BELL POTTER

Speculative

See key risks on page 8, and early stage company risk warning on page 11. Speculative securities may not be suitable for Retail clients.

1 May 2023

Analyst
Stuart Howe 613 9235 1856
Associate Analyst
James Williamson 613 9235 1692
Authorisation
Joseph House 613 9235 1624

Alpha HPA Ltd (A4N)

Strong sustainability rating issued

Recommendation
Buy (unchanged)
Price
$1.00
Valuation
$1.31 (previously $1.02)
Risk
Speculative

GICS Sector

Materials

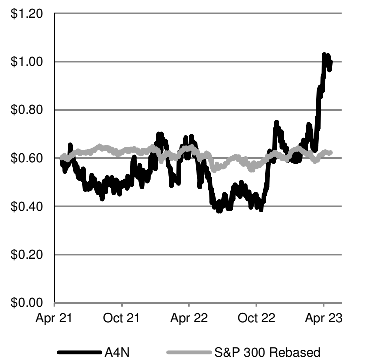
Expected Return	
Capital growth	31%
Dividend yield	0%
Total expected return	31%

Company Data & Ratios	
Enterprise value	$830m
Market cap	$858m
Issued capital	858m
Free float	85%
Avg. daily val. (52wk)	$1.1m
12 month price range	$0.37-$1.045

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.72	0.59	0.62
Absolute (%)	38.9	70.9	61.3
Rel market (%)	34.6	73.2	61.7

Absolute Price



SOURCE: IRESS

A4N scores 72% in maiden sustainability rating

A4N has announced that global independent sustainability ratings agency, EcoVadis, has provided a bronze metal rating (72nd percentile of companies rated) following a detailed review of the company's key sustainability policies covering environment, labour and human rights, ethics and sustainable procurement. The sustainability rating is a key pre-condition to finalising offtake contracts for the HPA First Project with target customers in the EU. A4N expect that the implementation of further procurement policies should result in further rating improvement in the short term.

Busy quarter with work streams converging; FID pending

Over the March 2023 quarter, A4N's product marketing efforts continued across the LED lighting, lithium ion battery and semi-conductor sectors. We expect the EcoVadis sustainability rating will accelerate offtake discussions. By the end of this quarter or early next, we expect that offtake, a final project scope update and financing work streams will converge to support a final investment decision. At 31 March 2023, A4N held cash of $18.9m and no debt. Subsequent to quarter end, the second Critical Minerals Development Program (Commonwealth Government) tranche of $8.5m was received. In early April 2023, A4N was awarded further conditional grant funding of up to $22m from the Queensland Government in support of the HPA First Project.

Investment thesis: Speculative Buy, Valuation $1.31/sh

A4N's high purity aluminium and high purity alumina (HPA) products have value-adding application across lithium ion battery, micro-LED and semiconductor manufacturing. These technologies are at the forefront of the global decarbonising and reshoring themes. We expect A4N to soon announce product offtake agreements in support of debt financing and FID for the full scale HPA First project.

A4N is a development company with prospective operations and cash flows only. Our Speculative risk rating recognises this higher level of risk and volatility of returns. The upgrade to our valuation (to $1.31/sh, previously $1.02/sh) is discussed in this report.

Earnings Forecast

Year ending 30 June	2022a	2023e	2024e	2025e
Sales (A$m)	2	3	13	190
EBITDA (A$m)	(7)	(9)	(1)	113
NPAT (reported) (A$m)	(7)	(10)	(7)	80
NPAT (adjusted) (A$m)	(7)	(10)	(7)	80
EPS (adjusted) (¢ps)	(0.9)	(1.3)	(0.9)	9.7
EPS growth (%)	na	na	na	na
PER (x)	-107.5x	-77.0x	-112.3x	10.3x
FCF Yield (%)	-4%	-3%	-27%	-11%
EV/EBITDA (x)	-116.8x	-92.4x	-924.7x	7.4x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-15%	-20%	-7%	45%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Quarterly highlights

