

08 July 2024

# Goschen Capex Cut 30%

## NEED TO KNOW

- Goschen phase 1 capex reduced 30% with a range of savings
- Approvals process moves to next stage – a catalyst to watch
- Astron's Donald rare earth project – strategic investor buys in

**Goschen capex reduced 30%:** VHM has achieved a 30% reduction in capex for Phase 1 of its Goschen Rare Earth and Mineral Sands Project in Victoria. Key savings are in civil works, road and pipeline construction, based on vendor/contractor detailed quotes.

**Approvals process takes another big step:** As part of the crucial approvals process to obtain the Environment Effects Statement (EES), a Public Hearing concluded on 30 April 2024. The Inquiry and Advisory Committee (IAC) has issued its findings and recommendation report to the Victorian Minister for Planning, who will then determine whether to grant approval. A favourable outcome will lead the Earth Resources Regulator to assess the Mining Licence application.

**Nearby Donald Project lands a strategic investor, Base Resources a bid:** US-based critical minerals company Energy Fuels has agreed to contribute A\$183m for a 49% stake in Phase 1 of Astron's (ASX:ATR) Donald Project. Energy Fuels has also bid for ASX-listed Base Resources (ASX:BSE).

## Investment Case

**Approval process completion the next key catalyst:** The approval process in Victoria takes time but is prescriptive. Advancement of approval steps (within weeks) are the key near-term catalysts.

**100%-owned long-life project enhances funding opportunities including strategic partner option:** 100% ownership provides funding and strategic flexibility, including the partial sale of the project to a strategic partner. The recent corporate activities amongst peers demonstrate the interest in the sector and region by strategic partners and investors.

**ATR deal shows A\$1.04 'see-through value' for VHM** vs. A\$0.48 current price. Although at a discount to VHM's NPV, applying the metrics of the ATR deal suggests a significant premium to the current share price.

**Binding offtake agreement for first 3 years of project:** Shenghe will purchase ~60% of expected production capacity for 3 years, giving significant certainty as well as flexibility for further customers and long-term deals.

## Valuation: A\$1.81/Share (Previous A\$1.67)

We use a blended valuation of A\$1.81/share based on (1) **a 60% probability of a sell-down to a strategic partner** in Goschen and (2) **a 40% probability of VHM fully funding the project independently** through equity and debt. Our un-risked, pre-funding valuation is A\$3.37/share (previous A\$3.10). Our upgraded valuation is driven by the 30% reduction in Phase 1 capex.

## Risks

Key risks include offtake finalisation, funding, delay in approvals and construction, capital cost inflation and commodity price weakness.

## Equity Research Australia

### Materials

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VHM is an Australian owned and operated, listed public mineral sands and rare earth company. VHM is proposing to develop the Goschen Mineral Sands and Rare Earths Project in the Loddon Mallee Region of Victoria, approximately 35km south of Swan Hill in the Gannawarra Shire and 275km north of Melbourne. [www.vhmld.com.au](http://www.vhmld.com.au)

Valuation	<b>A\$1.81</b> (from A\$1.67)
Current price	<b>A\$0.47</b>
Market cap	<b>A\$96m</b>
Cash on hand	<b>A\$10.1m</b> (31 March 2024)

## Additional Resources

### Upcoming Catalysts / Next News

Period	
2HCY24	Approvals and funding for project
2HCY24	Further commercial offtake
2HCY24	Detailed Design Engineering completed - Phase 1

## Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial summary, June year-end

VHM Limited						VHM.AX
Year end 30 June						
<b>MARKET DATA</b>						<b>12-Month Relative Performance vs S&amp;P/ASX Metals &amp; Mining</b>
Share Price	A\$/sh					0.47
52 Week Low	A\$/sh					0.36
52 Week High	A\$/sh					0.76
Market Cap (A\$m)	A\$m					96
Net Debt / (Cash) (A\$m)	A\$m					(10)
Enterprise Value (A\$m)	A\$m					86
Shares on Issue	m					204
Performance rights and options	m					12
Shares Issued during Capital Raise	m					589
Potential shares on issue (diluted)	m					804
<b>INVESTMENT FUNDAMENTALS</b>						
		FY22	FY23	FY24E	FY25E	FY26E
Reported NPAT	A\$m	(9)	(16)	(9)	(9)	(34)
Underlying NPAT	A\$m	(9)	(16)	(9)	(9)	(34)
Underlying EPS	¢ps	(0.1)	(0.1)	(4.5)	(2.0)	(4.3)
Reported EPS	¢ps	(7.0)	(0.1)	(4.5)	(4.8)	(4.3)
P/E Reported (undiluted)	x	n/m	n/m	n/m	n/m	n/m
P/E Underlying (undiluted)	x	n/m	n/m	n/m	n/m	n/m
Operating Cash Flow / Share	A\$	(0.03)	(0.05)	(0.05)	(0.01)	(0.04)
Price / Operating Cash Flow	x	n/m	n/m	n/m	n/m	n/m
Free Cash Flow / Share	A\$	(0.10)	(0.15)	(0.06)	(0.01)	(0.55)
Price / Free Cash Flow	x	(4.5)	(3.1)	(7.9)	(45.3)	(0.8)
Free Cash Flow Yield	%	n/m	n/m	n/m	n/m	n/m
Book Value / Share	A\$	0.13	0.32	0.28	0.41	0.36
Price / Book	x	3.70	1.48	1.70	1.15	1.29
NTA / Share	A\$	0.13	0.32	0.28	0.41	0.36
Price / NTA	x	3.70	1.48	1.70	1.15	1.29
Year End Shares	m	139	203	203	792	792
Market Cap (spot)	A\$m	65	96	96	372	372
Net Cash / (Debt)	A\$m	24	21	8	275	(163)
Enterprise Value	A\$m	41	75	88	97	536
EV / EBITDA	x	n/m	n/m	n/m	n/m	n/m
Net Debt / Enterprise Value		(0.3)	(0.2)	(0.1)	(3.2)	1.9
Dividend per share	¢ps	0.00	0.00	0.00	0.00	0.00
<b>Profit &amp; Loss (A\$m)</b>						
		FY22	FY23	FY24E	FY25E	FY26E
Revenue		-	-	-	-	-
Expenses		(6)	(11)	(8)	(8)	(8)
EBITDA		(6)	(11)	(8)	(8)	(8)
D&A		(1)	(0)	(0)	(0)	(0)
EBIT		(7)	(11)	(8)	(8)	(9)
Interest		(2)	(4)	(1)	(1)	(25)
Tax		-	-	-	-	-
Underlying NPAT		(9)	(16)	(9)	(9)	(34)
Exceptionals						
Reported Profit		(9)	(16)	(9)	(9)	(34)
Net Profit before Tax		(9)	(16)	(9)	(9)	(34)
<b>Balance Sheet (A\$m)</b>						
		FY22	FY23	FY24E	FY25E	FY26E
Cash		24	21	8	551	113
Receivables		1	1	-	-	-
Inventory		-	-	-	-	-
PP&E		11	16	18	18	422
Exploration		27	39	39	39	39
Other		0	1	1	1	1
Assets		63	79	67	610	576
Creditors		4	3	-	-	-
Debt		-	-	-	277	277
Other		42	11	11	11	11
Liabilities		46	14	11	287	287
Shareholder's Equity		18	65	56	323	289
<b>Cashflow (A\$m)</b>						
		FY22	FY23	FY24E	FY25E	FY26E
Receipts from Customers		-	-	-	-	-
Payments to suppliers and employees		(4)	(11)	(10)	(8)	(9)
Interest Received / Paid		0	0	1	0	(25)
Tax Paid		-	-	-	-	-
Net Operating cashflow		(4)	(10)	(10)	(8)	(34)
Capex		(0)	(3)	(2)	-	(404)
Exploration		(12)	(20)	(6)	-	-
Other		2	2	6	-	-
Net Investing cashflow		(10)	(20)	(2)	-	(404)
Equity		-	29	-	277	-
Borrowings		(2)	(2)	(0)	277	-
Borrowing Costs		30	(0)	(1)	(1)	-
Net financing cashflow		28	27	(1)	552	-
Effects of FX		-	-	-	-	-
Net Increase / (Decrease) in Cash		13	(4)	(13)	544	(438)

