

Metro Mining (MMI)

Rating: Buy | Risk: High | Price Target: \$0.14

14 October 2024

Guinea supply disruptions further tighten bauxite and alumina markets

Key Information

Current Price (\$ps)	0.04
12m Target Price (\$ps)	0.14
52 Week Range (\$ps)	0.02 - 0.06
Target Price Upside (%)	210.1%
TSR (%)	210.1%
Reporting Currency	AUD
Market Cap (\$m)	262
Sector	Materials
Avg Daily Volume (m)	5.0
ASX 200 Weight (%)	0%

Fundamentals

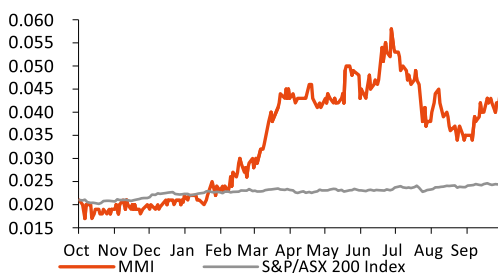
YE 31 Dec (AUD)	FY23A	FY24E	FY25E	FY26E
Sales (\$m)	236	340	435	496
NPAT (\$m)	(13)	28	95	122
EPS (cps)	(0.3)	0.5	1.6	2.1
EPS Growth (%)	77.3%	273.0%	197.9%	28.8%
DPS (cps) (AUD)	0.0	0.0	1.0	1.0
Franking (%)	0%	0%	0%	100%

Ratios

YE 31 Dec	FY23A	FY24E	FY25E	FY26E
P/E (x)	(6.8)	8.2	2.8	2.1
EV/EBITDA (x)	14.8	4.6	1.9	1.6
Div Yield (%)	0.0%	0.0%	22.7%	22.7%
Payout Ratio (%)	0.0%	0.0%	62.8%	48.8%

Price Performance

YE 31 Dec	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	22.9%	10.2%	(22.6%)	93.6%
Absolute (%)	25.7%	15.8%	(18.5%)	109.5%
Benchmark (%)	2.8%	5.6%	4.1%	15.9%



Price performance indexed to 100

Source: FactSet

Major Shareholders

Greenstone Resources LLP	14.0%
Willisms Group	8.3%
Balanced Property Pty Ltd.	5.6%

Andrew Hines | Head of Research

+61 3 9268 1178

andrew.hines@shawandpartners.com.au

Peter Kormendy | Senior Research Analyst

+61 3 9268 1099

Peter.Kormendy@shawandpartners.com.au

Dorab Postmaster | Analyst

+61 8 9263 5211

Dorab.Postmaster@shawandpartners.com.au

Event

Media is reporting that bauxite exports from Guinea Alumina Corporation (GAC) have been suspended due to customs issues. GAC produces about 12Mt of bauxite per annum, about 10% of production from Guinea. GAC is a subsidiary of Emirates Global Aluminium (EGA) which operates the 2.3Mt Al Taweelah alumina refinery in Abu Dhabi. The news has seen alumina prices move higher with Shanghai futures up 4.2% to US\$644/t.