- The Stage 1 Precursor Production Facility (PPF) has now produced more than 100 tonnes of 5N purity of aluminium nitrate with production levels being maintained at around 850kg/day (around 300tpa). The HPA circuit expansion is now underway to expand the capability of the PPF to include all of A4N's product range.
- Product marketing efforts continued across the LED lighting, lithium ion battery and semi-conductor sectors with further small-volume product sales and increasingly advanced offtake discussions.
    1. **Lithium ion battery sector:** During the quarter over 25 test samples were delivered to various end-users. Product qualification activities have continued. A4N is at various stages of testing and analysis with eight separate battery sector counterparties on the application of high purity aluminium nitrate as a precursor for aluminium oxide coating onto anode active materials.
    2. **Semi-conductor sector:** Sample requests from end users in the US and Japan for A4N's nano-HPA powder to be used in Chemical-Mechanical Polishing (CMP) of semi-conductor substrates. Preliminary third-party CMP testing has confirmed A4N's HPA products outperform reference/incumbent materials.
    3. **LED lighting:** A4N has received a Letter of Intent (LOI) from Litec-LLL (Germany) for HPA supply following multiple test orders and small volume sales. The LOI covers small commercial volumes of HPA (up to 500kg) during 2023. A4N has also ramped-up production of sintered HPA tablets to service test order requests from sapphire glass end-users in the EU and South Korea.
    4. **Other:** A4N has delivered high-purity gamma alumina and high purity alumina tri-hydrate (ATH) to European customers for tests in the manufacturing of lithium extraction adsorbents.
- Agreement with Ebner Industrieofenbau GmbH (Ebner) and its subsidiary Fametec GmbH (Fametec) enabling A4N to roll-out Ebner-Fametec's sapphire growth technology using A4N's HPA feedstock. This move downstream into sapphire glass manufacturing is a logical and value adding complement to A4N's future HPA production.
- Engineering studies and project financing discussions in support of the full-scale HPA First Project continued in preparation for a final investment decision. Government lending agencies are expected to be key project financiers.
- High purity (5N) alumina tri-hydrate (ATH) flow sheet is in development following successful ATH production using the HPA First process. ATH has end uses in lithium brine extraction.

Queensland Government Grant of up to $21.7m

In early April 2023, A4N announced it had executed a funding agreement with the Queensland Department of State Development, Infrastructure, Local Government and Planning to provide grant funding of up to $21.7m. The conditional funding is to support A4N's full scale HPA First Project in Gladstone.

Grants from Commonwealth and State Government agencies for A4N's HPA First Project now total $82m.

Table 1 - A4N government grants

Source	Program	Purpose	Announced	A$m
Commonwealth Government	Modern Manufacturing Initiative	HPA First Project	16/03/2022	45
Commonwealth Government	Critical Minerals Accelerator Initiative	Stage 1 - PPF	28/04/2022	16
Queensland Government	Industry Partnership Program	HPA First Project	5/04/2023	22
Total grants				**82**
Stage 1 grants				16
Stage 2 grants				67

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

HPA First product suite & applications

Table 2 - A4N's product suite & applications

KEY APPLICATION	Lithium ion batteries			LEDs		Semi-	Other
A4N PRODUCT	Cathode	Separator	Anode	LED lights	Micro-LEDs (displays)	conductors	
Aluminium Precursors							
Aluminium nitrate	HPA particle coating		HPA particle coating (anode active materials)	Phosphors for white LEDs	Nano-size phosphors		Catalysts & YAG laser crystals
Aluminium sulphate	Sulphate blending (NCA & NCMA) & HPA particle coating						
High Purity Alumina							
HPA powder (gamma phase)		HPA layer coating		Phosphors for white LEDs			Speciallty ceramics
HPA powder & tablets (alpha phase)				Saphire glass wafers (substrate)	Saphire glass wafers (substrate)	Chemical-Mechanical Polishing	
Boehmite		Boehmite layer coating					Speciality ceramics

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation summary

We have increased our preferred A4N valuation to $1.31/sh (previously $1.02/sh). Key changes in support of this valuation increase are:

- NPV discount rate reduced to 8% (real), previously 10%: Bringing this parameter in line with discount rates used for other battery materials groups under our coverage.
- Separate heavily risked valuation lines for potential additional HPA projects: Canada MoU with Orica; and downstream sapphire glass manufacturing and other.
- Valuation price scenario reduced to US$20,000/t HPA: We had previously adopted a higher price scenario to account for additional project potential, now incorporated in valuation under separate line items.
- Updates to capital structure and government grants.

Table 3 - Risked & diluted valuation summary

Product price scenario		**1**	**2**	**3**
			Base case	
Price - 4N HPA equivalent basket US$/t		**15,000**	**20,000**	**25,000**
HPA First Project				
Unrisked NPV (10% discount rate) $m		**581**	**1,177**	**1,611**
Risk discount %	20%			
Risked NPV (10% discount rate) $m		**464**	**941**	**1,289**
Other (Canada potential, 80% risked) $m		58	118	161
Other (downstream & other) $m		46	94	129
Corporate costs $m	-50			
Enterprise value $m		**519**	**1,103**	**1,529**
Net debt / (cash) $m	-27			
Equity valuation (risked, undiluted) $m		**546**	**1,130**	**1,557**
Assumed capital raise $m	90			
Assumed raise price $/sh	0.900			
Government grant $m	67			
Current shares on issue m	858			
In the money options m	44			
Assumed capital raising dilution m	100			
Diluted shares on issue m	**1,002**			
Net debt / (cash) (including options, assumed raising & grants) $m	-208			
Equity valuation (risked, diluted) $m		**727**	**1,311**	**1,737**
Equity valuation (risked, diluted) $/sh		**0.73**	**1.31**	**1.73**
Current share price $/sh	1.000			
Valuation / price x		0.7x	1.3x	1.7x