Source: VHM, MST estimates.

## Goschen Capex Gets Slashed by 30%

VHM have completed an optimisation review for Phase 1 of the Goschen Rare Earth and Mineral Sands Project in Victoria. The review has resulted in a capex reduction of 30% from A\$483m (as presented in the DFS Refresh of March 2023) to A\$337m.

### Updated capital costs – key review points drive savings

The company was able to update its capital cost estimates as a result of:

- completion of initial detailed engineering design for the base processing plant
- early contractor involvement in reviewing key offsite infrastructure
- selection of a mining services partner.
- civil works, road and pipeline construction costs

### Base processing plant and non-process infrastructure

The development of detailed design and a line-by-line assessment of the project has allowed the company to reduce costs for the base processing plant and the associated non-process infrastructure.

The DFS Refresh of March 2023 was completed in an environment of high cost inflation in the mining sector, as well as higher rare earths and industrial minerals pricing. A more detailed review of the plant and its design and the associated infrastructure, as well as a look at the level of 'gold plating', has led to a 9% reduction in capital costs relating to the base plant.

In addition to the review for key offsite infrastructure, early contractor involvement included the development of independent cost estimates and updated execution methodologies. It also leveraged the mining services partner's capability to perform initial site development and selected early works (see details below). This achieved a 39% reduction in cost for non-process infrastructure.

### Pre-production mining and other ancillary costs

Pre-production operation costs have been adjusted to account for the gradual start of operations and the necessary readiness preparations, with savings of 52%.

### Contingency of A\$37.6m

The contingency in the capital costs of A\$37.6m represents ~11% of total costs and reflects a high degree of confidence in the final estimates.

**Figure 2: Summary of capital costs of Stage 1 Goschen Project (March 2023 DFS vs. revised)**

Area	DFS cost (A\$m)	DFS cost (A\$m)	Variance
Process plant	\$184.6	\$168.8	-9%
Non-process infrastructure	\$191.7	\$117.1	-39%
Pre-production mining and other ancillary costs	\$106.8	\$51.1	-52%
<b>Total</b>	<b>\$483.1</b>	<b>\$337.0</b>	<b>-30%</b>

Source: VHM.

## Selection of mining services partner

VHM has recently announced a Memorandum of Understanding (MOU) with Yellow Iron Fleet (YIF), a prominent mining solutions provider, to advance the Goschen Project. This collaboration focuses on establishing the necessary mining approach and fleet requirements, which are critical steps towards initiating production. Under the MOU, YIF will handle the setup of mine site facilities, procurement and maintenance of mining equipment, and management of operations and staff. The agreement is set to span the life of mine of VHM's Area 1 (more than 7 years) and includes comprehensive activities such as mining, rehabilitation and tailings management.

Yellow Iron Fleet, headquartered in Bendigo, Central Victoria, has operated for over 15 years and is known for its extensive experience in large-scale bulk earthworks and mineral sands mining operations. The company brings a strong technical focus and operates a low-cost owner/operator mining fleet, leveraging its relationships with local operators to deliver efficient and effective services. Both VHM and YIF view this collaboration as a strategic initiative to enhance Australia's critical minerals sector and deliver long-term benefits to the Loddon-Mallee region. The CEOs of both companies have expressed confidence in the partnership, underscoring their shared vision and commitment to a productive working relationship.

## EPCM contractor engagement process underway

The engineering, procurement and construction management (EPCM) contractor engagement process has commenced, with shortlisting of contractors VHM expect to conclude the process in 2H CY24.

## Goschen Environment Approvals – Another Major Milestone

The equity market views the approvals process for the Goschen Project as the project's highest risk, with the approvals process for mining projects in Victoria widely seen as difficult. However, it should be noted that the approvals process is prescriptive. VHM is at an advanced stage in the process, with the next key step being ministerial approval. The advancement of the approval steps are the key near-term catalysts for VHM.

We consider the risk of not obtaining the approvals as relatively low, but see the timing of receiving those approvals as a risk.

## The end game – a mining licence

VHM placed the Goschen Project's mining licence application on public notice on 9 January 2024. The review and issue of a mining licence by the Earth Resources Regulator (ERR) is dependent on the outcome of the Environment Effects Statement (EES) approvals process, with the statutory advertising for the mining licence application was run concurrently with the EES Public Exhibition stage.

## Significant step completed with EES – public hearings completed; ministerial approval of EES next

The Public Hearing concluded on 30 April 2024, and the IAC issued its findings and recommendation report to the Victorian Minister for Planning in accordance with its Terms of Reference. This now concludes the public exhibition, IAC hearing and reporting Phases.

The Minister will then determine whether to grant approval for the Goschen Project. Following a favourable ministerial outcome, the Goschen mining licence application would then be assessed by the ERR for final mining licence approval.

Figure 3: Permitting – countdown to production



Source: VHM.

# Nearby Donald Rare Earths Project Lands a Strategic Investor – See-Through Value of A\$1.04/Share for VHM

Astron (ATR) and US-based critical minerals company Energy Fuels Inc. have executed a binding farm-in and joint venture agreement for a 49% stake of the Donald Project, nearby to Goschen.

## Details of the Astron (ATR) deal with Energy Fuels

ATR has finalised a deal with Energy Fuels (dual listed – NYSE: UUUU; TSX: EFR), involving a binding farm-in, joint venture, and rare earth element (REE) offtake agreement.

### Key details of the deal

- Energy Fuels will inject A\$183m to acquire a 49% stake in the Donald Project and secure an offtake deal for all rare earths concentrate.
- Energy Fuels will also issue ATR US\$17.5m (A\$25m) worth of its shares to expand the joint venture.
- ATR will retain operational control and use the A\$183m investment to develop the Donald Project, covering the equity portion of the total \$392m funding requirement, with the remainder financed through debt.
- The Final Investment Decision (FID) is anticipated in the December 2024 quarter, with initial production slated for the December 2026 quarter.
- The transaction with Energy Fuels, including UUUU shares, totals \$218m or \$1.27 per share, equivalent to 188% of ATR's market capitalisation before the announcement, for a minority project interest with ATR retaining operational control.