Highlights

- Bauxite markets are tight due to strong demand growth from China at a time when demand is constrained. Indonesia has implemented export bans, Chinese domestic production is declining, and Australian supply is at risk (WA environmental issues, Gove planned closure). China has become reliant on supply from Guinea which now accounts for about 70% of China's bauxite imports.
- China is the largest importer of bauxite (~142Mt in 2023), with imports expected to grow a further ~40Mt over the next decade due to growth in alumina refining capacity and decline in Chinese domestic production. The same dynamic which impacted iron ore in the period from 2005-15 is now impacting bauxite – Chinese demand has overwhelmed the country's ability to supply itself from domestic sources.
- It is not just a Chinese issue and reliance on Guinean bauxite is a significant risk for global alumina and aluminium production. Operators of alumina refineries are sensibly looking for alternative sources of bauxite supply. EGA currently sources the bulk of its bauxite from Guinea but has recently acquired a trial cargo from Metro Mining which will be shipped this quarter. The Al Taweelah alumina refinery is similar in design to the Yarwun refinery in Queensland and a Weipa style bauxite is likely to be a suitable feedstock.
- The big increase in alumina prices this year would normally have seen Chinese alumina refineries increase production and export take advantage of high export prices. A key reason this has not happened is that refineries in China cannot source enough bauxite.
- Metro recently announced a new monthly shipment record of 780kt in September, bringing September quarter shipments to 2.13Mt. This was slightly below our 2.2Mt forecast but leaves Metro on track to meet its CY24 guidance of 6.0-6.4Mt (Shawf 6.1Mt).
- Metro Mining is now operating at production rates consistent with its 7Mt annual production target. Given the slower than expected ramp-up in CY24 we have brought back our CY25 production forecast to 7.0Mt (from 7.5Mt) but expect Metro to debottleneck up to 7.5Mt (and beyond) through the next 12 months. There is minimal impact on our forecasts due to higher assumed bauxite prices which continue to rise faster than our previous forecasts.
- We expect Metro to generate strong operating cash flow in 2H24. Volumes are up, prices are rising and unit costs will fall with the increase in shipments. Management is targeting a site EBITDA margin of >\$15/wmt in the second half. In the Sept quarter we assume 2.13Mt of shipments at a site EBITDA margin of A\$15.2/t for site EBITDA of \$32.3m.
- At 30-Jun-24 Metro had a net debt position of \$57m post the 2Q24 capital raise. Metro expects to further reduce its debt in 2H 2024 with additional debt repayments of \$22m. Metro had a junior debt facility of A\$39m with its major shareholders Ignatatus and Lambhill. A\$17m of that was repaid in the March quarter leaving A\$22m to be repaid in 2H24. Once the junior debt is repaid, Metro intends to refinance the US\$30m Nebari loan and the US\$12m Nebari royalty.
- We have made minor revisions to our forecasts following the September production update. CY24/25/26 EBITDA changes by +1%/-1%/+15% respectively.

Recommendation

Metro Mining is one of Shaw and Partners top picks for 2024. Our recommendation remains BUY with a 14cps price target.

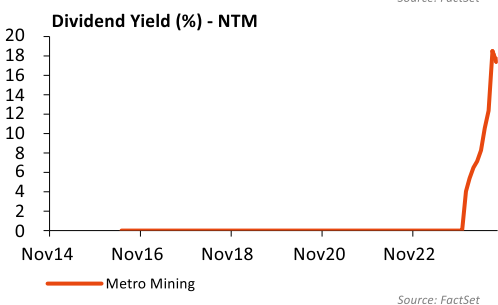
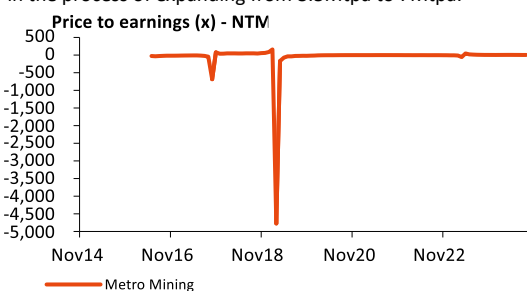
**Metro Mining
Materials
Materials**

FactSet: MMI-AU / Bloomberg: MMI AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.04
Target Price (\$ps)	0.14
52 Week Range (\$ps)	0.02 - 0.06
Shares on Issue (m)	5,955
Market Cap (\$m)	262
Enterprise Value (\$m)	322
TSR (%)	210.1%
Valuation per share (cps) (AUD)	0.14
Valuation (\$m)	828.45

Company Description

Metro Mining operates the Bauxite Hills operation in Far North Queensland and exports bauxite to customers in China. The company commenced operations in 2018 and is in the process of expanding from 3.5Mtpa to 7Mtpa.



