

Australian Bauxite Limited

Back to the future

This time last year, ABX was targeting to export its maiden shipment (40kt) of bauxite from the Bald Hill mine in Tasmania. Low cost exports from Malaysia however, flooded ABX's target market (China, East Asia), depressing benchmark prices and negatively impacting regional supply/demand dynamics. In the face of severe market disruption to the metallurgical bauxite market, ABX suspended mining and processing operations in late 2015, and adopted a cash conservation strategy.

However, management was not idle, and successfully identified alternative markets for the 40kt of bauxite already stockpiled at the Bell Bay Port. In late April 2016, ABX announced that it sold some 5,500t of this ore into the fertiliser market, and in June 2016 announced that it had sold 35kt into the cement market. As a result, ABX's cash position has increased by A\$1.4m (net of loan repayment) to A\$2.9m in July 2016 (from A\$1.5m in December 2015).

We forecast that a further 60,000t of low-cost/high-margin sales into the cement-grade bauxite market before the end of 2016 will allow the group to post a FY16E year-end cash balance closer to A\$4m. Importantly, ABX announced that mining operations are targeted to restart in 3Q 2016. In addition, ABX, in conjunction with marketing partner RawMin, is preparing agreements to sell on a regular basis, large tonnages of cement-grade bauxite to customers in the Middle East and Europe. We forecast sales volumes ramping up from 100kt in FY16E to 360kt in FY17E, 720kt in FY18E and 1.44mt in FY19E.

SOTP/PER-derived target price: A\$0.37ps (+80% upside)

Our risked NPV₁₀ valuation for the Tasmanian operations of A\$47m is equivalent to A\$0.33 per share. Thus, ignoring ABX's significant Resources in Queensland and NSW, we believe that Australia's newest bauxite producer offers value. **However, there is significant upside potential if ABX successfully identifies development/infrastructure solutions beyond the current production base in Tasmania.** We believe that the "born again" ABX - which has significantly underperformed the ASX Small Cap Resources Index over the past 12 months - now offers speculative investors exciting capital upside potential.

Key Financials

Year-end December	FY15A	FY16E	FY17E	FY18E	FY19E
Bauxite price (US\$/dmt CIF)	53	46	50	55	56
ARP (US\$/w mt FOB)	na	37	37	39	37
ARP (A\$/w mt FOB)	na	49	49	52	50
Sales volume ('000t)	-	100	360	720	1,440
Revenue (A\$m)	0	5	18	37	72
EBITDA (A\$m)	(3)	3	7	14	25
Cash costs (A\$/t)	na	16	29	33	32
Reported NPAT (A\$m)	(1)	2	4	9	17
Normalised NPAT (A\$m)	(2)	2	4	9	17
EPS Reported (A\$¢)	(0.7)	1.3	3.1	6.3	11.7
EPS Normalised (A\$¢)	(1.5)	1.3	3.1	6.3	11.7
DPS (A\$¢)	-	-	-	2.1	3.9
PER (x)	-ve	16	6.8	3.4	1.8
Net debt / (cash) (A\$m)	(1.5)	(4.0)	(5.6)	(11)	(22)
Capex (A\$m)	(2)	-	(2)	(2)	(2)

Source: Iress, Company Data, State One Stockbroking, Share price: \$ 0.210 Aug 03, 2016

3 August 2016

ABX A\$0.21 (TP A\$0.37)

Recommendation
Speculative Buy

Risk Assessment
Higher

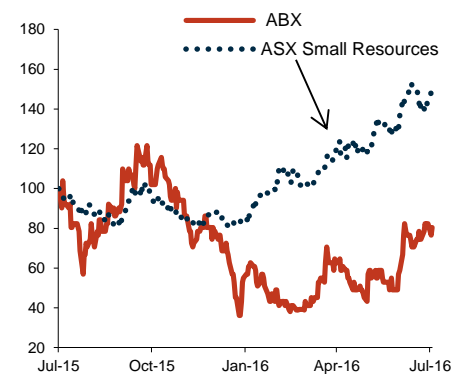
Resources – Bauxite

David Brennan, CFA
Senior Investment Analyst
dbrennan@stateone.com.au
+61 (0)2 9024 9142

Australian Bauxite Limited

ASX Code	ABX
52 week range	A\$0.09-A\$0.32
Market Cap (A\$m)	29
Shares Outstanding (m)	142
Av Daily Turnover (shares)	266k
ASX All Ordinaries	5,496
FY16E BV per share (A\$¢)	13.1
EPS FY16E (A\$¢)	1.3
Net Debt/(Cash) FY16E (A\$m)	-4

Relative price performance



Source: Iress

Financial Statements

Australian Bauxite Limited (ABX)