The Phase 1 NPV@8% for Donald (as per ATR) is A\$850m.

### Quick rundown on Energy Fuels<sup>1</sup>

Energy Fuels is a uranium and critical materials producer. It is the largest producer of uranium in the United States, with yellowcake sold to major nuclear utilities.

Energy Fuels' 100%-owned White Mesa Mill is the only operating conventional uranium and vanadium mill in the United States, and the only mill in North America with the capabilities to extract REEs from monazite feed to produce high-purity advanced REE products. It is:

- licensed to process over 8Mlbs of U<sub>3</sub>O<sub>8</sub> per annum
- responsible for approximately 24% of US domestic U<sub>3</sub>O<sub>8</sub> production in 2012-2018.

Since 2021, White Mesa has successfully produced commercial quantities of REE products from monazite feedstock.

Energy Fuels is currently commissioning a dedicated REE separation facility (Phase 1) at White Mesa, capable of producing up to 1,000tpa of NdPr oxide from monazite feed (expected completion in 1H2024).

### Energy Fuels has also successfully bid for Base Minerals

Energy Fuels recently announced the acquisition of Base Resources (ASX and AIM: BSE) for A\$375m, a 188% premium to BSE's last close.

BSE is an Australia-based, Africa-focused mineral sands producer and developer with a track record of project delivery and operational performance.

The company operates the established Kwale Operation in Kenya which produces a suite of mineral sands products, namely ilmenite, rutile and zircon. BSE is also developing the Toliara Project, large, high grade, ilmenite, zircon and monazite rich, Ranobe deposit in Madagascar.

(1) Source: BSE Presentation, 22/4/2024.

## The importance of the Astron deal to VHM

The ATR deal with Energy Fuels is important as it represents a strategic partner deal involving a project that is relatively comparable with the Goschen Project. Although no two projects are the same, VHM's Goschen Project and ATR's Donald Project are sufficiently similar to be compared on a high-level basis, notwithstanding some key differences (such as VHM's binding offtake agreement with Shenghe and the fact that Donald is fully approved). These similarities allow us to estimate a broad 'see-through value' for Goschen.

### Points of similarity – Goschen and Donald

- Situated in Victoria
- Long-life assets
- Similar heavy mineral assemblages
- Similar distribution of light and heavy REEs
- Similar resource and reserve size
- Similar capex profile

**Figure 4: Donald and Goschen projects: mineral assemblages**

Company Name	Ticker	Project	Project ownership	Development stage	Resource Mt	Resource Assemblage %					HM assemblage %				
						TREO	HM	Measured	Indicated	Inferred	Men&Zen	Zr	Ilmenite	Leox	Rutile
Astron Corporation Limited	(ATR)	Donald	100%	Development	2,634	0.1%	4.6%	22.0%	46.8%	31.2%	2.0%	18.0%	31.0%	18.0%	8.0%
VHM Limited	(VHM)	Goschen	100%	Development	892	0.07%	3.0%	6.7%	43.2%	50.0%	4.1%	21.0%	18.7%	12.2%	11.2%

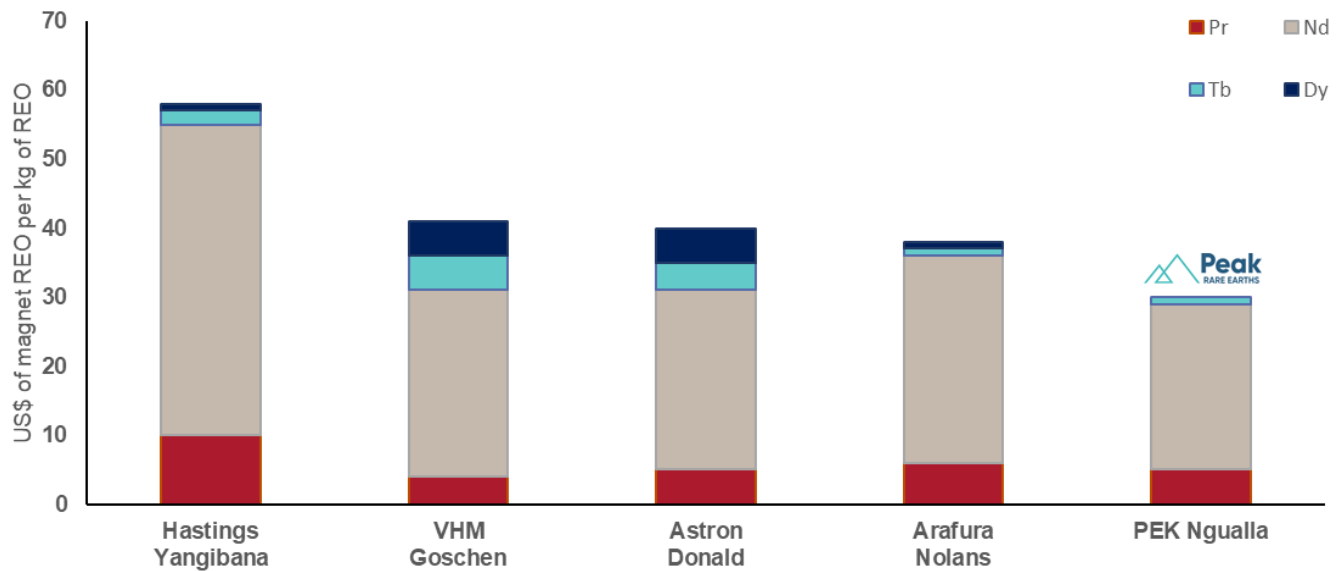
Source: ATR, VHM.

**Figure 5: Donald and Goschen projects: reserves**

Company	Project	Location	Commodity Product	Reserve Classification	Material tonnes (Mt)	In-situ HM tonnes (Mt)	% HM Grade	% Zircon Grade	% Rutile Grade
VHM	Goschen Area 1	VIC	Rare Earth & Mineral Sands	Proved	24.5	1.3	5.4	29.9	10.8
VHM	Goschen Area 1	VIC	Rare Earth & Mineral Sands	Probable	14.6	0.5	3.2	29.2	11.7
VHM	Goschen (Total)	VIC	Rare Earth & Mineral Sands	Proved	24.5	1.3	5.4	29.9	10.8
VHM	Goschen (Total)	VIC	Rare Earth & Mineral Sands	Probable	185.7	6.7	3.6	20.9	9.8
VHM	Goschen Area 4	VIC	Rare Earth & Mineral Sands	Probable	11.5	0.6	5.6	19.6	12.2
VHM	Goschen Area 4 (Zone 5)	VIC	Rare Earth & Mineral Sands	Probable	2.6	0.2	9.6	27.6	14.0
Astron	Donald	VIC	Rare Earth & Mineral Sands	Proved	415	19.9	4.8	18.6	7.2
Astron	Donald	VIC	Rare Earth & Mineral Sands	Probable	410	16.8	4.1	16.9	7.3

Source: VHM.

Figure 6: Proportion of valuable rare earth elements (US\$/kg per kg of REO)



Source: VHM.