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Our risked and diluted A4N valuation is based on:

- 4N HPA prices of US$20,000/t (consistent with CRU Group's market outlook);
- A4N's March 2020 Definitive Feasibility Study HPA First Project capital and operating costs; and
- A4N's published Precursor Production Facility (June 2021) capital and operating cost estimates.

Risk and dilution to calculated NPV:

- Project risk discount of 20% to take into account project stage (DFS completed, pre-development stage); and
- Dilution from an assumed $90m equity raising prior to commencement of full scale construction in FY24, at a 10% discount to A4N's current share price.

Our positive view on A4N is further supported by:

- Since the DFS, A4N has identified a number of precursor high purity aluminium and alumina products which have the potential to add further value to the project. These precursor products are produced mid-stream of the project's flow-sheet, are expected to be higher margin and have the potential to provide increased return on capital invested.
- The global decarbonisation and reshoring themes have accelerated as developed economies look to address climate change targets. A4N's HPA First Project products have applications in technologies directly linked to these themes; the manufacturing of lithium ion batteries, LED lighting and semiconductors.
- A4N's products have applications in the manufacture of micro-LEDs. Micro LED technology is expected to be the next generation of display technology, superseding OLED and black-lit LCDs.
- Commercialisation of A4N's HPA First Project technology could step beyond the proposed Gladstone project development. With A4N's propriety technology, HPA First Project could be scaled up or replicated elsewhere. A4N and ORI have a MoU to investigate the technical and commercial feasibility of establishing a new facility in North America near ORI's Carseland asset in Alberta, Canada.
- A4N has announced the HPA First Project has received a Federal Government funding grant of up to $61m to support the project through the Modern Manufacturing Initiative and Critical Minerals Accelerator Initiative programme. Subsequently, a further grant of up to $22m from the Queensland Government Industry Partnership Program was awarded.

Future capital requirements & funding options

A4N's March 2020 HPA First Project DFS estimated capital costs of $308m, including $27m over-run contingency.

The HPA First Project's location (Gladstone, Queensland) and end products (inputs into key decarbonising technologies) make it a candidate for Government-backed concessional debt finance. We expect that the Northern Australia Infrastructure Facility, Clean Energy Finance Corporation and Export Finance Australia will consider extending debt facilities to support the project. We also expect that commercial banks diversifying away from carbon intensive projects will have an interest in extending debt and working capital finance.

The following table outlines the HPA First Project's capital requirements and the sources of funding which we assume. We factor in a $90m equity raising over the next twelve months to support the project's development and working capital ahead of debt draw-down.

Table 4 - Future capital requirements – excluding working capital

Capital costs (2020 DFS estimates)		A$m
Processing plant		173
Utilities		19
Infrastructure		39
Indirects		44
Owners costs		7
Total excluding contingency		**281**
Contingency		27
Total funding requirement		**308**
Assumed sources of funds	**% est.**	**A$m**
Debt finance	65%	200
Equity	35%	108
Total	**100%**	**308**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Alpha HPA Ltd summary

Company description

A4N's HPA First Project is aiming to supply high-purity alumina (HPA) at a purity of greater than 99.99% (or 4N) to the lithium ion battery and light emitting diode (LED) manufacturing sectors. The project's proprietary technology is expected to disrupt incumbent HPA production through significantly lower unit costs. Results of a March 2020 DFS outlined a 10,000tpa 4N HPA project with a capital cost of $308m and pre-tax annual cash flow of $133-280m at 4N HPA prices ranging US$15,000-25,000/t.

In June 2021, a HPA First Project Stage 1 was estimated to have revenues of $10-15m and generate free cash flow of $1.5-5.0m from aluminium precursor production of 200tpa. This project was subsequently scaled up to produce +350ktpa aluminium nitrates and additional high purity alumina and high purity boehmite production. Production at Stage 1 commenced in late 2022. When integrated into the full HPA First Project, this free cash flow increases to $8-11m.