Year ending December

Profit & Loss Statement (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
Revenue	0	4.9	18	37	72
C1 costs	0	(1.2)	(8.7)	(22)	(44)
Corporate / Other	(3)	(0.4)	(1.6)	(1.6)	(1.7)
Royalty	0.0	(0.0)	(0.18)	(0.4)	(0.7)
EBITDA	(2.6)	3.2	7.3	13.8	24.9
Depreciation & Amortisation	0.0	(0.5)	(1.0)	(1.0)	(1.0)
Operating profit	(2.6)	2.7	6.3	12.8	23.9
NOI	1.5	0.0	0.0	0.0	0.0
EBIT	(1.1)	2.7	6.3	12.8	23.9
Interest income	0.2	0.0	0.1	0.2	0.3
Interest expense	(0.1)	0.0	0.0	0.0	0.0
Tax expense	0.0	(0.8)	(1.9)	(3.9)	(7.3)
Reported NPAT	(1.0)	1.9	4.5	9.1	17.0
Normalised NPAT	(2.1)	1.9	4.5	9.1	17.0
EBITDA margin (%)	na	66%	41%	37%	35%
Operating profit margin (%)	na	56%	35%	34%	33%
EPS Reported (A\$c)	(0.7)	1.3	3.1	6.3	11.7
EPS Normalised (A\$c)	(1.5)	1.3	3.1	6.3	11.7
Dividend payout (%)	na	0%	0%	33%	33%
DPS (A\$c)	0.0	0.0	0.0	2.1	3.9
Dil Av no. of shares (m)	142	144	145	145	145
Dil YE no. of shares (m)	143	145	145	145	145

Cash Flow Statement (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
EBITDA	(2.6)	3.2	7.3	13.8	24.9
Investment in working capital	1.6	0.1	(2.0)	0.4	0.7
Tax expense	0.0	(0.8)	(1.9)	(3.9)	(7.3)
Operating Cash Flow	(1.0)	2.5	3.4	10.3	18.3
Capex	(1.5)	0.0	(2.0)	(2.0)	(2.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(1.5)	0.0	(2.0)	(2.0)	(2.0)
Net interest received / (paid)	0.0	0.0	0.1	0.2	0.3
Debt draw down / (repayment)	0.0	0.0	0.0	0.0	0.0
Dividends declared	0.0	0.0	0.0	(3.0)	(5.6)
Equity raised / (repaid)	0.3	0.0	0.0	0.0	0.0
Financing Cash Flow	0.3	0.0	0.1	(2.8)	(5.3)
Non-operating & Other	(1.0)	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	(3.2)	2.6	1.5	5.5	11.1

Balance Sheet (A\$m)	FY15A	FY16E	FY17E	FY18E	FY19E
Cash & Deposits	1.5	4.0	5.6	11.0	22.1
Receivables	0.1	0.0	2.5	5.2	10.0
Inventories	0.0	0.0	1.8	3.7	7.2
Other Current Assets	0.1	0.0	0.2	0.4	0.7
PPE and Exploration & Development	18.0	17.5	18.5	19.5	20.5
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.1	0.1	0.1	0.1	0.1
Total Assets	19.8	21.8	28.7	40.1	60.6
Payables and other current Liabilities	2.4	2.4	4.8	10.1	19.3
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Other Non Current Liabilities	0.5	0.5	0.5	0.5	0.5
Total Liabilities	2.9	2.9	5.3	10.6	19.8
Total Equity	17.0	18.9	23.4	29.4	40.8
Net Debt (Cash)	(1.5)	(4.0)	(5.6)	(11.0)	(22.1)

Major Shareholders	%	Date
Citicorp Nominees Pty	8.1	
Wsf Pty Ltd	6.5	Feb-16
Gleneagles Securities Pty Ltd	5.3	

Source: Company, IRESS, State One Stockbroking forecasts

Bauxite price	FY15A	FY16E	FY17E	FY18E	FY19E
CBIX index (CIF China US\$/dmt)	53	46	50	55	56
ABX received price (FOB US\$/w mt)	na	37	37	39	37
AUD/USD exchange rate	0.76	0.74	0.75	0.75	0.75
ABX received price (FOB A\$/w mt)	na	49	49	52	50

Shipments ('000 wmt)	FY15A	FY16E	FY17E	FY18E	FY19E
Bald Hill Project (Tasmania)	0	100	80	0	0
Fingal Rail Project (Tasmania)	0	0	280	720	720
Nile Road Project (Tasmania)	0	0	0	0	0
Campbell Town prod. centre (TAS)	0	100	360	720	720
DL-130 / Portside prod. centre (TAS)	0	0	0	0	720
Total	0	100	360	720	1,440

Unit data (A\$/wmt)	FY15A	FY16E	FY17E	FY18E	FY19E
Revenue	na	49	49	52	50
C1 costs	na	12	24	30	31
Corporate/Other	na	4	4	2	1
Royalty	na	0.5	0.5	0.5	0.5
Total Cash Costs (FOB)	na	16	29	33	32

JORC Resource and Reserve Estimates (100%)*

	Status	Mt	Al ₂ O ₃ %	Avl. Al ₂ O ₃ %
Tasmania	Ind. & Inf.	9.2	43.5%	37.2%
Queensland	Ind. & Inf.	28.0	43.6%	38.2%
NSW	Ind. & Inf.	81.9	39.9%	33.7%
Group	Ind. & Inf.	119.1	41.1%	35.0%

*As at 24 March 2015, Avl= Available

Leverage	FY15A	FY16E	FY17E	FY18E	FY19E
Net Debt/Equity	cash	cash	cash	cash	cash
Net Debt/Total Assets	cash	cash	cash	cash	cash
Net interest Cover (x)	na	na	na	na	na