Figure 7: Magnet rare earths: % distribution

Name	Project	Product	Neodymium (Nd)	Praseodymium (Pr)	Dysprosium (Dy)	Terblum (Tb)	Stage of Development	Location	Market Cap (\$AM)
VHM	Goschen	Concentrate & Carbonate	16.5	4.1	1.9	0.3	DFS	VIC	\$98
Astron	Donald	Concentrate	16.4	4.6	1.8	0.3	DFS	VIC	\$113

Source: VHM.

## The see-through value of the Astron deal for VHM – A\$1.04

To calculate a comparable 'see-through' valuation for Goschen using Astron's Donald Project deal, we take a simple NPV calculation based on the amount paid by Energy Fuels for 49% of the project.

### Astron and Energy Fuels deal metrics – calculating NPV

- Astron calculated NPV<sub>8</sub> of Donald Phase 1 Project (pre tax): A\$1294m
- Astron calculated NPV<sub>8</sub> of 49% Donald Phase 1 Project (pre tax): A\$634m
- Energy Fuels payment for 49% of the project: A\$183m
- Percentage of NPV paid by Energy Fuels: 29%
- Value per share of the deal: A\$1.11 (for 49% of the project)

### Applying Astron deal metrics to VHM for 'see-through value'

- VHM calculated NPV<sub>10</sub> of Goschen Project, Phases 1 and 1A (pre tax): A\$1500m
- VHM calculated NPV<sub>10</sub> of 49% stake in Goschen Project, Phases 1 and 1A (pre tax): A\$735m
- Assumed Percentage of NPV paid by potential partner: 29%
- See-through value of 49% of Goschen: A\$213m
- Closing market cap of VHM, 5 July 2024 (@A\$0.48 per share): A\$98m
- Value per share of the deal to VHM (undiluted): A\$1.04 (for 49% of project)



## Shenghe Signs on the Dotted Line – Takes 60% of Goschen’s First 3 Years of Production: A Refresher

VHM and Shenghe have finalised their offtake agreement for Goschen Project’s Phase 1 products. The binding offtake agreement with Shenghe is for 6,400 tpa of REMC and 100,000 tpa of zircon-titania HMC products (each approximately 60% of forecast production per annum) for an initial 3-year term.

**Figure 8: Shenghe offtake details**

<b>Products</b>	HMC: 60% of production up to 100,000 tpa REMC: 60% of production up to 6,400 tpa
<b>Take or pay</b>	Shenghe obligated to purchase 100% of product tonnage Commences when VHM achieves 90% of plant nameplate capacity
<b>Pricing</b>	HMC: floating price based on publicly available zircon index (Ruidow’s CIF China Iluka Premium Zircon Price) REMC: floating price based on publicly available monazite pricing (FerroAlloyNet’s published average China spot monazite price)
<b>Term</b>	3 years from the completion of the ramp-up period
<b>Termination</b>	By agreement or due to material breach by either party
<b>Conditions precedent</b>	In favour of VHM covering: <ul style="list-style-type: none"> <li>• Goschen Project Phase 1 – Final Investment Decision</li> <li>• Ministerial and regulatory approvals</li> </ul>

Source: VHM.

### Who is Shenghe?

Shenghe is a China-based, globally recognised rare earths and mineral sands processor, listed in Shanghai with a market cap of US\$3.1bn.

Shenghe is a key consumer of rare earth raw materials and is China’s leading importer of rare earth concentrate. The company has operations covering mining, beneficiation, refining, trading, alloy and metal production and a large, integrated titanium business. Its rare earth portfolio includes rare earth oxides, rare earth salts, rare earth metals, metal catalysts and molecular sieves.

### Why is Goschen important to Shenghe?

Shenghe has a long-term strategic issue in sourcing rare earth and heavy minerals for its processing facilities in China, which it has managed to date through its relationship with MP Materials.

MP Materials operates the Mountain Pass mine in California – the second-largest rare earth mine globally. MP sells bastnaesite mineral concentrate, exporting approximately 40ktpa total rare earth oxide (TREO) to Shenghe. Shenghe has a 7.75% interest in MP, and has consistently supported MP through offtake agreements, technical collaborations, and funding.

However, as part of a strategic expansion, MP is transitioning downstream to produce NdPr oxide and magnets. This strategic integration downstream will effectively remove approximately 15% of the global rare earth concentrate supply, thereby creating a supply gap in Shenghe’s procurement.

### Agreement for 60% of offtake shows the quality of Goschen

The agreement highlights the quality of the Goschen Project and the value in the initial products (a REMC containing greater than 58% TREO and a zircon-titania HMC comprising high-grade zircon, rutile, leucoxene, and ilmenite). The agreement is a strong endorsement of Goschen as a world-class rare earths and mineral sands resource with significant value.

### Significant de-risking signal for potential partners and capital providers

The binding agreement also significantly de-risks Goschen by providing a vote of confidence on the bankability of the project from the perspective of potential commercial and government debt providers, strategic partners and equity capital providers.



## **A high-quality product with enhanced market value**

In Phase 1A of the project, VHM expects to produce approximately 8.5ktpa mixed rare earth carbonate (MREC) for the first 10 years. A MREC product is an upgraded carbonate form of rare earth mineral concentrate (REMC), obtained by leaching the REMC which dissolves REEs into a solution. After further purification steps (e.g. solvent extraction), the rare earth solution is combined with a carbonate source, leading to the formation of MREC – a more refined solid composed of REEs in their respective carbonate forms. Metallurgical testing shows that impurities in the MREC product are low, at 2.5–3.0% total impurities. Measurements of the final content of uranium and thorium are also considered exceptionally low. The additional steps raise costs but produce a product closer to individual REEs, thereby enhancing the product's market value. The MREC will bring further capability to Australia's downstream rare earths processing capabilities.

This offtake agreement between VHM and Shenghe may include, but does not require inclusion of, the Goschen MREC product (Phase 1A). MREC offtake negotiations are subject to a separate process.

## **What will happen to the remaining 40% of Goschen's product?**

The remaining 40% of product during the first 3 years will be sold through further offtakes and spot sales. This offtake strategy looks to balance the needs of satisfying debt and equity providers with maximising the value of the resource and to globally diversify sources of rare earths and mineral sands feedstock.

# Investment Thesis: High-Value Rare Earth Product; Dual Revenue Stream + Offtake Partner

## Key near-term catalysts

### Steps in approval process the next key catalysts

The approval process in Victoria takes time but is prescriptive and relatively simple. VHM is at an advanced stage in the process, with the next key step due towards the end of June. Advancement of approval steps are the key near-term catalysts.

### Full ownership provides funding flexibility and options

**Partial sale an option:** 100% ownership provides strong flexibility, including a potential partial project sale to a strategic partner (as seen with the recent deal involving the Donald Project). This enhances VHM's funding options via the injection of cash and reduced capital and equity-raising requirements.

**ATR deal suggests A\$1.04 'see-through value' for VHM vs. A\$0.42 current price:** Although at a discount to VHM's NPV, applying the metrics for the ATR deal suggests a significant premium to the current share price.