Financial Year End: 31 December

Investment Summary (AUD)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (Reported) (cps)	(1.4)	(0.3)	0.5	1.6	2.1
EPS (Underlying) (cps)	(1.4)	(0.3)	0.5	1.6	2.1
EPS (Underlying) Growth (%)	71.7%	77.3%	273.0%	197.9%	28.8%
PE (Underlying) (x)	(1.0)	(6.8)	8.2	2.8	2.1
EV / EBIT (x)	(8.8)	63.5	6.4	2.3	1.9
EV / EBITDA (x)	(14.2)	14.8	4.6	1.9	1.6
DPS (cps) (AUD)	0.0	0.0	0.0	1.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	22.7%	22.7%
Franking (%)	0%	0%	0%	0%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	62.8%	48.8%
Free Cash Flow Yield (%)	(7.8%)	(0.2%)	20.0%	59.8%	62.1%
Profit and Loss (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	178	236	340	435	496
Sales Growth (%)	11.1%	32.6%	44.2%	27.9%	14.1%
Other Operating Income	1	0	2	0	0
EBITDA	(23)	22	70	166	197
EBITDA Margin (%)	(12.7%)	9.2%	20.6%	38.3%	39.8%
Depreciation & Amortisation	(14)	(17)	(20)	(27)	(29)
EBIT	(36.6)	5.1	50.6	139.8	168.9
EBIT Margin (%)	(20.6%)	2.2%	14.9%	32.1%	34.0%
Net Interest	(14)	(19)	(23)	(12)	(4)
Pretax Profit	(50)	(13)	28	128	165
Tax	0	0	0	(33)	(43)
Tax Rate (%)	0.0%	0.0%	0.0%	(26.0%)	(26.0%)
NPAT Underlying	(50)	(13)	28	95	122
Significant Items	0	0	0	0	0
NPAT Reported	(50)	(13)	28	95	122
Cashflow (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
EBIT	(37)	5	51	140	169
Tax Paid	0	0	0	0	(33)
Net Interest	0	0	0	1	4
Change in Working Capital	0	0	1	(5)	0
Depreciation & Amortisation	14	17	20	27	29
Operating Cashflow	(1)	12	71	162	168
Capex	(3)	(12)	(25)	(4)	(4)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	(4)	(13)	(1)	(1)	(1)
Investing Cashflow	(7)	(25)	(26)	(5)	(5)
Free Cashflow	(4)	(0)	46	157	163
Equity Raised / Bought Back	20	0	42	0	0
Dividends Paid	0	0	0	0	(60)
Change in Debt	9	39	(53)	(26)	0
Other	(21)	(15)	(23)	(30)	(7)
Financing Cashflow	8	24	(35)	(56)	(67)
Net Change in Cash	(0)	12	11	100	96
Balance Sheet (AUD) (m)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash	12	17	19	119	215
Accounts Receivable	4	9	13	16	19
Inventory	3	3	5	6	7
Other Current Assets	4	6	6	6	6
PPE	79	87	92	70	45
Total Assets	130	157	171	254	330
Accounts Payable	28	24	30	30	33
Short Term Debt	36	33	26	0	0
Long Term Debt	3	46	0	0	0
Total Liabilities	99	156	109	64	68
Ratios	FY22A	FY23A	FY24E	FY25E	FY26E
ROE (%)	(164.5%)	(93.3%)	61.6%	74.7%	59.4%
Gearing (%)	58.0%	86.2%	7.9%	(217.8%)	(996.5%)
Net Debt / EBITDA (x)	(1.2)	2.8	0.1	(0.7)	(1.1)

Guinea bauxite supply disruptions

Media is reporting that bauxite exports from Guinea Alumina Corporation (GAC) have been suspended due to customs issues. This comes on top of one of the worst monsoon seasons in Guinea for years, with extensive flooding in the capital Conakry. Bauxite exports have been running at about 80% of usual volumes.

It is not clear what the issue is, how much supply has been affected, or how long the disruption will last. However the news has seen alumina prices move higher with Shanghai futures up 4.2% to US\$644/t.