Valuation Ratios (x)	FY15A	FY16E	FY17E	FY18E	FY19E
Normalised PER	-ve	15.7	6.8	3.4	1.8
Price/OP Cash Flow	-31.0	12.0	8.8	2.9	1.6
EV (A\$m)	29	26	24	19	8
EV/EBITDA	-11.2	8.1	3.4	1.4	0.3
ROE (%)	-6%	10%	19%	31%	42%

SOTP Valuation	NPV (A\$m)	NPVps (A\$)	Ore NPV* (A\$/t)
Tasmanian mine inventory	63	0.44	5.97
<i>Risk discount (timing, sales, margin)</i>	<i>25%</i>		
Tasmanian mine inventory - risked	47	0.33	
Queensland Resources	7	0.05	
NSW Projects Resources	3	0.02	
Total Bauxite Resource	57	0.40	
Exploration upside	0	0.00	
Enterprise value	57	0.40	
FY16E cash	4	0.03	
FY16E debt	0	0.00	
Equity value (NPV)	61	0.43	

* NPV per tonne of ore

Note: Forecast Tasmanian mine inventory of 10.54Mt compares to stated Resources of 9.2Mt

Weighted Target Price*

Valuation method	Target value (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
Risk-weighted SOTP	0.43	75%	0.37	0.21	75%
EPS/PER	0.19	25%			

EPS/PER- valuation based on 1-year rolling EPS of A\$2.4c (rounded) and PER of 8x

Valuation

NPV

Our estimated NPV₁₀ for 10.5Mt of forecast Tasmanian mine inventory is A\$63m (~A\$6/t), equivalent to A\$0.44ps. However, this valuation is predicated on a number of key timing, operational, selling price, and sales volumes assumptions. Attaching a 25% discount for these risks, we calculate a risk-adjusted value for the Tasmanian bauxite Resource of A\$47m (A\$0.33ps).

We attach a nominal A\$10m value to ABX's Queensland and NSW bauxite Resources (equivalent to ~A\$0.10/t of Resource). Note: we suggest that these projects offer the potential for significantly higher valuations as management progresses with infrastructure/commercial solutions.

Adjusting for FY16E net cash of A\$4m, we calculate ABX's equity value at A\$61m (rounded) or A\$0.43 per share.

Figure 1: NPV of Tasmanian mine inventory

Financial Year	1 2016	2 2017	3 2018	4 2019	5 2020	6 2021	7 2022	8 2023	9 2024	10 2025	LOM Total
Mining inventory - opening (Mt)	10.5	10.4	10.1	9.4	7.9	6.5	5.0	3.6	2.2	0.7	
Mining inventory - closing (Mt)	10.4	10.1	9.4	7.9	6.5	5.0	3.6	2	0.7	-	
Bauxite production ('000t)	100	360	720	1,440	1,440	1,440	1,440	1,440	1,440	720	10,540
Bauxite sales (attributable) ('000t)	100	360	720	1,440	1,440	1,440	1,440	1,440	1,440	720	10,540
CBI index (CIF China US\$/dmt)	46	50	55	56	57	58	60	61	62	63	
Average Received Price (FOB US\$/wmt)	37	37	39	37	35	36	37	38	38	39	
Average Received Price(FOB A\$/wmt)	49	49	52	50	47	48	49	50	51	52	
Revenue (A\$m)	5	18	37	72	68	69	71	72	74	38	523
C1 costs (A\$m)	(1.2)	(9)	(22)	(44)	(44)	(43)	(44)	(45)	(45)	(23)	
Other (A\$m)	(0.4)	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(2)	
Total cash costs (A\$m)	(1.6)	(10)	(24)	(47)	(46)	(45)	(46)	(47)	(48)	(25)	(340)
EBITDA (A\$m)	3	7	14	25	22	24	25	25	26	12	183
Project Debt Interest (A\$m)	-	-	-	-	-	-	-	-	-	-	-
EBT (A\$m)	3	7	14	25	22	24	25	25	26	12	183
Tax (A\$m)	(0.8)	(2)	(4)	(7)	(6)	(7)	(7)	(8)	(8)	(4)	(53)
EAT (A\$m)	2	5	10	18	16	17	18	18	18	8	130
Project/development capex	-	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(10)
Maintenance/Other capex	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(10)
Project cashflow (A\$m)	2.1	3	8	16	14	15	15	15	16	6	111
Discount rate	10%										
PV of FY16E-25E mine inventory (A\$m)	63										
Cost assumptions (A\$/t)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
C1 costs	12.4	24	30	31	30	30	30	31	32	32	
Other (Corporate, Exploration, Royalty)	4.1	5	3	2	2	2	2	2	2	3	
Total	16.4	29	33	32	32	31	32	33	33	35	

Source: State One Stockbroking forecasts

Figure 2: ABX equity value (Sum-Of-The-Parts)

	NPV (A\$m)	NPV per share (A\$)	NPV per tonne	Resource (Mt)	Ore discount
NPV Tasmanian mine inventory - unrisked	63	0.44	5.97	10.5	na
<i>Discount (timing/volume/margin)</i>	<i>25%</i>				
NPV Tasmanian mine inventory - risked	47	0.33			
Queensland Resources	7	0.05	0.25	28.0	-96%
NSW Projects Resources	3	0.02	0.04	81.9	-99%
Total Bauxite Resource	57	0.40	0.47	120.4	na
Exploration upside	-	-			
Enterprise value	57	0.40			
FY16E cash	4.0	0.03			
FY16E debt	-	-			
Equity value (NPV)	61	0.43			

Source: State One Stockbroking forecasts

Target price, recommendation and risks

Attaching 75% and 25% weightings to our NPV and EPS/PER target values respectively, we calculate a one-year target price for ABX of A\$0.37.