The HPA First Project is a solvent extraction process using an aluminium chemical feedstock purchased on globally traded markets. Orica Ltd (ORI) and A4N have executed a definitive agreement for ORI's supply of process reagents and for by-product offtake. This agreement has required significant third party due diligence of the HPA First Project process.

Investment view: Speculative Buy, Valuation $1.31/sh

A4N's high purity aluminium and high purity alumina (HPA) products have value-adding application across lithium ion battery, micro-LED and semiconductor manufacturing. These technologies are at the forefront of the global decarbonising and reshoring themes. We expect A4N to soon announce product offtake agreements in support of debt financing and FID for the full scale HPA First project.

A4N is a development company with prospective operations and cash flows only. Our Speculative risk rating recognises this higher level of risk and volatility of returns.

Valuation methodology

We have modelled the HPA First Project using assumptions consistent with the March 2020 DFS. We assume:

- 4N HPA prices of US$20,000/t (consistent with CRU Group's market outlook);
- A4N's March 2020 Definitive Feasibility Study HPA First Project capital and operating costs; and
- A4N's published Precursor Production Facility (June 2021) capital and operating cost estimates.

Risk and dilution to calculated NPV:

- Project risk discount of 20% to take into account project stage (DFS completed, pre-development stage); and
- Dilution from an assumed $90m equity raising prior to commencement of full scale construction in mid-2022, conservatively at a 10% discount to A4N's current share price.

Risks

Risk to an investment in A4N include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of development and operating assets and companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Technology:** Projects may be reliant on commercialisation of new production processes and methodologies which have yet been proven on a large scale. Technology may be replicated by competitors resulting in a loss of market share.
- **Infrastructure access.** Projects are reliant upon access to transport and pipeline infrastructure. Access to infrastructure is often subject to contractual agreements, permits and capacity allocations. Agreements are typically long-term in nature. Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for raw material inputs and labour can fluctuate and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to commodity and labour markets. Companies are also exposed to costs associated with future land rehabilitation.
- **Sovereign risks.** Companies' assets are subject to the sovereign risk of the country of location and may also be exposed to the sovereign risks of major offtake customers.
- **Regulatory changes.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuations of companies.
- **Environmental risks.** Companies are exposed to risks associated with environmental degradation as a result of their production processes.
- **Operating and development risks.** Companies' assets are subject to risks associated with their operation and development. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety (OH&S) risks.** Companies are exposed to OH&S risks.
- **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.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **Impact of pandemic infection such as Coronavirus disease (COVID-19).** This may have an adverse impact on the macro economic factors, including the mobility of labour, which can impact asset valuations.

Alpha HPA Ltd
as at 1 May 2023

Recommendation	Buy, Speculative
Price	$1.00
Valuation	$1.31

Table 5 - Financial summary

Date		**1/05/23**
Price	**A$/sh**	**1.000**
Valuation	**A$/sh**	**1.31**

Bell Potter Securities
Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)

PROFIT AND LOSS

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
Revenue	$m	1	2	3	13	190
Expenses	$m	(15)	(9)	(12)	(14)	(77)
EBITDA	$m	**(14)**	**(7)**	**(9)**	**(1)**	**113**
Depreciation & amortisation	$m	(2)	(0)	(1)	(2)	(14)
EBIT	$m	(16)	(7)	(10)	(3)	99
Net interest expense	$m	(0)	0	-	(5)	(12)
Profit before tax	$m	(16)	(7)	(10)	(7)	87
Tax expense	$m	-	-	-	-	(8)
NPAT (reported)	$m	**(16)**	**(7)**	**(10)**	**(7)**	**80**
NPAT (adjusted)	$m	**(16)**	**(7)**	**(10)**	**(7)**	**80**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
OPERATING CASH FLOW						
Receipts from customers	$m	-	-	6	11	155
Payments to suppliers and employe	$m	(3)	(4)	(18)	(14)	(71)
Tax paid	$m	-	-	-	-	(8)
Net interest	$m	0	0	-	(5)	(12)
Other	$m	1	-	-	-	-
Operating cash flow	$m	**(2)**	**(4)**	**(12)**	**(7)**	**64**
INVESTING CASH FLOW						
Capex	$m	(7)	(31)	(10)	(217)	(150)
Acquisitions	$m	-	0	-	-	-
Other	$m	-	-	-	-	-
Investing cash flow	$m	**(7)**	**(31)**	**(10)**	**(217)**	**(150)**
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	(0)	(0)	-	150	100
Dividends paid	$m	-	-	-	-	-
Proceeds from share issues (net)	$m	51	1	20	90	-
Other	$m	0	-	-	-	-
Financing cash flow	**$m**	**51**	**1**	**20**	**240**	**100**
Change in cash	**$m**	**42**	**(34)**	**(3)**	**16**	**14**
Free cash flow	$m	(8)	(35)	(22)	(224)	(86)