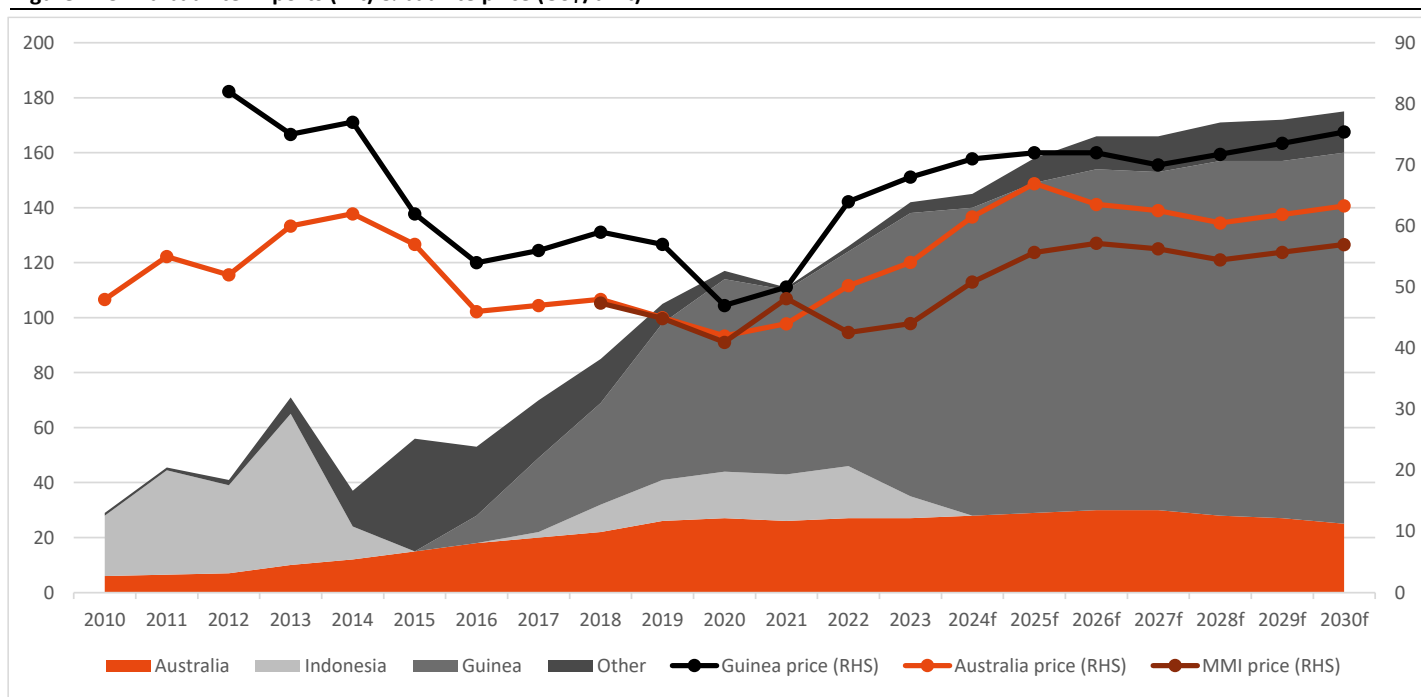
GAC produces about 12Mt of bauxite per annum, about 10% of production from Guinea. GAC is a subsidiary of Emirates Global Aluminium (EGA) which operates the 2.3Mt Al Taweelah alumina refinery in Abu Dhabi. EGA has recently purchased a bauxite shipment from Metro Mining for a trial. We understand that the shipment will be made this quarter at current spot bauxite prices on a FOB basis.

China has become increasingly reliant on bauxite from Guinea. China is the largest importer of bauxite (~142Mt in 2023), with imports expected to grow a further ~40Mt over the next decade due to growth in alumina refining capacity and decline in Chinese domestic production. The same dynamic which impacted iron ore in the period from 2005-15 is now impacting bauxite – Chinese demand has overwhelmed the country’s ability to supply itself from domestic sources.

The reliance on production from Guinea is a significant global risk. Aluminium is a critical metal for the energy transition and with China producing ~50% of global supply, sourced ~50% from Guinean bauxite, around 25% of global aluminium supply originates with Guinean bauxite.

Guinea is under-going a period of political turmoil. In September 2021 the President of Guinea, Alpha Conde was captured by the country's armed forces in a coup d'état. The head of the military junta, Colonel Mamady Doumbouya has promised to return the country to democracy within three years – but Guinea remains suspended from the Economic Community of West African States (ECOWAS).

