

<b>Ticker:</b> GPR AU	<b>Cash:</b> A\$24m	<b>Project:</b> Woodlark
<b>Market cap:</b> A\$94m	<b>Price:</b> A\$0.51/sh	<b>Country:</b> Papua New Guinea
RECOMMENDATION (unc): BUY	PRICE TARGET (unc): A\$1.95/sh	RISK RATING: HIGH

Today's 'Execution Update' sees 'real world' mining and capex applied to the Woodlark BFS, which are reliable figures given new CEO Tim Richards' experience as long-time GM at neighbouring Simberi, and also a good M&A precedent. Capex came in ahead of our forecast, but mining and processing well under, for a pleasing like-for-like lift in our project NPV<sub>5%-1850</sub> from A\$508m to A\$620m as our modelled AISC drops from US\$1,059/oz to US\$907/oz. This study is a key input for the agreed US\$100m debt / stream funding, paving the way for a 1Q21 fully permitted build start ahead of 2H20 production. Deducting central costs and G&A drives our 1Q21 A\$552m NAV<sub>5%-1850</sub>. We dilute for build equity to 380m shares, so **maintain our BUY rating and one year forward 1xNAV<sub>5%-1850</sub> A\$1.95/sh PT**. While variables including execution, share count and trading multiple remain, most scenarios see 1xNAV<sub>5%-1850</sub> of ~A\$2/sh once in production, excluding reserves accessible once the RAP completes next year, putting the stock on just 0.29xNAV<sub>5%-1850</sub> FD for mine equity. At 51c/sh today, FD for build equity and net of finance cost, we estimate that at US\$1,850/oz Geopacific is trading at a 91% discount rate, or at 1xNAV US\$1,1145/oz, demonstrating the upside offered irrespective of gold price and discount. This is simply too cheap for a project with a SCPe at break-even price of ~US\$1,110/oz, and with a 1.8-year payback even at US\$1,606/oz. As such, with the trifecta of low mark capitalisation, robust economics, and strong management, we retain our high conviction on the name.

### Study a beat on SCP; 1xNAV FD >A\$2.00/sh for vanilla CIL and pit with US\$1,110/oz break even

Following the recent joining of CEO Tim Richards, former GM of neighbouring Simberi, Geopacific has released an 'Execution Update', revalidating the 4Q18 DFS. The updated economics see a 1.1Moz 1.1g/t reserve produce 980koz over 13 years at 98koz pa in Y1-7, and 50koz pa thereafter as stockpiles are processed from Y10-13. Mining is via an open pit at 4.1:1 strip, with processing in a conventional 2.4Mtpa CIL at 89% recovery. Capex of A\$255m includes A\$19m contingency, ~15% of the variable component given the A\$106m process plant comes under a Guaranteed Maximum Price EPC contract with GR Engineering. LOM AISC of US\$904/oz drives a published 34% IRR and NPV<sub>8%-1606</sub> of A\$347m, lifting to A\$466m / 41% IRR at US\$1,796/oz. The NAV:capex ratio and 1.8 year payback at US\$1,606/oz, demonstrate the robustness of the project well under spot. The RAP has commenced, opening up central areas for first-ever drill access. Geopacific aims to finalise an agreed US\$100m debt package plus equity funding for a 1H21 construction start and 4Q22 first pour; 17% of the detailed design is now complete. The reserve / schedule / production profile / plant design all remain broadly similar to the DFS. Key deltas include the move to a mining contractor in Y1-3 before moving to owner-operated from Y4 for A\$27m capex (included in sustaining capex). Higher mining costs are offset by a drop in processing costs, lifting AISC from US\$775/oz to US\$904/oz on a like for like basis, with capex up from US\$149m to US\$186m (Table 1) on plant EPC, owners cost and improved RAP.

### Strong beat on prior DFS as gold price outstrips new management's 'real world' inputs

It is pleasing to see the experience of new the CEO reflected in 'real world' inputs on aspects such as mining cost and capex, both up since the 4Q18 DFS. The simple reason we like the project is that the US\$157/oz lift in AISC and US\$37m capex lift is dwarfed by the gold price delta from US\$1,238/oz to current levels. Stepping back – this is our key single take home – yes at US\$1,238/oz the project economics were positive, but modest, but at or over the US\$1,606/oz used today the project truly flies as evidenced by high NPV/capex ratio, fast 1.8-year payback and >30% IRR. In more detail;

- **Reserves:** remain essentially unchanged as tonnes grew slightly on flat grade, with strip +5%. Substantial historic drilling enabled 64% of reserves to fall into the proven category.

