	<b>1,453.3</b>	<b>1,372.0</b>	<b>1,715.9</b>	<b>1,611.7</b>	<b>1,711.9</b>	<b>1,939.2</b>	<b>2,197.6</b>		
Creditors	160.2	281.9	266.3	376.1	313.2	327.1	348.8	366.5		
Borrowings	0.0	0.0	0.0	43.9	19.2	5.0	5.0	5.0		
Other	45.1	23.5	8.4	20.2	46.8	48.1	65.8	85.1		
<b>Current liabilities</b>	<b>205.4</b>	<b>305.4</b>	<b>274.7</b>	<b>440.2</b>	<b>379.2</b>	<b>380.2</b>	<b>419.6</b>	<b>456.6</b>		
Borrowings	0.0	0.0	0.0	80.4	82.3	55.0	55.0	55.0		
Other	0.2	13.8	13.4	1.3	0.7	0.7	0.7	0.7		
<b>Non current liabilities</b>	<b>0.2</b>	<b>13.8</b>	<b>13.4</b>	<b>81.7</b>	<b>83.0</b>	<b>55.7</b>	<b>55.7</b>	<b>55.7</b>		
<b>Total liabilities</b>	<b>205.6</b>	<b>319.3</b>	<b>288.1</b>	<b>521.9</b>	<b>462.2</b>	<b>435.9</b>	<b>475.2</b>	<b>512.2</b>		
<b>Net assets</b>	<b>787.9</b>	<b>1,134.1</b>	<b>1,084.0</b>	<b>1,194.0</b>	<b>1,149.5</b>	<b>1,276.1</b>	<b>1,464.0</b>	<b>1,685.4</b>		
Share capital	144.5	146.9	149.1	149.2	0.1	0.1	0.1	0.1		
Reserves	64.9	22.9	(110.1)	(136.3)	(177.5)	(177.5)	(177.5)	(177.5)		
Retained earnings	578.4	964.3	1,044.9	1,167.6	1,323.2	1,461.4	1,659.7	1,891.3		
Outside equity interests	0.0	0.0	0.0	13.6	3.7	(7.9)	(18.4)	(28.5)		
<b>S/holders' funds</b>	<b>787.9</b>	<b>1,134.1</b>	<b>1,084.0</b>	<b>1,194.0</b>	<b>1,149.5</b>	<b>1,276.1</b>	<b>1,464.0</b>	<b>1,685.4</b>		
Net Debt (Cash)	(464.8)	(854.2)	(875.2)	(763.0)	(700.7)	(854.6)	(1,053.3)	(1,288.7)		
<b>Valuation Ratios</b>										
Adjusted EPS (pps)	38.9	52.4	10.8	16.4	21.1	23.7	27.3	31.9		
Change (%)	46.9%	34.5%	-79.3%	51.6%	28.8%	12.1%	15.3%	16.7%		
Adjusted PE (x)	16.1	12.0	58.0	38.3	29.7	26.5	23.0	19.7		
EV/Sales (x)	2.9	2.2	3.1	2.6	2.3	2.2	2.1	2.0		
EV/EBITDA (x)	9.0	6.8	30.3	19.0	17.0	15.9	13.9	12.1		
EV/EBIT (x)	9.1	6.8	32.2	21.1	18.6	17.2	15.0	13.0		
NTA (\$ps)	1.06	1.52	1.45	1.59	1.57	1.74	2.01	2.32		
P/NTA (x)	5.4	3.8	4.0	3.6	3.7	3.3	2.9	2.5		
Book Value (\$ps)	1.07	1.53	1.46	1.61	1.59	1.77	2.03	2.33		
Price/Book (x)	5.9	4.1	4.3	3.9	3.9	3.6	3.1	2.7		
DPS (¢)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
<b>Performance Ratios</b>										
EBITDA/Sales (%)	31.7%	31.9%	10.2%	13.6%	13.8%	14.1%	15.2%	16.6%		
EBIT/Sales (%)	31.5%	31.6%	9.6%	12.3%	12.6%	13.0%	14.0%	15.4%		
OCF Realisation (%)	100%	108%	75%	141%	62%	101%	97%	99%		
FCF Realisation (%)	99%	108%	73%	159%	63%	94%	100%	102%		
ROE (%)	36.5%	34.2%	7.4%	10.3%	13.5%	13.5%	13.6%	13.7%		
ROIC (%)	127.4%	195.7%	55.5%	41.1%	44.8%	51.5%	60.5%	72.4%		
Asset turn (years)	190.13	125.66	16.56	10.37	12.05	12.93	12.72	13.66		
Capex/Deprn (x)	1.55	1.64	0.98	0.27	0.57	1.67	0.72	0.68		
Interest cover (x)	(98.95)	(95.31)	(35.25)	(43.22)	(9.24)	(6.53)	(6.56)	(6.47)		
Net Debt/EBITDA (x)	(1.12)	(1.55)	(7.09)	(3.89)	(3.20)	(3.63)	(3.91)	(4.16)		
Net debt/equity (%)	-59%	-75%	-81%	-64%	-61%	-67%	-72%	-76%		
<b>Segmentals</b>										
Australia/NZ	842.7	965.7	559.7	532.7	371.7	338.0	358.8	388.1		
China	405.7	699.4	583.4	726.5	1002.2	1122.9	1197.1	1266.9		
US & UK	56.1	66.1	63.6	82.7	105.1	112.8	119.2	124.2		
Processing				108.9	146.2	112.8	138.7	164.6		
Corporate and other	0.0	0.0	0.0	(4.5)	(32.3)	(23.0)	(40.0)	(80.0)		
<b>Revenue</b>	<b>1,304.5</b>	<b>1,731.1</b>	<b>1,206.7</b>	<b>1,446.2</b>	<b>1,592.9</b>	<b>1,663.5</b>	<b>1,773.9</b>	<b>1,863.7</b>		
Australia/NZ	388.2	465.6	148.8	173.2	93.5	72.3	80.6	95.2		
China	123.9	224.9	75.6	145.1	254.1	279.7	301.7	325.1		
US & UK	(39.5)	(50.5)	(33.5)	(36.7)	(23.3)	(15.0)	(12.4)	(9.5)		
Processing				(18.8)	(26.5)	(29.2)	(24.8)	(23.5)		
Corporate & Other	(58.9)	(87.9)	(67.5)	(66.6)	(78.5)	(72.5)	(75.5)	(77.4)		
Associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>EBITDA</b>	<b>413.7</b>	<b>552.0</b>	<b>123.4</b>	<b>196.2</b>	<b>219.3</b>	<b>235.3</b>	<b>269.6</b>	<b>310.0</b>		
IMF rev share (%)	81.5%	82.3%	75.9%	70.7%	69.6%	70.9%	71.1%	72.3%		
Gross Margin (%)	54.7%	56.0%	42.2%	45.9%	46.4%	46.3%	46.9%	47.8%		
GM ex-MVM (%)	54.7%	56.0%	41.4%	49.2%	50.4%	49.1%	50.3%	51.8%		
IMF GM ex-impairments	56.7%	59.3%	59.6%	55.2%	58.4%	57.3%	57.6%	57.6%		
Marketing (NZ\$m)	135.3	194.0	168.7	230.0	260.0	270.0	291.2	305.9		
NZDAUD	0.94	0.95	0.93	0.94	0.92	0.92	0.92	0.92		
NZDUSD	0.67	0.64	0.70	0.68	0.62	0.60	0.59	0.59		
NZDCNY	4.59	4.48	4.57	4.40	4.29	4.29	4.30	4.30		

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.*

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