Target price: A\$0.37ps

Figure 3: One-year target price calculation

Valuation method	Target value (A\$)	Weighting (%)	Target price (A\$)	Current share price (A\$)	Capital gain / (loss)
SOTP	0.43	75%	0.37	0.21	75%
EPS/PER	0.19	25%			

Source: State One Stockbroking, IRESS

Note: EPS/PER valuation based on an estimated one-year rolling EPS of A\$2.4c and a PER multiple of 8x (versus estimated ten-year life of mine [LOM] to FY2025).

At the current share price, we calculate that ABX offers a one-year return of 75%. We maintain a Speculative Buy (Higher risk) recommendation. Risks to our earnings profile and target price include, but are not limited to, commodity price (bauxite) and AUD:USD exchange rate volatility, average received prices (ARP) relative to underlying benchmark prices (CBIX index), the timing of sales in the second half of 2016 and the sales schedule thereafter, operational costs, and the group’s near-term working capital profile.

We believe that ABX’s valuation is particularly sensitive to the underlying bauxite price.

In a 10% higher bauxite price environment (relative to our base-case LOM average of US\$55/wmt (real) CIF China), our estimated NPV/PER-derived target price increases by ~32% to A\$0.49ps.

Conversely, in a 10% lower bauxite price environment (relative to our base-case LOM average of US\$55/wmt (real) CIF China), our estimated NPV/PER-derived target price falls by ~32% to A\$0.25ps. In a

A 10% variance in our forecast bauxite price environment impacts our target price by ~32% => ABX highly geared to the underlying commodity price

Forecast sales (tonnes)

FY2016E: In late April 2016, ABX sold some 5,500t of its 40,000t of stockpiled ore into the fertiliser market, and in June sold the balance (~35,000t) into the cement market. We forecast an additional two 30,000t shipments in 2H FY16, for a full-year forecast sales tonnage of 100kt.

FY2017E: we forecast ABX delivering (an average of) one 30kt shipment per month, for a full-year sales tonnage of 360kt.

FY2018E: we forecast ABX delivering (an average of) two 30kt shipment per month, for a full-year sales tonnage of 720kt.

FY2019E-24E: We forecast output from a second production centre (DL-130/Portside) augmenting Campbell Town in FY19E, with total Tasmanian output of 1.44mtpa between FY19-24E.

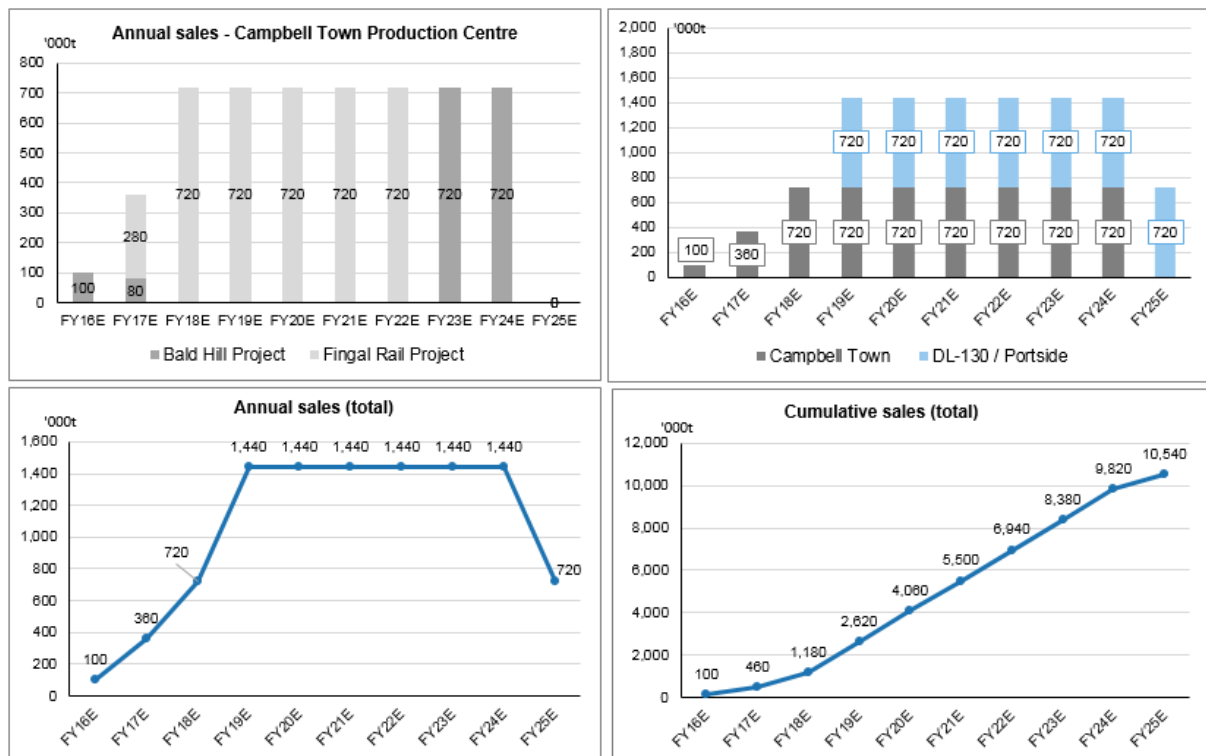
We forecast 100kt of bauxite sales in FY16E, ramping up to 360kt in FY17E and 1,440kt in FY18E