- **Mining / Schedule:** sees only minor modifications around YoY scheduling; fast payback is aided by a schedule that drives 1.7g/t in the first year with concurrent <3:1 strip.
- **Plant and throughput:** remain nearly unchanged, with a small lift in power and one extra CIL tank. The process-plant build is now under a GR Engineering Guaranteed Maximum Price.
- **Opex:** the key delta is a 14% lift in average mining costs from US\$1.88/t to US\$2.57/t under early-years contractor and US\$1.94/t when owner operated (benefitting from soft ore, flat topography and short haul), along with SG&A lifting by 56% to US\$5.23/t, reflective of the island location.
- **Capex:** lifted from US\$149m to US\$186m, including US\$14m contingency. This was driven by increased EPC and owners costs (more 'real worlding' in our view), and an A\$8m lift in RAP for larger houses and improved RAP, offset by a small A\$7m saving on contractor mining.
- **Tax:** the asset continues to benefit from historic sunk costs eligible for depreciation of ~A\$140m, driving the 21% effective tax rate (vs. 30% corporate tax), up from 19% due to the higher gold price. The double advantage is allowable ~25% pa Y1-4 depreciation allowances, which builds on the front-loaded FCF already driven by higher early-years processing grades.

**Table 1. Comparison of today's Execution Update to 4Q18 FS**

Woodlark (100%)	GPR		Δ (%)
	4Q18	4Q20	
Mining inventory (000t)	30.3	30.8	1.8%
Au grade (g/t)	1.11	1.11	0.0%
Mining inventory Au (000oz)	1,083	1,099	1.5%
Strip ratio (x)	3.9	4.1	5.1%
Au recovery (%)	88.8%	89.2%	0.5%
LOM throughput (Mtpa)	2,331	2,373	1.8%
Production Au LOM (000oz)	967	980	1.3%
Mining cost (US\$/t)	1.88	2.14	14%
Processing cost (US\$/t)	10.3	9.93	-3.8%
G&A (US\$/t)	3.35	5.23	56%
Royalty (%)	2.25%	2.50%	11%
LOM C1 costs (US\$/oz Au)	714*	832	16%
LOM AISC (US\$/oz Au)	775*	904	17%
Total build capex (US\$m)	149	186	25%
Total sustaining capex (US\$m)^	13	27	114%
Gold price (US\$/oz)	1,238	1,606	30%
Effective tax (%)	19%	21%	11%
Eq. accel. depreciation (years)*	2.0	1.75	-13%
USD / AUD	0.75	0.73	-3%
Discount (%)	8.0%	8.0%	0%
LOM FCF (A\$m)	343	575	68%
<b>Project NPV post-tax (A\$m)</b>	<b>197</b>	<b>347</b>	<b>76%</b>
IRR post-tax (%)	29%	34%	17%
Payback (years)	2.20	1.80	-18%

Source: Geopacific; \*DFS/oz metrics exclude A\$0.10/t mining costs; ^4Q20 DFS sustain capex include 20Mtpa Y4 mining fleet

## Valuation: strong beat on our forecast, robust project at range of gold price

The lift in our valuation compared to our prior model is a strong positive. We like Geopacific because when we modelled aggressive(ly high) mining and processing costs, and a capex lift, and the economics remained strong. Today's figures beat our assumptions, demonstrating increased robustness. As such, we simply cannot reiterate enough that the project doesn't just 'work at these gold prices', but at much lower prices also. The equity returns at US\$1,238/oz, the price in the prior DFS were of course lower, but we still see 100% upside to a fully-funded fully-diluted (FF FD) 1xNAV<sub>5%</sub> down to ~US\$1,425/oz.