## Further key investment highlights

### Binding agreement with Shenghe provides certainty

VHM's binding offtake agreement with Shenghe Resources represents a commitment to off-take 60% of Goschen's production for the initial 3 years.

### High-quality long-life asset

VHM is on the path to emerge as a major producer of critical and strategic rare earth elements (REEs), complemented by a second revenue stream from heavy mineral sands. The scalable project boasts a substantial mineral inventory with room for reserve expansion, positioning Goschen to potentially become a leading rare earth producer.

### Definitive Feasibility Study underscores strong project economics;

### Recent 30% reduction in capex enhances project further

An updated Definitive Feasibility Study (the 'DFS Refresh'), released in March 2023, underscores the strong economics of the Goschen Project. The inclusion of the nearby Cannie and Nowie Projects, especially with Cannie's significant total rare earth oxide (TREO) Mineral Resource, enhances VHM's attractiveness for potential partners. Coupled with the added contributions of zircon, rutile, and leucoxene, VHM has solidified its position in Victoria's Critical Minerals Province along the Lake Boga granite, amplifying its global standing. The recent announcement of a 30% reduction in capex for Stage 1 of the project has enhanced its value further.

## Market context: rare earths not yet fully appreciated by market

Goschen's rare earth minerals, crucial for electric vehicles, predominantly consist of elements such as dysprosium, neodymium, praseodymium, and terbium, making up 87% of its basket value. By 2040, a projected undersupply of 90,000 tonnes of NdPr oxide is anticipated, mainly due to scarce new sources post-2023. The magnet rare earth oxide market is set to expand five-fold by 2040, with consumption growing at a 5.2% CAGR, and prices increasing by 3.3–5.2% per annum. Adamas Intelligence forecasts the market value to jump from US\$10.8 bn currently to US\$56.7 bn by 2040.

China monopolises every step of the rare earth value chain – a fact that is of great concern to Western economies as rare earth minerals are critical for the transition to the new 'green' economy as well as to government-critical sectors such as defence. A trade dispute in 2011 – with the US, Japan and Europe on one side and China on the other, and the subsequent hyper-inflated rare earth oxide prices – is a warning of what may lie ahead. Such a situation today, moreover, would be much more serious, with the value of rare earths to the global economy today much greater than in 2011.

In our view, this political reality will result in significant flows of capital into the rare earths sector. The \$1.25 bn loan provided by the Australian Government to Iluka for the development of its rare earths refinery is a very positive read through, as it suggests that governments realise the importance of an ex-China supply chain in transitioning to the new 'green' economy.

## Asset overview

### The Goschen Project: VHM's flagship development

The Goschen Project has an extensive and very high-grade Mineral Resource and Reserve. The Resource comprises 629Mt of ore with a total heavy mineral (THM) and TREO grade of 2.95% and 2.43%, respectively, and a Reserve total of 98.8Mt with THM grade of 4.0%.

The Goschen Project aims to produce rare earth intermediate products and zircon-titania heavy mineral concentrate (HMC). It is designed to have a processing capacity of 5 million tonnes per annum (Mtpa) and a projected mine life of 20.5 years. The dual product stream is extremely attractive from an investing point of view as it provides some downside protection compared to a single commodity exposed company.

The Goschen high-grade deposit will produce ~9.4ktpa of REMC and ~134.5ktpa of zircon-titania HMC over the first 10 years of mine life. However, the REMC is planned to be converted to a mixed rare earth carbonate (MREC) through the introduction of a hydrometallurgical circuit (Phase 1A) in the first six months of operations. This will result in the production of a higher-quality and beneficiated product that only requires a relatively small incremental capex outlay. The project will produce ~8.6ktpa of MREC over the first 10 years of production. Phase 2, if pursued, includes constructing a mineral separation plant for further processing of the zircon-titania product.

Approximately 87% of Goschen's rare earth basket value comes from premium dysprosium, neodymium, praseodymium, and terbium oxides, accounting for nearly 70% of the project's revenue. In addition, mineral sands containing zircon and titanium (rutile, ilmenite, leucoxene) offer an alternative revenue source, further enhancing the project's financial stability.

### Cannie and Nowie: additional assets helping to attract key partners

Scale and associated pricing power are a significant issue for ex-China rare earth producers as China monopolises the market. VHM has an attractive opportunity in the future to establish itself as a major rare earth player by unlocking the potential of its additional and adjacent projects, Cannie and Nowie.

Drilling and exploration to date has uncovered extremely high-grade ore bodies at Cannie and Nowie. Cannie's Maiden Mineral Resource released by VHM in May 2023 revealed exceptional grades of TREO and zircon-titania minerals. Furthermore, the recent drilling program at Nowie also confirmed areas up to two times higher than the highest-grade areas of the Goschen Ore Reserve.

### Recent milestones

- March 2023 – VHM releases an updated DFS (the 'DFS Refresh') for the Goschen Project
- April 2023 – New discovery of high-grade rare earth, titania, and rutile ore body at Cannie Project
- May 2023 – Maiden Resource announced for Cannie Project
- August 2023 – Strong drill results at Nowie
- September 2023 – Experienced resources executive Ian Smith appointed as Chairman and Ron Douglas appointed as CEO
- November 2023 – Public exhibition of EES open
- January 2024 – Binding offtake agreement with Shenghe
- January 2024 – Maiden Resource at Nowie
- April 2024 - Increased MRE Area 2
- May 2024 – MOU with Yellow Iron Fleet
- June 2024 - Public Hearing completed for approvals
- June 2024 – Goschen Project capex update - 30% reduction in capex for Phase 1

## Financing Strategy: Multiple Sources Needed

VHM will progress discussions with prospective Australian and international commercial lenders during CY2024, with the objective of securing a substantial project debt facility with financial completion achieved on receipt of all regulatory approvals. At the same time, VHM is progressing opportunities for available government-supported grant and debt funding and export credit funding support.

High-risk projects of this nature usually raise more capital through equity; however, the ESG importance of Goschen's products could potentially allow the project to access cheaper funding, which in turn would lower the project's cost of capital and improve its attractiveness from the investor point of view.

We expect the project to attract interest from domestic and international managers of globally substantial volumes of ESG capital, given that the rare earths to be produced by the project are the fundamental building blocks for renewables (particularly electric vehicles and wind farms), as well as the fact that the project has sound financial metrics.

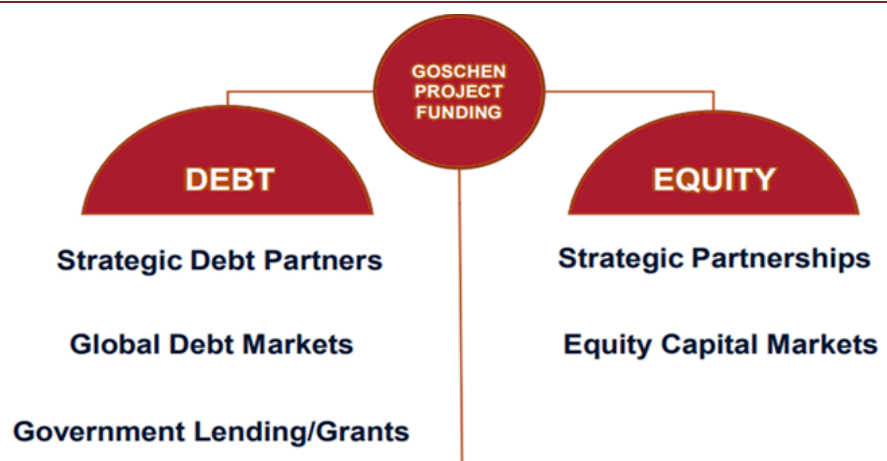
### Current status of funding discussions

As of 31 March 2024, VHM had cash reserves of A\$10.1m. With a current burn of approximately A\$1.5m/month, VHM is well funded to move forward with its CY24 strategy.