Figure 4: Forecast annual sales ('000t bauxite)

('000t bauxite)	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	LOM
Bald Hill Project	100	80	0	0	0	0	0	720	720	0	1,620
Fingal Rail Project	0	280	720	720	720	720	720	0	0	0	3,880
Nile Road Project	0	0	0	0	0	0	0	0	0	0	0
Campbell Town (TAS)	100	360	720	720	720	720	720	720	720	0	5,500
DL-130 / Portside (TAS)	0	0	0	720	720	720	720	720	720	720	5,040
Binjour (QLD)	0	0	0	0	0	0	0	0	0	0	0
Goulburn (NSW)	0	0	0	0	0	0	0	0	0	0	0
Total	100	360	720	1,440	1,440	1,440	1,440	1,440	1,440	720	10,540
Cumulative sales	100	460	1,180	2,620	4,060	5,500	6,940	8,380	9,820	10,540	

Source: State One Stockbroking forecasts

Figure 5: Forecast bauxite production / sales (FY16-25E)



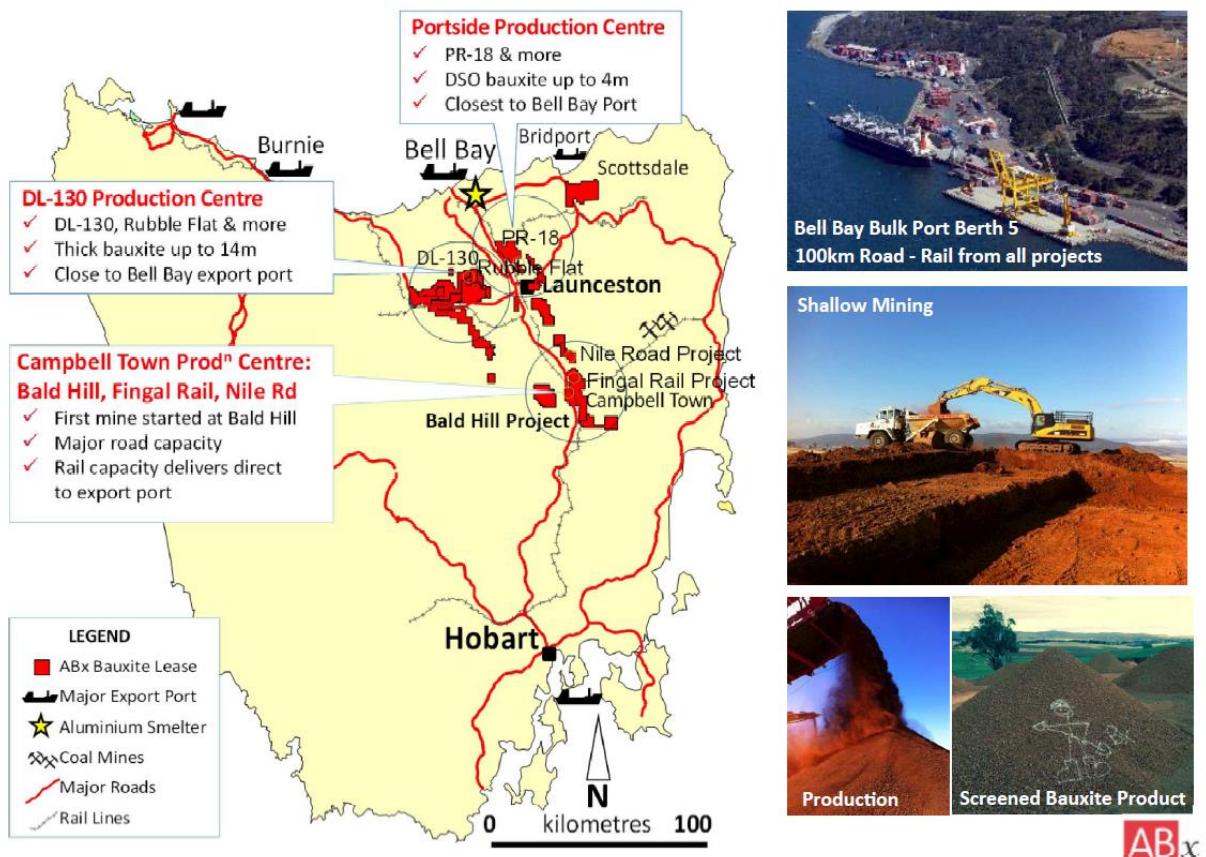
Source: State One Stockbroking forecasts

R&D carried out by ABX over the past 12 months has achieved proof of concept that an all-weather technology (dubbed "Tastech") can produce 3 bauxite types (high-grade met bauxite, cement-grade bauxite, fertiliser grade and other bauxite). This should enable ABX to match output to changing market demand and pricing conditions, while also generating sales from what would be previously considered as waste. As a result, our forecast LOM production of 10.54mt is some 15% higher than the current estimated Tasmanian Resource.