**Table 2. SOTP asset valuation and sensitivities**

SOTP project valuation*					Asset value: 1xNPV project @ build start (A\$m, ungeared)*					
	A\$m	O/ship	NAVx	A\$/sh	Project NPV (A\$m)*	\$1606oz	\$1750oz	\$1850oz	\$1950oz	\$2150oz
Ungeared proj. @ build start (1Q21)	<b>620</b>	100%	1.00x	3.39	8.0% discount	DFS: 345	449	520	591	734
Cash (3Q20)	24.4	100%	1.00x	0.13	6.5% discount	381	491	567	643	794
Cash from options	3.6	100%	1.00x	0.02	5.0% discount	421	<b>539</b>	<b>620</b>	700	862
Exploration 250koz @ US\$50/oz	17.1	100%	1.00x	0.09	Ungeared project IRR:	36%	44%	49%	54%	64%
Asset NAV5% US\$1850/oz	665			<b>3.64</b>	1xNAV5% (A\$/sh)	\$1606oz	\$1750oz	\$1850oz	\$1950oz	\$2150oz
*Shares diluted for options but not mine build	Market P/NAV5% 3Q20				8.0% discount	2.14	2.70	3.10	3.49	4.27
					6.5% discount	2.33	2.94	3.35	3.77	4.60
					5.0% discount	2.55	<b>3.20</b>	<b>3.64</b>	4.08	4.97

Source: SCP estimates

\*Project NPV, excl finance costs and central SGA, discounted to build start

Modelling per the DFS, our NPV<sub>5-1606</sub> **A\$346m NPV** and 36% IRR closely matches published figures. From there, we bring the gold price and discount in line with our coverage, taking our project NAV<sub>5%-1850</sub> to **A\$614m**. We convert this to a group NAV by deducting finance costs and G&A, including the gold stream, which we model as a finance cost. This drives a group 1Q21 NAV<sub>5-1850</sub> of **A\$552m** (Table 5). We model debt on terms published, modelling early repayment of the gold stream in production Y5 for A\$20m given the residual NPV at that time stands at US\$24m and still exclude reserve upside.

**Table 3. SCP old and new forecasts compared to today's study**

	GPR		SCP		
	DFS	DFS	New	Δ old	
Mining inventory (000t)	30.8	>>	>>	1.8%	Small lift in reserve and strip
Au grade (g/t)	1.11	>>	>>	-0.4%	
Mining inventory Au (000oz)	1,099	>>	>>	1.3%	
Strip ratio (x)	4.1	>>	>>	5.2%	Plant performance unchanged
Au recovery (%)	89.2%	>>	>>	0.5%	
LOM throughput (Mtpa)	2,373	>>	>>	-0.2%	
Production Au LOM (000oz)	980	>>	>>	1.2%	Processing down, mining + G&A costs up but well under SCPe
Mining cost (US\$/t)	2.14	>>	>>	-19%	
Processing cost (US\$/t)	9.93	>>	>>	-34.7%	
G&A (US\$/t)	5.23	>>	>>	54%	Strong beat on SCPe forecast
Royalty (%)	2.50%	>>	>>	11%	
LOM C1 costs (US\$/oz Au)	832	>>	>>	-18%	
LOM AISC (US\$/oz Au)	904	>>	>>	-14%	Capex higher than SCPe / DFS, sust. incl. mining fleet
Total build capex (US\$m)	186	>>	>>	14%	
Total sustaining capex (US\$m) <sup>^</sup>	27	>>	>>	115%	
Gold price (US\$/oz)	1,606	>>	1,850	0%	Opex savings more than offset capex increase for overall beat
Effective tax (%)	21%	>>	22%	8%	
Eq. accel. depreciation (years)+	1.75	>>	>>	0%	
USD / AUD	0.73	>>	>>	-4%	
Discount (%)	8.0%	>>	5.0%	0%	
LOM FCF (A\$m)	575	572	818	21%	
<b>Project NPV post-tax (A\$m)</b>	<b>347</b>	<b>346</b>	<b>614</b>	<b>21%</b>	
IRR post-tax (%)	34%	36%	49%	-8%	
Payback (years)	1.80	>>	1.25	0%	

Source: SCPe; \*DFS/oz metrics excl. A\$0.10/t mining costs; ^4Q20 DFS sust capex incl 20Mtpa Y4 mining fleet; +-A\$140m tax-loss pools

## Recommendation: maintain BUY rating and A\$1.95/sh PT

We model a 12M forward PT based on group NAV at 1Q22, and cash / debt at that time. We show total sources and uses below, including A\$120m of equity which we model at 10% premium to spot given the upside from the study released today, and similar from closing the final debt package. This drives our FD share count of 183m and fully-funded fully-diluted 381m.