VHM's new estimates a capital cost of ~A\$461m to build the Goschen Project's Phases 1 and 1A (we estimate A\$553m). We forecast capital will be secured through a combination of 50% debt and 50% equity.

Subject to a potential sale or farm-out of a partial interest in the Goschen Project (as noted above), VHM will seek to raise the remaining capital through an equity raise at or close to the project FID and finalisation of a committed debt facility.

**Figure 9: Options for funding the Goschen Project – seeking the best mix**



Source: VHM.

### Governments increasingly interested in critical minerals supply chain investments

Recent news flow highlights governments' growing appetite to invest in critical minerals supply chains:

- April 2022: Iluka receives a \$1.05bn debt facility from the Australian Government to build the country's first fully integrated rare earths separation facility. Under the 16-year loan agreement, Iluka will pay interest rates of 3% above the BBSY, with the loan being non-recourse to Iluka.
- May 2023: The new Climate, Critical Minerals and Clean Energy Transformation Compact was announced by Australian Prime Minister Anthony Albanese and US President Joe Biden at the G7 meeting in Japan. President Biden offered to give Australian resources companies 'domestic supplier' status under the US\$369 bn (A\$555 bn) Inflation Reduction Act (IRA). The potential inclusion of Australian resources companies in the IRA could give local projects that wish to join the US supply chain access to more than US\$40 bn in cheap loan programs run by the US Department of Energy.

## Valuation: A\$1.81 (Previous A\$1.67)

### Capex Reduction Drives Upgraded Valuation

Our base-case riskd NPV-based valuation for VHM is A\$1.81/share on a fully diluted basis. This increase on our previous valuation of A\$1.67/per share has been driven by the reduction in capex for the project.

#### Blended riskd valuation – capex reduction drives increase

We have arrived at a blended valuation of A\$1.81 per share, which continues to be based on two potential project funding scenarios:

- a 60% probability of a sale of a stake in the Goschen Project to a strategic partner
- a 40% probability of VHM having to fund the project on its own.

We have attributed a net asset value (NAV) of A\$717m (previous A\$646m) compared with the current market value of ~A\$86m.

Our un-riskd, pre-funding valuation based on the current capital base implies A\$3.37/share (previous A\$3.10 per share).

Our valuation scenarios exclude any potential upside from exploration and do not consider potential upside from building Phase 2 of the project, with our modelling and forecasts only taking Phases 1 and 1A into consideration. We believe rare earths are under-appreciated with strong structural tailwinds, and we see the potential for tight medium-term fundamentals in the rare earth market.

#### Scenario 1: Strategic partner buys in (60% weighting in our base case)

Our valuation of VHM based on a strategic partner buying in to the project is A\$2.63 per share (see Figure 10). We assume under this scenario that VHM sells 40% of the project (retaining 60% and control) and achieves ~60% of NPV for the share. VHM's share of the project capital is funded 50% debt and 50% equity and under our scenario, with a small equity raise needed. This has been driven by the reduction in capex and resultant increase in NPV of the project. We have assumed a slightly lower NPV realisation from the sale based on current market conditions and risk-weighted our project valuation in this scenario at 85%.

Figure 10: New valuation assuming a sell-down of 40% of project (forming 60% of our blended valuation)

VHM					Jun-25	
Sell-down valuation	Discount rate	Risk weighting	AUD\$mn	AUD\$/sh	Financing	
Goschen (60%)	10.0%	85.0%	366	1.75	Capex Phase 1/1a (60%)	331.9
<b>Total operating assets</b>			<b>366</b>	<b>1.75</b>	Debt	50%
Corporate/SG&A			(30)	(0.14)	Total Debt	166.0
Net cash/(debt) (\$AUD)			1	0.00	I/R	12.0%
Goschen sale proceeds			163	0.78	Equity	50%
<b>Net Asset Value</b>			<b>500</b>	<b>2.40</b>	Equity Raised	2.5
Current Share Price				0.48	Issue Price - current price	0.480
Upside				399%	Shares Issued	5.3

Source: MST estimates.

Figure 11: Prior valuation assuming a sell-down of 40% of project (forming 60% of our blended valuation)

VHM					Jun-24	
Sell-down valuation	Discount rate	Risk weighting	AUD\$mn	AUD\$/sh	Financing	
Goschen (60%)	10.0%	85.0%	329	1.28	Capex Phase 1/1a (70%)	436.3
<b>Total operating assets</b>			<b>329</b>	<b>1.28</b>	Debt	50%
Corporate/SG&A			(30)	(0.12)	Total Debt	218.2
Net cash/(debt) (\$AUD)			47	0.18	I/R	12.0%
Goschen sale proceeds			181	0.71	Equity	50%
<b>Net Asset Value</b>			<b>527</b>	<b>2.06</b>	Equity Raised	37.4
Share Price at Previous Valuation				0.64	Issue Price (25% premium)	0.704
Upside at Previous Valuation				221%	Shares Issued	53.1

Source: MST estimates.

## Scenario 2: VHM funds project on its own (40% weighting in our base case)

Our valuation in the event of VHM fully funding the project on its own is A\$0.96 per share (see Figure 12). Under this scenario, the full cost of the project is funded 50% debt and 50% equity, and we assume that A\$276m of equity is raised at the current share price. We have risk-weighted this valuation at 70% to reflect the increased risk of financing and executing the project independently.

The value of the project has increased in this scenario from A\$452m to A\$502m driven by the decrease in the capex. However, the per-share valuation has decreased as we have increased the amount of shares to be issued to fund VHM's share of the capital.

The reason for the increased amount of shares is driven by the assumed share price at which the company raises capital. Our previous valuation assumed that capital was raised at A\$0.704 per share, which was driven by the higher share price at the time, to which we assumed a 25% premium. In our updated scenario, the current share price is lower and we have not assumed a premium to this price to be more conservative given current market conditions.

**Figure 12: Current valuation assuming Goschen Project is fully funded by VHM (forming 40% of our blended valuation)**

VHM					Financing	
Diluted post-funding valuation	Discount rate	Risk weighting	AUD\$m	Jun-25 AUD\$/sh		
Goschen (100%)	10.0%	70.0%	502	0.63	Capex Phase 1/1a	553.2
<b>Total operating assets</b>			<b>502</b>	<b>0.63</b>	Debt	50%
Corporate/SG&A			(30)	(0.04)	Total Debt	276.6
Net cash/(debt) (\$AUD)			275	0.35	I/R	12.0%
<b>Net Asset Value</b>			<b>747</b>	<b>0.94</b>	Equity	50%
Current Share Price				0.48	Equity Raised	276.6
Upside				96%	Issue Price (10% premium)	0.480
					Shares Issued	576.3

Source: MST estimates.