We believe that once the 180kt of mined and screened ore from Bald Hill (40kt port stockpile, 140kt mine stockpile) is shipped, operations will switch to mining and processing ore at Fingal Rail. The ore at Fingal Rail is not only amenable to cement-grade bauxite production, but proximity to the rail that passes through the project area to Bell Bay Port should lower total transportation costs.

We assume that all bauxite production/sales over our forecast life-of-mine (LOM) stems from the group's 9.2Mt of Tasmanian bauxite Resources (81.5% Inferred, 18.5% Indicated). Until we have improved visibility over project feasibilities (timing and capex), we have not assumed any production within our forecast period from either the Binjour Project in Queensland, or from the Goulburn Project in NSW,.

Figure 6: Production Centres and Infrastructure in Tasmania

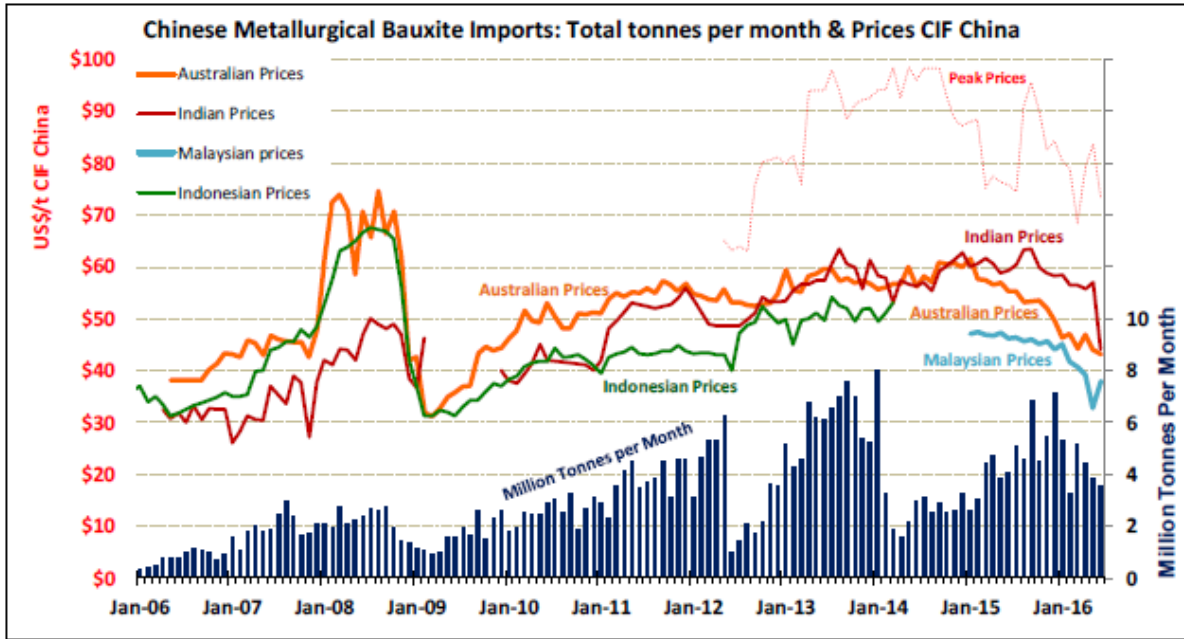


Source: Company

Bauxite price and average received price (ARP)

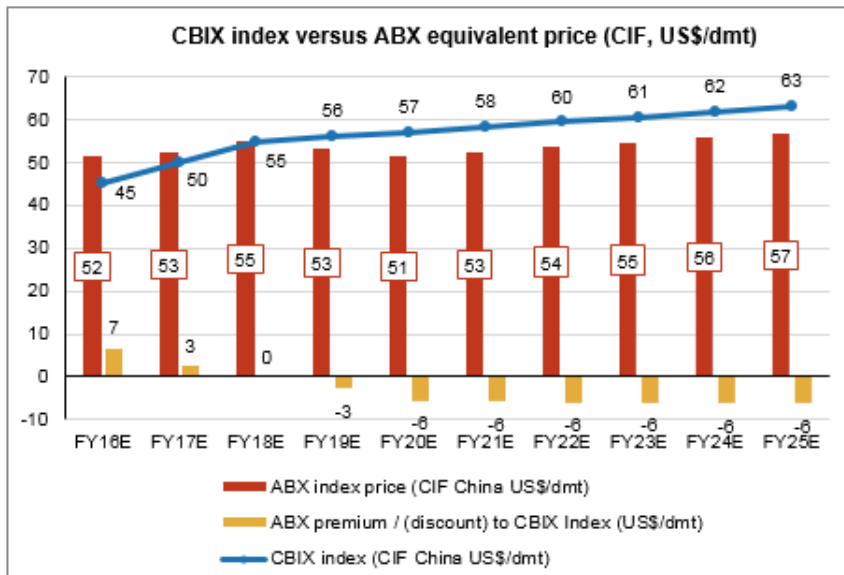
Imports into China of cheap, relatively low-value Malaysian bauxite have depressed the Australian benchmark price from ~US\$60/t (CIF, China) at the start of 2015 to current prices levels of ~US\$45/t.