Figure 1: China bauxite imports (Mt) & bauxite price (US\$/dmt)



Source: Alumina Ltd Mar 2023 presentation, CM Group, Shaw and Partners forecasts

Metro Mining Production and Earnings Revisions

We have made a number of minor revisions to our forecasts:

1. We have updated our quarterly production forecasts for the September monthly update. Metro shipped 2.13Mt in the September quarter, which was slightly below our 2.2Mt forecast, but leaves Metro on-track to meet its fully year guidance of 6.0-6.4Mt (Shawf 6.1Mt).
2. We have revised down our CY25 production forecast from 7.5Mt to 7.0Mt. We think this is conservative, but reflects the slower ramp up in CY24 than expected at the start of the year.
3. We have increased our forecast for the ABIX bauxite price index in 2H24 and CY25 by about US\$3/t to reflect current tightness in the bauxite market. This translates into an achieved bauxite price for Metro of A\$67/wmt in 2H24 and A\$69/wmt in CY25 on a CIF basis.
4. We have enhanced our modelling of Metro's bauxite contract book by explicitly modelling the impact of the foundation Xinfra fixed price contract which expires at the end of CY25. This results in a higher achieved price from CY26.

Figure 2: Quarterly operational and financial results – a significant increase in EBITDA expected in September 2024.

Quarterly operations	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Bauxite mined (kt)	0	1,325	1,653	1,647	40	1,407	2,130	2,523	0	2,000	2,500	2,500	0	2,200	2,700	2,600
Bauxite shipped (kt)	0	1,269	1,610	1,688	80	1,418	2,130	2,472	0	2,000	2,500	2,500	0	2,200	2,700	2,600
Revenue A\$/wmt - CIF	0.0	53.8	57.4	56.5	60.2	63.8	67.0	67.0	0.0	69.0	69.0	69.0	0.0	70.9	70.9	70.9
Revenue (A\$m) - CIF	0.0	68.3	92.4	95.4	4.8	90.5	142.7	165.6	0.0	138.0	172.5	172.5	0.0	155.9	191.4	184.3
Revenue A\$/wmt - FOB	0.0	41.1	40.8	38.5	0.0	43.4	47.0	47.0	0.0	54.0	54.0	54.0	0.0	55.9	55.9	55.9
Revenue (A\$m) - FOB	0.0	52.2	65.7	65.0	0.0	61.5	100.1	116.2	0.0	108.0	135.0	135.0	0.0	122.9	150.9	145.3
Costs																
Site cost (A\$/wmt)	0.0	26.2	24.7	26.0	0.0	31.8	25.0	22.0	0.0	22.6	19.0	19.0	0.0	21.5	18.0	18.0
Freight (A\$/wmt)	0.0	16.5	19.2	18.0	0.0	20.4	20.0	20.0	0.0	15.0	15.0	15.0	0.0	15.0	15.0	15.0
Royalty (A\$/wmt)	0.0	5.9	6.0	5.5	0.0	6.3	6.8	6.8	0.0	7.8	7.8	7.8	0.0	8.1	8.1	8.1
Total cost (A\$/wmt)	0.0	48.6	49.9	49.5	0.0	58.5	51.8	48.8	0.0	45.4	41.8	41.8	0.0	44.6	41.1	41.1
Total cost (ex freight)	0.0	32.1	30.7	31.5	0.0	38.1	31.8	28.8	0.0	30.4	26.8	26.8	0.0	29.6	26.1	26.1
Site cost (A\$m)	20.0	33.2	39.8	43.9	15.0	45.1	53.3	54.4	15.0	45.2	47.5	47.5	15.0	47.3	48.6	46.8
EBITDA (A\$/wmt)	0.0	9.0	10.1	7.0	0.0	5.3	15.2	18.2	0.0	23.6	27.2	27.2	0.0	26.3	29.8	29.8
Site EBITDA (A\$m)	-20.0	11.4	16.3	11.8	-15.0	7.5	32.3	44.9	-15.0	47.1	67.9	67.9	-15.0	57.8	80.4	77.4
Other costs (A\$m)	-2.9	4.4	0.9	-5.0	-2.9	-6.2	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Quarterly cash flows (A\$m)																
Operating cash flow	-22.9	15.8	17.2	6.8	-17.9	1.3	29.3	41.9	-18.0	44.1	64.9	64.9	-18.0	54.8	77.4	74.4
Investing cash flow	-2.9	-7.1	-9.8	-11.7	-9.6	-12.9	-6.0	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Financing cash flow	26.0	-0.5	-6.1	-4.8	18.4	23.4	-12.0	-21.6	0.0	-10.0	-40.0	0.0	0.0	0.0	0.0	0.0
Cash balance	11.6	20.2	21.6	12.0	2.8	13.4	24.7	44.3	25.6	59.0	83.3	147.5	128.8	182.9	259.6	333.3
Debt position (A\$m)																
Nebari loan						44.8	44.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nebari royalty						15.5	15.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Junior debt						23.3	11.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt facility						0.0	0.0	50.0	50.0	40.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (A\$m)						83.6	71.6	50.0	50.0	40.0	0.0	0.0	0.0	0.0	0.0	0.0
Net debt (cash) (A\$m)						70.2	46.9	5.7	24.4	-19.0	-83.3	-147.5	-128.8	-182.9	-259.6	-333.3
Debt repayments																
Nebari loan						0.0	0.0	44.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nebari royalty						0.0	0.0	15.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Junior debt						0.0	12.0	11.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt facility						0.0	0.0	-50.0	0.0	10.0	40.0	0.0	0.0	0.0	0.0	0.0
Total (A\$m)						0.0	12.0	21.6	0.0	10.0	40.0	0.0	0.0	0.0	0.0	0.0