**Table 4. Source and uses for the Woodlark build**

Funding: uses			Funding: sources		
DFS capex	A\$255m		3Q20 cash + pre-AU options	A\$25m	
SCPe contingency	A\$0m		Mine debt @ 60% gearing	A\$116m	
SCPe G&A + fin. cost to first Au	A\$5m		Callable gold stream	A\$21m	
SCPe wkng cap (over A\$8m first fills)	A\$16m		Build equity @ 10% premium	A\$120m	
<b>Total uses</b>	<b>A\$276m</b>		<b>Total proceeds</b>	<b>A\$282m</b>	
			Exploration / buffer:	A\$6m	

Source: SCP estimates

While one-asset juniors trade at a reduced P/NAV or a higher discount to larger peers, we firmly see Geopacific as an acquisition / consolidation target like close peer Allied Gold, meaning the inherent value is a combination of one-asset junior producers and larger peers. As detailed in our recent sector report [here](#), existing producers average US\$270m/100koz pa for <100koz pa producers, US\$340m/100koz pa for 100-200koz pa, and US\$360-420m for 200-800koz pa, jumping to US\$575m for >1.6Moz pa majors. The A\$465-590m implied valuation tallies well with our own NAV, again showing the >200% upside into production even net of unfunded (equity) capex. Alternatively, FCF yields for Tier 1-3 producers range from 11-16% in CY21, against 47% average in Y1-7 for GP, again supporting >200% upside on re-rating to peer averages / value to acquiring company. As such, we apply a simple 1xNAV<sub>5%-1850</sub> PT based on one-year forward NAV as shown in Table 5, net of all finance costs and central G&A. Consequently **we maintain our BUY rating and A\$1.95/sh PT.**

**Table 5. NAV over time and sensitivities to gold price and discount rate**

Group valuation over time <sup>^</sup>	1Q21	1Q22	1Q23	1Q24	1Q25	Geared company NAV diluted for mine build, net G&A and finance cost:					
Woodlark NPV (A\$m)	620	826	893	727	600	1Q22 1xNAV FF FD (A\$/sh) <sup>^</sup>	\$1606oz	\$1750oz	\$1850oz	\$1950oz	\$2150oz
G&A and finance costs (A\$m)	(112.0)	(115.0)	(104.1)	(76.7)	(45.5)	8.0% discount	491	586	651	717	847
Net cash prior qtr (A\$m)	23.5	3.1	(48.2)	113.0	232.6	6.5% discount	520	621	690	760	898
Cash from options (A\$m)	3.6	3.6	3.6	3.6	3.6	5.0% discount	553	660	734	808	956
Exploration 250koz @ US\$50/o.	17.1	17.1	17.1	17.1	17.1	Geared project IRR:	29%	35%	39%	43%	50%
NAV FF FD (A\$m)	552	734	761	784	808	1Q22 1xNAV FF FD (A\$/sh) <sup>^</sup>	\$1606oz	\$1750oz	\$1850oz	\$1950oz	\$2150oz
Shares in issue (m)	182.6	380.9	380.9	380.9	380.9	8.0% discount	1.29	1.54	1.71	1.88	2.22
1xNAV <sub>5%/sh</sub> FF FD (A\$/sh)	<b>3.02</b>	<b>1.93</b>	<b>2.00</b>	<b>2.06</b>	<b>2.12</b>	6.5% discount	1.36	1.63	1.81	1.99	2.36
P/NAV	0.18x	0.29x	0.28x	0.27x	0.26x	5.0% discount	1.45	1.73	1.93	2.12	2.51

Source: SCP estimates

<sup>^</sup>Project NPV incl grp SG&A & fin. cost, +net cash; \*diluted for mine build equity

## Why we Geopacific Resources

- Vanilla CIL project with good logistics on PNG island
- CEO Tim Richards prior GM of neighbouring mine Simberi
- Exploration upside between pits and regionally once RAP complete / site cleared
- Shovel ready pending final funding
- Materially undervalued to spot NAV

## Catalysts

- 1H21: final investment decision
- 2Q21: project finance completion and build start
- 3Q24: commissioning
- 4Q24: commercial production

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<b>Ticker:</b> GPR AU	<b>Price / mkt cap:</b> A\$0.55/sh, A\$96m	<b>Project PNAV today:</b> 0.15x	<b>Asset:</b> Woodlark ls.
<b>Author:</b> Brock Salier	<b>Rec / 1xNAV PT:</b> BUY, A\$1.95/sh	<b>1xNAV<sub>1Q21</sub> FF FD:</b> C\$3.02/sh	<b>Country:</b> Papua New Guinea