BALANCE SHEET

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
ASSETS						
Cash	$m	50	17	14	30	44
Receivables	$m	1	3	1	3	38
Inventories	$m	-	0	1	1	8
Capital assets	$m	1	28	37	252	389
Other assets	$m	0	6	6	6	6
Total assets	**$m**	**52**	**55**	**59**	**292**	**485**
LIABILITIES						
Creditors	$m	2	7	2	3	15
Borrowings	$m	-	-	-	150	250
Provisions	$m	-	-	-	-	-
Other liabilities	$m	0	1	1	1	1
Total liabilities	**$m**	**2**	**8**	**3**	**153**	**266**
NET ASSETS	**$m**					
Share capital	$m	100	102	122	212	212
Reserves	$m	8	10	10	10	10
Accumulated losses	$m	(57)	(64)	(75)	(82)	(3)
Non-controlling interest	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**50**	**47**	**56**	**139**	**219**
Weighted average shares	m	694	794	806	817	817

FINANCIAL RATIOS

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
VALUATION						
EPS	Ac/sh	(2)	(1)	(1)	(1)	10
EPS growth (Acps)	%	na	na	na	na	na
PER	x	-42.7x	-107.5x	-77.0x	-112.3x	10.3x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	(1.2)	(4.4)	(2.8)	(27.4)	(10.5)
FCF yield	%	-1%	-4%	-3%	-27%	-11%
EV/EBITDA	x	-59.4x	-115.6x	-91.5x	-915.3x	7.3x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(50)	(17)	(14)	120	206
Net debt / Equity	%	-100%	-36%	-25%	86%	94%
Net debt / Net debt + Equity	%	82517%	-56%	-34%	46%	49%
Net debt / EBITDA	x	3.6x	2.3x	1.6x	-132.4x	1.8x
EBITDA /net int expense	x	-148.6x	432.5x	0.0x	-0.2x	9.4x
PROFITABILITY RATIOS						
EBITDA margin	%	-1446%	-352%	-271%	-7%	59%
EBIT margin	%	-1676%	-362%	-313%	-21%	52%
Return on assets	%	-52%	-14%	-18%	-4%	21%
Return on equity	%	-54%	-15%	-20%	-7%	45%

ASSUMPTIONS - Prices (nominal)

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
4N HPA price	US$/t	23,750	20,000	20,000	20,000	20,000
4N HPA price	A$/t	31,777	27,508	29,694	28,777	28,571
FX	US$/A$	0.75	0.73	0.67	0.70	0.70

ASSUMPTIONS - Sales (equity)

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
4N HPA sales	t	-	-	-	-	6,219
5N Al-Precursor #1 - Al-Nitrate	t	-	-	98	175	175
5N Al-Precursor #2 - Al-Sulfate	t	-	-	98	175	175

VALUATION

Product price scenario		**1**	**2**	**3**
4N HPA price US$/t		**15,000**	**20,000**	**25,000**
HPA First project $m				
Unrisked NPV (8% discount rate)		581	1,177	1,611
Risk discount	20%			
Risked NPV		464	941	1,289
Other (Canada potential, 90% risked)		58	118	161
Other (downstream & other)		46	94	129
Corporate costs $m	(50)			
Enterprise value $m		519	1,103	1,529
Net debt / (cash) $m	(27)			
Equity valuation (risked, undiluted) $m		**546**	**1,130**	**1,557**
Assumed capital raise $m	90			
Assumed raise price $/sh	0.90			
Current shares on issue m	858			
In the money options m	44			
Assumed capital raising dilution m	100			
Diluted shares on issue m	**1,002**			
Net debt / (cash) (including options & assumed raising) $m	(208)			
Equity valuation (risked, diluted) $m		727	1,311	1,737
Equity valuation (risked, diluted) $/sh		**0.73**	**1.31**	**1.73**

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
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
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
Daniel Laing	Industrials	612 8224 2886	dlaing
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
Thomas Sima	Industrials	612 8224 2843	tsima
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9325 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Regan Burrows	Resources	618 9236 7677	rburrows
Joseph House	Resources	613 9325 1624	jhouse
Associates			
James Williamson	Associate Analyst	613 9235 1692	jwilliamson
Connor Eldridge	Associate Analyst	612 8224 2893	celdridge
Baxter Kirk	Associate Analyst	613 9235 1625	bkirk

Research Coverage & Policies

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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 1701, 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