**Figure 13: Previous valuation assuming Goschen Project is fully funded by VHM (forming 40% of our blended valuation)**

VHM					Financing	
Diluted post-funding valuation	Discount rate	Risk weighting	AUD\$m	Jun-24 AUD\$/sh		
Goschen (100%)	10.0%	70.0%	452	0.63	Capex Phase 1/1a	727.2
<b>Total operating assets</b>			<b>452</b>	<b>0.63</b>	Debt	50%
Corporate/SG&A			(30)	(0.04)	Total Debt	363.6
Net cash/(debt) (\$AUD)			373	0.52	I/R	12.0%
<b>Net Asset Value</b>			<b>795</b>	<b>1.10</b>	Equity	50%
Share Price at Previous Valuation				0.64	Equity Raised	363.6
Upside at Previous Valuation				73%	Issue Price (25% premium)	0.704
					Shares Issued	516.5

Source: MST estimates.



### Un-risked pre-funding valuation of A\$3.37/share (previous A\$3.10)

Our valuation of the project on an un-risked, pre-funding basis is A\$717m (A\$685m post corporate outflows and cash), equating to A\$3.37/share based on VHM's current capital base (see Figure 14).

This compares to our previous valuation of the project on an un-risked, pre-funding basis of A\$646m (A\$630m post corporate outflows and cash), equating to A\$3.10/share based on VHM's current capital base (see Figure 15).

We once again attribute the increase in valuation to the reduction in Phase 1 capex for the project.

This includes our more conservative forecasts around capex and opex. The pre-funding valuation demonstrates a standalone value that any potential strategic partner may consider in its assessment of the project.

**Figure 14: Current un-risked pre-funding valuation summary**

Pre-construction undiluted unrisked valuation A\$m		A\$/sh
Goschen (100%)	717	3.53
Corporate/SG&A	-30	(0.15)
Net cash/(debt) (\$AUD)	-2	(0.01)
<b>Total Valuation</b>	<b>685</b>	<b>\$3.37</b>

Source: MST estimates.

**Figure 15: Previous un-risked pre-funding valuation summary**

Pre-construction undiluted unrisked valuation A\$m		A\$/sh
Goschen (100%)	646	3.18
Corporate/SG&A	-30	(0.15)
Net cash/(debt) (\$AUD)	14	0.07
<b>Total Valuation</b>	<b>630</b>	<b>\$3.10</b>

Source: MST estimates.

## Key assumptions

Our base-case NPV valuation is built upon a mine plan which largely aligns with the March 2023 DFS Refresh.

The key change to our assumptions is a reduction of the capital cost number by ~30%, in line with VHM's recent announcement. It should be noted that both our capex and operating cost assumptions are ~20% higher than those assumed by VHM both in the DFS and the recent announcement on capital cost savings. Our critical assumptions are shown in Figure 16.

We have used a 10% discount rate (real) and assumed A\$553m for Phases 1 and 1A in initial development capital. Our received basket price (avg. initial 10 years) of US\$29.8/kg is post payability assumptions from the REMC and MREC, and reflective of improving underlying separated rare earth oxide pricing as per market expert analysis. We assume project construction commences in CY2025, with first production for Phase 1 in CY2026 after a ~12-month construction period. We assume a further ~12 months of construction to get to Phase 1A first production.

**Figure 16: Our base-case valuation assumptions**

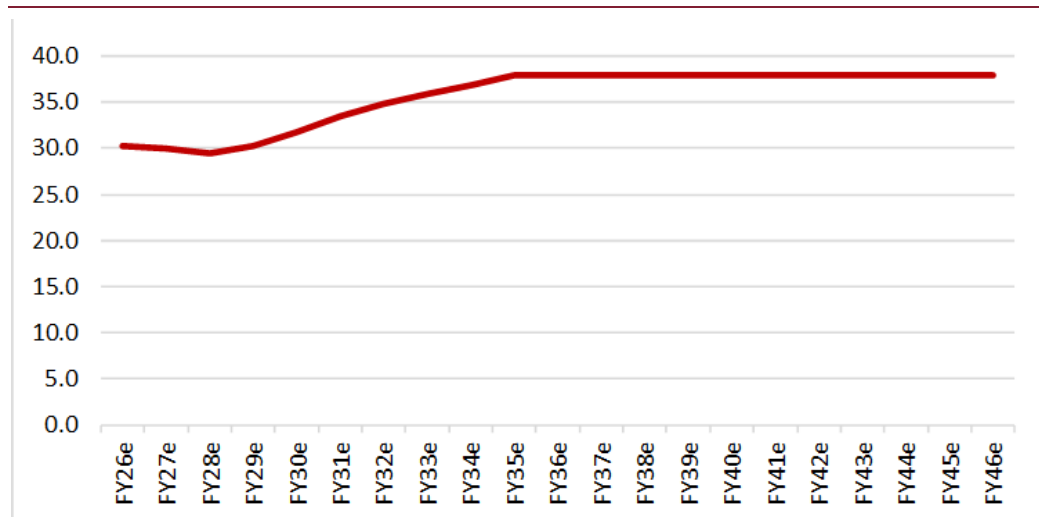
Assumptions	MST New	MST Previous
<b><u>PROJECT ASSUMPTIONS</u></b>		
Project Ownership (%)	100%	100%
Strip Ratio (waste : ore)	2.6	2.6
Ore Reserve Grade (% THM)	3.70%	3.70%
Ore Reserve Grade (% TREO)	2.45%	2.45%
Average Material Mined (Mtpa)	12.4	12.4
Average Ore Mined (Mtpa)	4.7	4.7
Mine Life (years)	20.5	20.5
Development Capex (A\$m) (Real 2023 \$)	461	553
Debt to equity	50:50	50:50
Ore Reserve (kt)	7,352	7,352
<b><u>COST &amp; FINANCING ASSUMPTIONS</u></b>		
Discount Rate Real (%)	10.0%	10.0%
Inflation Rate (%)	2.5%	2.5%
Debt interest rate	12.0%	12.0%
Share price for Equity raising (A\$/share)	0.42	0.42
<b><u>PRICING &amp; EXCHANGE RATE ASSUMPTIONS</u></b>		
AUDUSD	0.70	0.70
LT NdPr Price (Real) (US\$/kg) - from 2035	247	247
Received Basket Price (US\$/kg) - Average first 10 years	29.8	29.8
Royalty Rate (%)	2.75%	2.75%
Corporate Tax Rate (%)	30%	30%

Source: MST estimates.

## Pricing forecasts

Our assumptions for VHM's received price for MREC sales from the Goschen Project are shown in Figure 17. The increase in basket price value over time is driven in turn by forecast increases in the underlying valuable REEs (particularly NdPr, Dy and Tb). We use a flat price of US\$530/t achieved for the HMC. VHM could see significant upside from higher RE and HM prices than those that underpin our assumptions.