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Gold price	1,813	1,850	1,850	1,850	1,850

SOTP project valuation*				
	A\$m	O/ship	NAVx	A\$/sh
Ungeared proj @ build start (1Q21)	620	100%	1.00x	3.39
Cash (3Q20)	24.4	100%	1.00x	0.13
Cash from options	3.6	100%	1.00x	0.02
Exploration 250koz @ US\$50/oz	17.1	100%	1.00x	0.09
Asset NAV5% US\$1850/oz	665			3.64

\*Shares diluted for options but not mine build Market P/NAV5% 3Q20 0.15x

### Asset value: 1xNPV project @ build start (A\$m, ungeared)\*

Project NPV (A\$m)*	\$1606oz	\$1750oz	\$1850oz	\$1950oz	\$2150oz
8.0% discount	DFS: 345	449	520	591	734
6.5% discount	381	491	567	643	794
5.0% discount	421	539	620	700	862
Ungeared project IRR:	36%	44%	49%	54%	64%

1xNAV5% (A\$/sh)	\$1606oz	\$1750oz	\$1850oz	\$1950oz	\$2150oz
8.0% discount	2.14	2.70	3.10	3.49	4.27
6.5% discount	2.33	2.94	3.35	3.77	4.60
5.0% discount	2.55	3.20	3.64	4.08	4.97

\*Project NPV, excl finance costs and central SGA, discounted to build start

### Group valuation over time^

	1Q21	1Q22	1Q23	1Q24	1Q25
Woodlark NPV (A\$m)	620	826	893	727	600
G&A and finance costs (A\$m)	(112.0)	(115.0)	(104.1)	(76.7)	(45.5)
Net cash prior qtr (A\$m)	23.5	3.1	(48.2)	113.0	232.6
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1xNAV5%/sh FF FD (A\$/sh)	3.02	1.93	2.00	2.06	2.12
P/NAV	0.18x	0.29x	0.28x	0.27x	0.26x

### Gear company NAV diluted for mine build, net G&A and finance costs

1Q22 1xNAV FF FD (A\$/sh)^	\$1606oz	\$1750oz	\$1850oz	\$1950oz	\$2150oz
8.0% discount	491	586	651	717	847
6.5% discount	520	621	690	760	898
5.0% discount	553	660	734	808	956
Gear project IRR:	29%	35%	39%	43%	50%

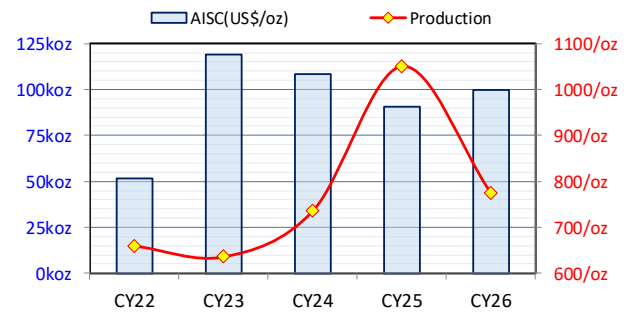
1Q22 1xNAV FF FD (A\$/sh)^	\$1606oz	\$1750oz	\$1850oz	\$1950oz	\$2150oz
8.0% discount	1.29	1.54	1.71	1.88	2.22
6.5% discount	1.36	1.63	1.81	1.99	2.36
5.0% discount	1.45	1.73	1.93	2.12	2.51

^Project NPV incl grp SG&A & fin. cost, +net cash; \*diluted for mine build equity

### Production

	CY22	CY23	CY24	CY25	CY26
Gold production (000oz)	51	119	108	90	100
C1 cost (US\$/oz)	589	568	666	758	703
AISC cost (US\$/oz)	660	636	736	1,051	775

AISC = C1 + sustaining capex



Source: SCP estimates

Resource / Reserve	AuEq (koz)	AuEq (g/t)
Resource	1567koz	1.04g/t
Reserve	1041koz	1.12g/t

### Funding: uses

Funding: uses	Funding: sources
DFS capex	A\$255m
3Q20 cash + pre-AU options	A\$25m
SCPe contingency	A\$0m
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Build equity @ 10% premium	A\$120m
<b>Total uses</b>	<b>A\$276m</b>
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Exploration / buffer:	A\$6m