Source: Company reports, Shaw and Partners forecasts

Figure 3: Earnings Revisions

Revisions	2024f			2025f			2026f			2027f		
	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %	New	Old	Chg %
Sales (kt)	6,100	6,100	0%	7,000	7,500	-7%	7,500	7,500	0%	7,500	7,500	0%
Revenue (A\$m)	340	339	0%	435	439	-1%	496	464	7%	488	474	3%
EBITDA (A\$m)	70	69	1%	166	167	-1%	197	171	15%	190	175	8%
NPAT (A\$m)	28	27	4%	95	94	1%	122	103	19%	121	109	11%

Source: Company reports, Shaw and Partners forecasts

Figure 4: Metro Mining Financials

Profit & Loss (A\$m)	2019	2020	2021	2022	2023	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Sales (kt)	3,504	2,481	2,798	3,432	4,567	6,100	7,000	7,500	7,500	7,500	7,500	7,500
% FoB	0%	0%	0%	13%	55%	62%	46%	31%	31%	31%	31%	31%
Revenue	199	128	160	178	236	340	435	496	488	470	481	492
per tonne (A\$/t)	57	52	57	52	52	56	62	66	65	63	64	66
Revenue (adj for CIF)	199	128	160	186	264	411	483	532	523	506	518	529
per tonne (A\$/t)	57	52	57	54	58	67	69	71	70	67	69	71
Other income	0	0	0	1	0	2	0	0	0	0	0	0
Operating expenses	-143	-108	-167	-178	-179	-215	-200	-223	-223	-228	-233	-239
Royalties	-20	-12	-11	-17	-26	-45	-55	-61	-60	-57	-58	-59
Admin & other expenses	-9	-5	-6	-6	-9	-12	-14	-15	-16	-16	-16	-17
Total costs	-172	-126	-184	-201	-214	-272	-269	-299	-298	-301	-308	-315
per tonne (A\$/t)	49	51	66	59	47	45	38	40	40	40	41	42
Customer paid freight costs	0	0	0	-8	-28	-71	-48	-35	-35	-36	-37	-38
Adjusted total cost (A\$/t)	49	51	66	61	53	56	45	45	45	45	46	47
EBITDA	27	2	-79	-23	22	70	166	197	190	170	173	177
per tonne (A\$/t)	8	1	-28	-7	5	11	24	26	25	23	23	24
Depreciation & Amortisation	-10	-10	-12	-14	-17	-20	-27	-29	-29	-29	-29	-29
EBIT	17	-8	-91	-37	5	51	140	169	161	141	145	149
Net Finance Expense	-11	-8	-5	-14	-19	-23	-12	-4	2	7	11	16
Profit before tax	6	-15	-96	-50	-13	28	128	165	163	148	156	165
Income tax (expense)/benefit	-2	4	-9	0	0	0	-33	-43	-42	-38	-41	-43
Reported NPAT	4	-11	-106	-50	-13	28	95	122	121	110	116	122

Source: Company reports, Shaw and Partners forecasts

Key risks

- The Chinese bauxite market is supplied by production from Guinea which is backed by Chinese investment. There is a risk that if Guinea continues to expand then MMI will not be able to sell its expanded production or be forced to discount the price.
- Metro Mining is expanding its operation from 3.5Mt to 7.0Mt. The mining and barging component of the expansion is straight-forward, but there are design and operating risks with the transshipping operations. The transhipper may not operate as expected.
- Metro operates in Far North Queensland and transshipping operations are weather dependent. Cyclonic activity or adverse wind conditions can prevent the barges from operating.