**Figure 17: Forecasted basket price for MREC (post-payability) – real 2023 \$**

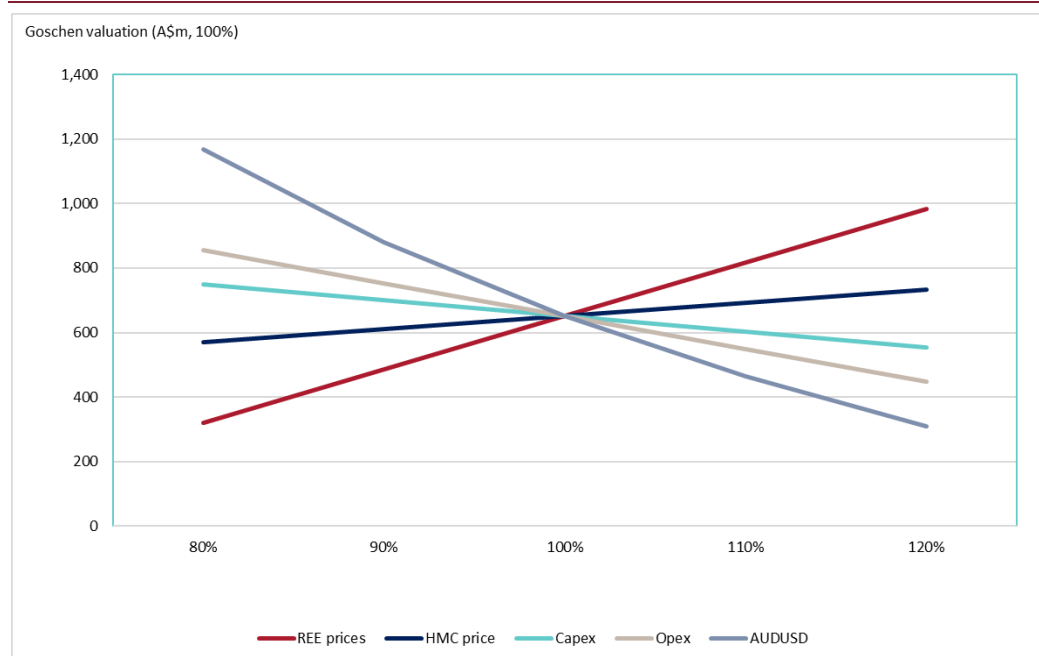


Source: MST estimates.

## Key sensitivities

As shown in Figure 18, our valuation is most sensitive to assumptions on the REE price and, to a lesser extent, the AUD/USD exchange rate.

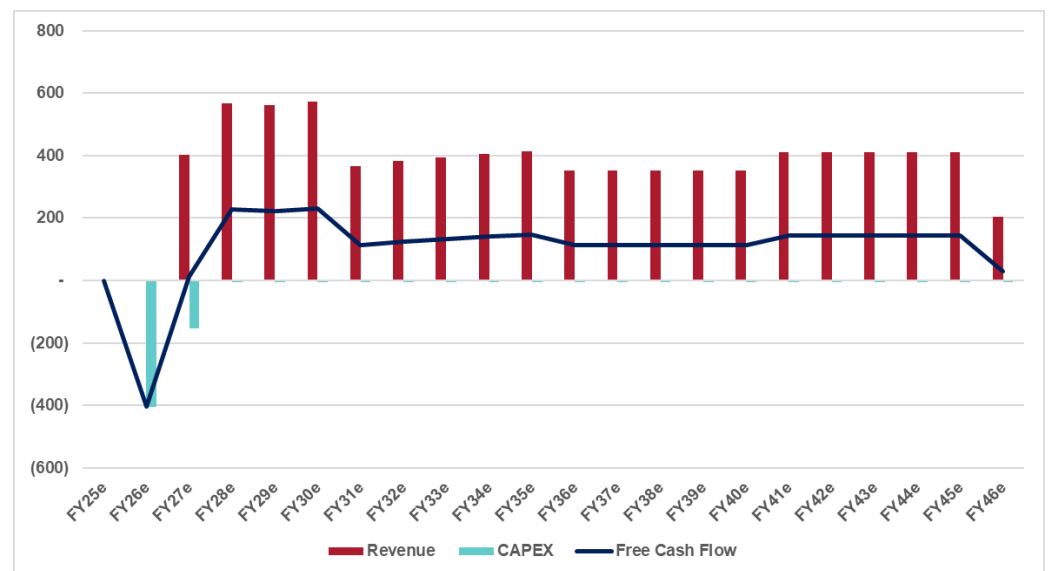
**Figure 18: Key project sensitivities**



Source: MST estimates.

## Capex and free cash flow (MST estimates)

Figure 19: MST forecast revenue, capex and free cash flow (100% basis)



Source: MST estimates.

## Positive catalysts for share price and valuation

**Finalisation of approvals:** Approvals are required prior to any construction going ahead. Victoria's approval system is stringent and slow, so finalisation of approvals would be a strong catalyst for the stock.

**Funding of project:** Securing capex for major resource developments is a challenge for small companies; thus, a competitive funding package would significantly de-risk the project.

**Asset sell-down:** Selling a stake in the project to finance its development would mitigate construction risks and minimise dilution.

**Exploration upside:** Discovering economical deposits of heavy rare earths, fluorspar, niobium, or phosphate at Goschen could greatly enhance its value. Such discoveries would diversify revenue and position the project favourably in a high-demand market, ensuring strong returns for investors.

### Other potential share price catalysts:

- **Resource growth:** Drilling at Goschen is being undertaken. An increase in resource would be positive.
- **Price increases:** The valuation is highly sensitive to NdPr prices. Increases in the price of NdPr oxide would positively affect the valuation.

## Risks to share price and valuation

We outline the key risks to the share price and valuation below, noting that early-stage mining projects have various critical risks.

### Company-and project-specific risks:

- **Approvals:** The key short-term risk is approvals. The Victorian approval process is long and complex and there are risks that approvals will be delayed or not achieved.
- **Offtake agreements:** Delays to or cancellation of offtake agreements would put at risk sales of product and funding of the project.
- **Access to funding:** The availability of funding for the project is not guaranteed. A lack of sufficient funding could have a negative impact on the stock.
- **Delays to development:** Any delays in moving into construction, post-funding, would be a negative for the stock and would gradually make the information from the DFS less current and thus less reliable.
- **Supplying to China:** Tensions between China and other countries could lead to trade embargoes or other restrictions, potentially impacting VHM's ability to sell its refined products internationally.
- Rare earth oxide price – this is the key valuation sensitivity
- Foreign exchange rates
- Increasing interest rates and the potential impact on the cost of debt finance

### Macro risks:

- Rare earth oxide price – this is the key valuation sensitivity
- Foreign exchange rates
- Increasing interest rates and the potential impact on the cost of debt finance

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Michael Bentley received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

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The companies and securities mentioned in this report, include:

VHM (VHM.AX) | Price A\$0.47 | Valuation A\$1.81;

*Price and valuation as at 08 July 2024 (\* not covered)*

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