### Share data

Basic shares (m)	175.0	FD with build equity raise	380.9
FD with options (m)	182.6		

### Ratio analysis

	CY20E	CY21E	CY22E	CY23E	CY24E
Average shares out (m)	145.8	355.1	380.9	380.9	380.9
EPS (A\$/sh)	-	-	0.12	0.34	0.23
CFPS (A\$/sh)	-	-	-	0.42	0.31
EV (A\$m)	56.7	192.2	257.7	96.6	(23.1)
FCF yield (%)	-	-	-	77%	57%
PER (x)	-	-	4.4x	1.6x	2.4x
P/CF (x)	-	-	-	1.3x	1.8x
EV/EBITDA (x)	-	-	3.1x	0.5x	(0.1)

### Income statement

	CY20E	CY21E	CY22E	CY23E	CY24E
Net revenue (A\$m)	-	-	130.2	301.7	274.4
COGS (A\$m)	-	-	44.7	100.3	105.6
<b>Gross profit (A\$m)</b>	<b>-</b>	<b>-</b>	<b>85.5</b>	<b>201.5</b>	<b>168.7</b>
D&A, attrib (A\$m)	-	-	15.6	35.2	30.7
Admin (A\$m)	4.5	3.4	3.4	4.3	4.0
Expensed exploration (A\$m)	0.1	-	-	-	-
Finance cost (A\$m)	(0.1)	(0.2)	18.1	31.0	28.5
Taxes (A\$m)	-	-	1.0	2.0	19.3
<b>Net income (A\$m)</b>	<b>(4.4)</b>	<b>(3.2)</b>	<b>47.4</b>	<b>129.0</b>	<b>86.2</b>

### Cash flow, attrib.

	CY20E	CY21E	CY22E	CY23E	CY24E
EBIT (A\$m)	(4.6)	(3.4)	66.5	162.1	134.0
Add back D&A (A\$m)	-	-	15.6	35.2	30.7
Less tax + net interest (A\$m)	(0.1)	(0.2)	19.1	33.0	47.9
Net change in wkg cap (A\$m)	-	1.2	(25.1)	(2.5)	3.6
Add back other non-cash (A\$m)	0.3	1.0	1.0	0.3	-
<b>Cash flow ops (A\$m)</b>	<b>(4.2)</b>	<b>(0.9)</b>	<b>38.9</b>	<b>162.0</b>	<b>120.5</b>

### Cash flow inv. (A\$m)

PP&E - build + sust. (A\$m)	(10.4)	(165.0)	(90.2)	(0.8)	(0.8)
<b>Cash flow inv. (A\$m)</b>	<b>(10.4)</b>	<b>(165.0)</b>	<b>(90.2)</b>	<b>(0.8)</b>	<b>(0.8)</b>
Share issue (A\$m)	-	120.0	-	-	-
Debt draw (repay) (A\$m)	-	25.5	111.4	(8.4)	(35.1)
<b>Cash flow fin. (A\$m)</b>	<b>-</b>	<b>145.5</b>	<b>111.4</b>	<b>(8.4)</b>	<b>(35.1)</b>

### Balance sheet

	CY20E	CY21E	CY22E	CY23E	CY24E
Cash (A\$m)	23.5	3.1	68.8	226.6	311.1
Acc rec., inv, prepaid (A\$m)	2.1	1.0	26.7	29.2	25.4
PP&E + other (A\$m)	52.5	217.5	292.1	257.8	227.9
<b>Total assets (A\$m)</b>	<b>78.0</b>	<b>221.6</b>	<b>387.6</b>	<b>513.5</b>	<b>564.4</b>
Debt (A\$m)	-	-	117.0	113.6	78.5
Accounts payable (A\$m)	9.7	9.9	10.5	10.5	10.4
Others (A\$m)	2.0	2.0	2.0	2.0	2.0
Total liabilities (A\$m)	11.7	12.0	129.5	126.2	90.9
Sh'hlds equity + wrnts (A\$m)	149.2	270.2	271.2	271.5	271.5
Retained earn'gs + rsvs (A\$m)	(82.9)	(60.5)	(13.2)	115.9	202.1
<b>Liabilities + equity (A\$m)</b>	<b>78.0</b>	<b>221.6</b>	<b>387.6</b>	<b>513.5</b>	<b>564.4</b>

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SELL:	0
UNDER REVIEW:	0
TENDER:	1
NOT RATED:	0
TOTAL	27

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