Core drivers and catalyst

- The bauxite market is well supported by strong demand growth from China as Chinese alumina refineries increasingly rely on imported bauxite as domestic production declines. Chinese production of bauxite peaked in 2018.
- Metro Mining's Bauxite Hills project is well placed to supply the growing Chinese market due to the proximity to markets. As a low value product, freight costs make up almost half the cost of delivering bauxite to China.
- Metro Mining is expanding production from 3.5Mtpa to 7.0Mtpa in CY24. This will result in a significant step-up in free cash flow generation due to higher production and the associated economies of scale reduction in unit costs.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

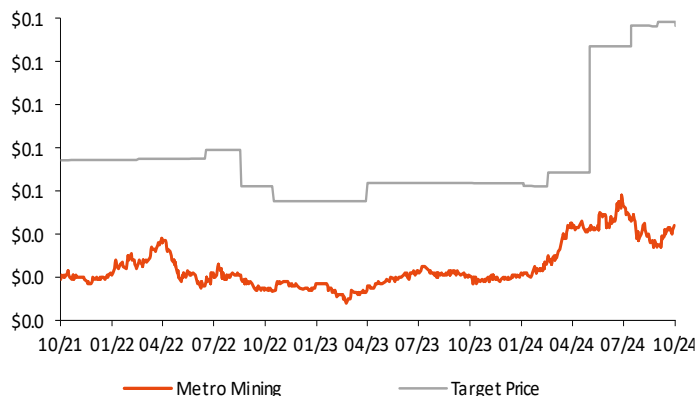
RISK STATEMENT: Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	77	95%
Hold	4	5%
Sell	0	0%

History of Investment Rating and Target Price - Metro Mining

Date	Closing Price (\$)	Target Price (\$)	Rating
13-Oct-24	0.04	0.14	Buy
12-Sep-24	0.04	0.14	Buy
29-Aug-24	0.04	0.14	Buy
26-Jul-24	0.05	0.14	Buy
13-May-24	0.04	0.13	Buy
29-Feb-24	0.03	0.07	Buy
30-Jan-24	0.02	0.06	Buy
16-Jan-24	0.02	0.06	Buy
19-Oct-23	0.02	0.06	Buy
13-Apr-23	0.02	0.06	Buy
28-Oct-22	0.01	0.06	Buy
31-Aug-22	0.02	0.06	Buy
29-Jun-22	0.02	0.08	Buy
31-May-22	0.02	0.07	Buy
25-Feb-22	0.02	0.07	Buy
29-Oct-21	0.02	0.07	Buy



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Sydney Head Office	Melbourne	Brisbane	Adelaide	Canberra	Perth	Noosa
Level 7, Chifley Tower	Level 36	Level 28	Level 25	Level 9	Level 47	Suite 11a Q Place
2 Chifley Square	120 Collins Street	111 Eagle Street	91 King William Street	5 Constitution Avenue	108 St Georges Terrace	2 Quamby Place
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Adelaide SA 5000	Canberra ACT 2601	Perth WA 6000	Noosa Heads QLD 4567
Telephone: +61 2 9238 1238	Telephone: +61 3 9268 1000	Telephone: +61 7 3036 2500	Telephone: +61 8 7109 6000	Telephone: +61 2 6113 5300	Telephone: +61 8 9263 5200	Telephone: +61 7 3036 2570
Toll Free: 1800 636 625	Toll Free: 1800 150 009	Toll Free: 1800 463 972	Toll Free: 1800 636 625	Toll Free: 1800 636 625	Toll Free: 1800 198 003	Toll Free: 1800 271 201