Figure 7: Bauxite price history (US\$/dmt, CIF China)



Source: ABX

Figure 8: Benchmark metallurgical-grade bauxite prices versus ABX equivalent



Source: State One Stockbroking forecasts

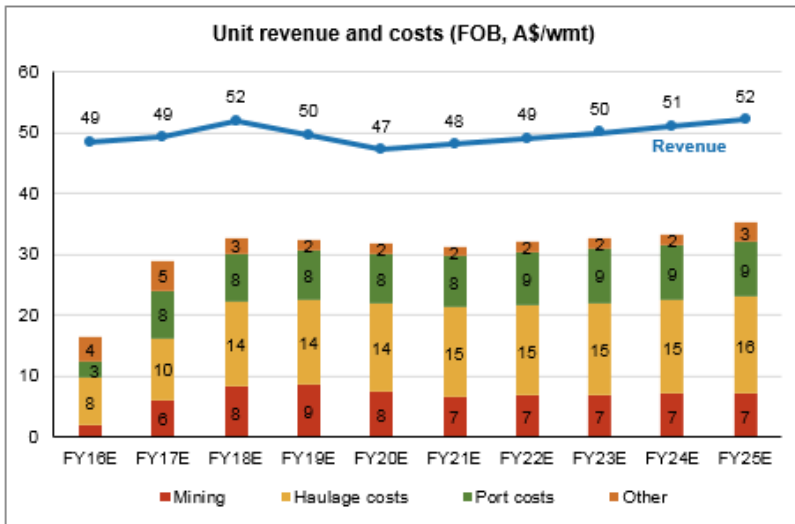
With Malaysian prices having turned up in late June, we believe that the bauxite price is at, or close to a low. We note with interest ABX's recent commentary that product enquiries increased from 2 in April, to 6 in May and 10 in June. We forecast a recovery in benchmark prices to US\$55/t in FY18E and maintain prices at this level (in real terms) out to FY25E.

We assume a flat CBIX benchmark bauxite price of US\$55/t (real) from FY18E to FY25E

We believe that ABX is in a position to obtain a premium for its cement-grade bauxite (particularly for the forecast 100kt sales in 2016). However, over our forecast LOM we assume that this premium will erode to a discount as 1) ABX ties in longer-term /regular shipment offtake agreements with cement-grade bauxite customers and, 2) the sales mix incorporates increased tonnages of metallurgical-grade bauxite. Adjusted for product grade/specification and moisture content, and backing out forecast shipping costs of US\$10/t, we calculate ABX's LOM average received bauxite price (ARP) at ~US\$37/wmt FOB, some US\$20/t below our forecast average FY16-25E benchmark CBIX index price of US\$57/dmt FOB.

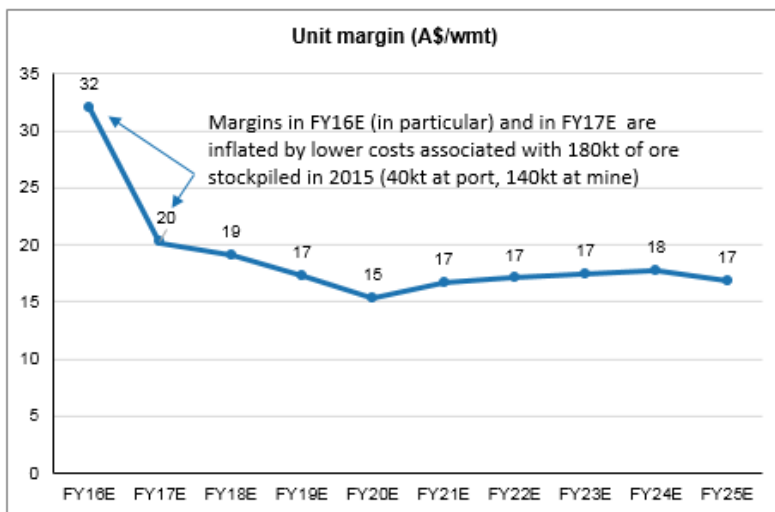
Translated at a forecast average LOM exchange rate of US\$0.75, we calculate ABX's average Australian dollar LOM ARP at A\$50/wmt FOB. Our unit costs (mining processing/port/haulage/other) are based on management guided costs (as per the group's May 2015 presentation). Forecast LOM unit costs of A\$32/wmt (excluding FY16E) indicate an average LOM margin of A\$18/t. This compares to management's 2015 margin guidance of A\$10-A\$20/t.

Figure 9: Unit revenue and costs (A\$/wmt, FOB)



Company, State One Stockbroking forecasts

Figure 10: Unit margin (A\$/wmt, FOB)



Company, State One Stockbroking forecasts

LOM (excluding FY16E):
 ARP = A\$50/wmt, FOB
 Costs = A\$32/wmt, FOB
 Margin = A\$18/wmt

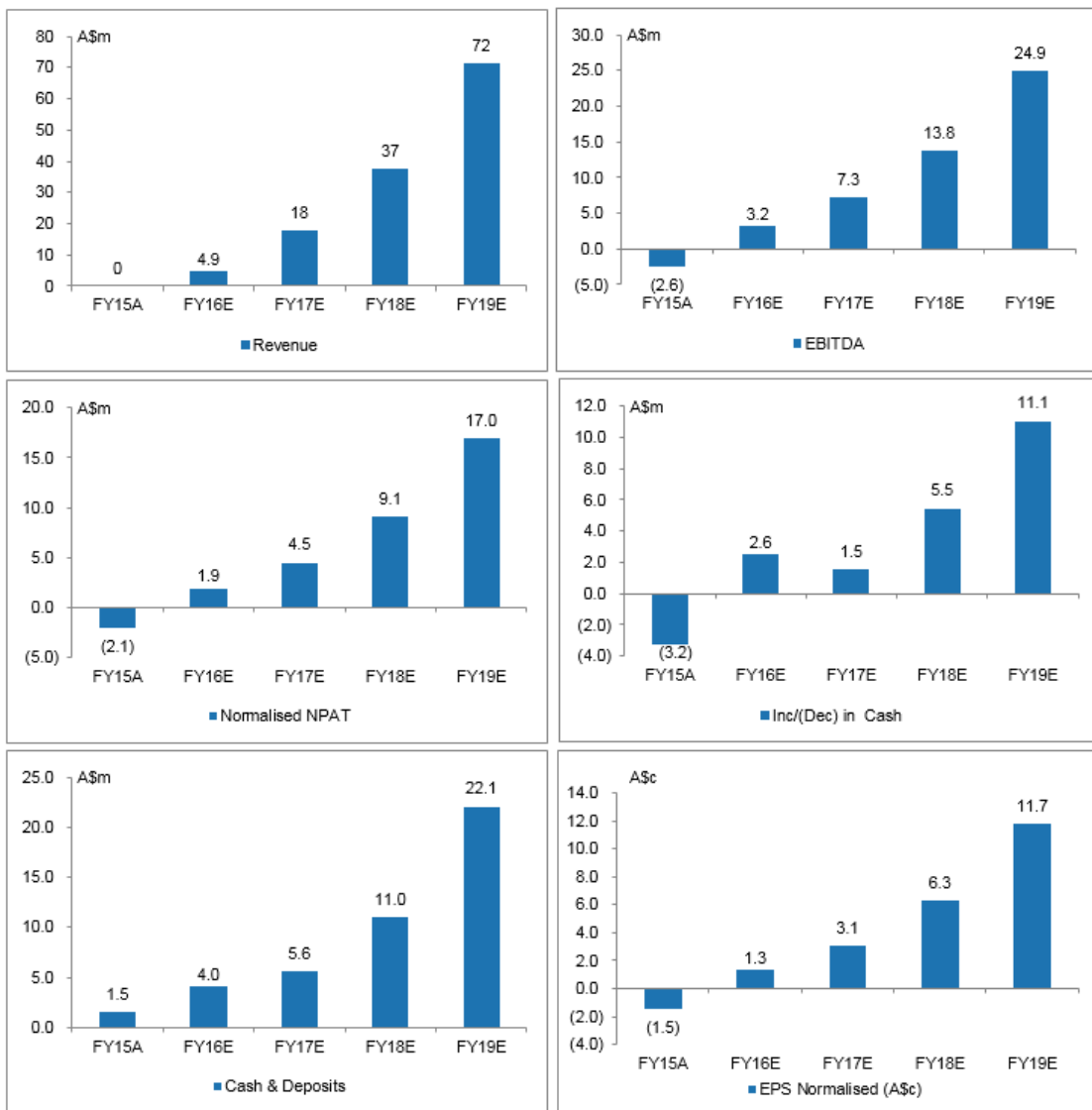
Financial profiles

Predicated on our forecast production/sales profile of 100kt in FY16E ramping up to 1.44mt in FY19E, and a LOM ARP of A\$50/t and EBITDA margin of A\$18/t (excluding FY16E), we calculate:

- ABX's revenue growing from ~A\$5m in FY16E to A\$72m in FY19E
- ABX's NPAT growing from A\$1.9m in FY16E to A\$17m in FY19E and,
- EPS growing from A\$1.3c in FY16E to ~A\$12c in FY19E.

With 180kt of mining and screening costs, and 40kt of road and rail costs already incurred in FY15A, we forecast that exceptionally high cash margins on 100kt of sales in FY16E will significantly boost the group's near-term cash position. We forecast 2016 year-end cash of A\$4.0m (vs A\$1.5m in FY15A). Thereafter, we forecast that a ramp-up in sales volumes (although at a lower margin) will see the cash balance strengthen further. Even allowing for a forecast 33% dividend payout starting in FY18E, our cash flow profile indicates a FY19E cash position of ~A\$22m (vs ABX's current m'cap of A\$29m).

Figure 11: Selected financial profiles (FY15A-FY19E)



Source: Company, State One Stockbroking forecasts



Alan Hill
Executive Chairman

Phone: +61 8 9288 3388
ahill@stateone.com.au

Peter Curtis
Head of Institutional Sales

Phone: +61 2 9024 9106
pcurtis@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

David Brennan
Senior Investment Analyst

Phone: +61 2 9024 9142
dbrennan@stateone.com.au

Morris Levitzke
Equities Advisor

Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Peter Wong
Equities Advisor

Phone: +61 8 9288 3330
pwong@stateone.com.au

Mark Sullivan
Equities Adviser/Institutional
Dealer

Phone: +61 2 9024 9134
msullivan@stateone.com.au

Yitz Barber
Senior Equities Advisor

Phone: +61 2 9024 9107
ybarber@stateone.com.au

David Zhang

Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

Tammie Wong

Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Thomas Tan

Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au

Robert Chen
Equities Advisor
Phone: +61 2 9024 9132
rchen@stateone.com.au

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