



## AUSTRALIA

SAR AU Outperform

Price (at 05:10, 19 Feb 2018 GMT) A\$1.56

Valuation A\$ 1.73

- DCF (WACC 5.0%, beta 0.4, ERP 5.0%, RFR 3.3%)

12-month target A\$ 1.90

12-month TSR % +23.1

Volatility Index High

GICS sector Materials

Market cap A\$m 1,268

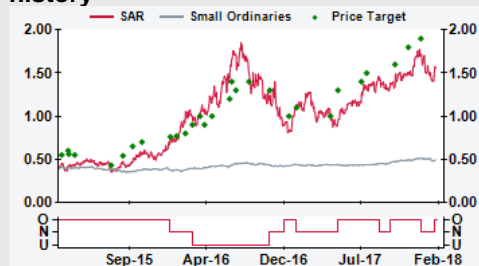
30-day avg turnover A\$m 7.3

Number shares on issue m 812.8

## Investment fundamentals

Year end 30 Jun		2017A	2018E	2019E	2020E
Revenue	m	423.1	483.2	551.9	670.6
EBIT	m	36.0	121.5	192.3	300.4
Reported profit	m	28.4	93.6	137.6	216.8
Adjusted profit	m	31.2	83.0	137.6	216.8
Gross cashflow	m	108.4	157.3	192.0	271.2
CFPS	¢	13.2	19.1	23.3	32.9
CFPS growth	%	76.3	44.2	22.0	41.3
PGCFPS	x	11.8	8.2	6.7	4.7
PGCFPS rel	x	0.94	0.79	0.72	0.56
EPS adj	¢	3.8	10.1	16.7	26.3
EPS adj growth	%	19.2	164.0	65.9	57.5
PER adj	x	40.9	15.5	9.3	5.9
PER rel	x	1.80	0.87	0.61	0.45
Total DPS	¢	0.0	2.0	2.0	4.0
Total div yield	%	0.0	1.3	1.3	2.6
Franking	%	nmf	50	100	100
ROA	%	9.4	26.7	33.8	40.9
ROE	%	11.2	24.1	30.3	35.3
EV/EBITDA	x	10.6	6.1	4.9	3.4
Net debt/equity	%	-9.4	-27.7	-48.4	-63.6
P/BV	x	4.3	3.3	2.5	1.8

## SAR AU vs Small Ordinaries, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2018  
(all figures in AUD unless noted)

## Analyst(s)

Ben Crowley

+61 8 9224 0839 ben.crowley@macquarie.com

Hayden Bairstow

+61 8 9224 0838 hayden.bairstow@macquarie.com

Hai Le

+61 8 9224 0886 hai.le@macquarie.com

Andrew Bowler

+61 8 9224 0846 andrew.bowler@macquarie.com

20 February 2018

Macquarie Securities (Australia) Limited

# Saracen Mineral Holdings

## Earnings arrive

## Event

- SAR reported its strong 1HFY18 earnings result.

## Impact

- Record earnings beat our expectation.** SAR reported NPAT of \$46.0m, a record for the company and 6% ahead of our forecast \$43.5m. A slight beat on operating cost delivered EBITDA inclusive of corporate and exploration spend of \$100.8m, 4% ahead of our estimate and combined with a \$10m profit realised on the King of the Hills sale translated through to EBIT of \$65m slightly ahead of our \$61m forecast. No dividend will be paid.
- Weaker free cash.** Operating cash flow, after exploration expenditure, of \$92m was 7% below our forecast with higher capex resulting in free cash flow before investments of \$30.4m being 38% below our forecast of \$49.3m. SAR reported cash of \$65m implying a ~11,000oz bullion holding at the end of the calendar year.
- Karari and Dervish continue to grow.** As recently reported SAR exploration success at Carosue Dam continues with further extensions to Karari and Whirling Dervish delineated by recent drilling. In our view Karari has been instrumental in SAR's improved earnings and we view recent results as highly encouraging.
- Karari drill drive a foundation for 10-year mine life.** SAR expects a new drill platform at Karari to be complete late in 3QFY18. This drill position will provide improved angles for more effective drilling at depth and to the north in particular. We expect Karari to deliver the majority of reserve additions at Carosue Dam in the near term and believe Whirling Dervish has the potential to provide similar reserve additions in the longer term.

## Earnings and target price revision

- Incorporating the result and changes to our currency forecasts over FY18 from 0.76 to 0.79 AUD:USD result in FY18 EPS falling 12% after stripping out the abnormal profit from the King of the Hill sale. FY19 EPS falls 8% while FY20 sees a 2% lift due to currency. No change to our A\$1.90 price target.

## Price catalyst

- 12-month price target: A\$1.90 based on a Blend of 50% 1.4x NAV and 50% 5x CFPS methodology.
- Catalyst: Mining studies underway at Thunderbox and Carosue Dam present a key catalyst short to mid-term while deeper drilling at Karari and Whirling aim to shore-up a 10-year mine life at the Carosue Dam Operations.

## Action and recommendation

- Maintain Outperform.** A strong earnings result from SAR, setting a record for the company and coming in slightly ahead of our forecast. Operational and grade improvements at Karari continue to underpin Carosue Dam's earnings growth. Strip ratio and grade at Thunderbox should continue to improve which will provide a further boost. Exploration at Carosue Dam continues to impress with the addition of a new drill drive set to provide more opportunity for resource growth.

## Investment in mining assets starts to pay off

### Record earnings beat our expectation

- SAR reported NPAT of \$46.0m, a record for the company and 6% ahead of our forecast \$43.5m. A slight beat on operating cost delivered EBITDA inclusive of corporate and exploration spend of \$100.8m, 4% ahead of our estimate and combined with a \$10m profit realised on the King of the Hills sale translated through to EBIT of \$65m slightly ahead of our \$61m forecast. No dividend will be paid.
- SAR notes the strong earnings result despite the lower realised gold price of A\$1,591/oz over the half which was partially driven by delivering into lower price hedges. Closing of lower price hedges saw the average hedge position lift to A\$1,654/oz after SAR recently added 30koz at A\$1,751/oz.

**Fig 1 1HFY18 earnings summary**

Y/E June	Actual	Macquarie Estimate	Variance
Revenue (A\$m)	245.6	241.2	2%
Operating costs (A\$m)	137.0	139.2	(2%)
Operating Ebitda (A\$m)	108.6	102.0	7%
Ebitda (A\$m)	100.8	97.4	4%
NPAT (A\$m)	46.0	43.5	6%
Operating cash flow (A\$m)	91.9	98.5	(7%)
Free cash flow (A\$m)	30.4	49.3	(38%)
Net cash / (Debt) (A\$m)	65.3	33.0	98%
DPS (Ac)	0.0	0.0	nmf

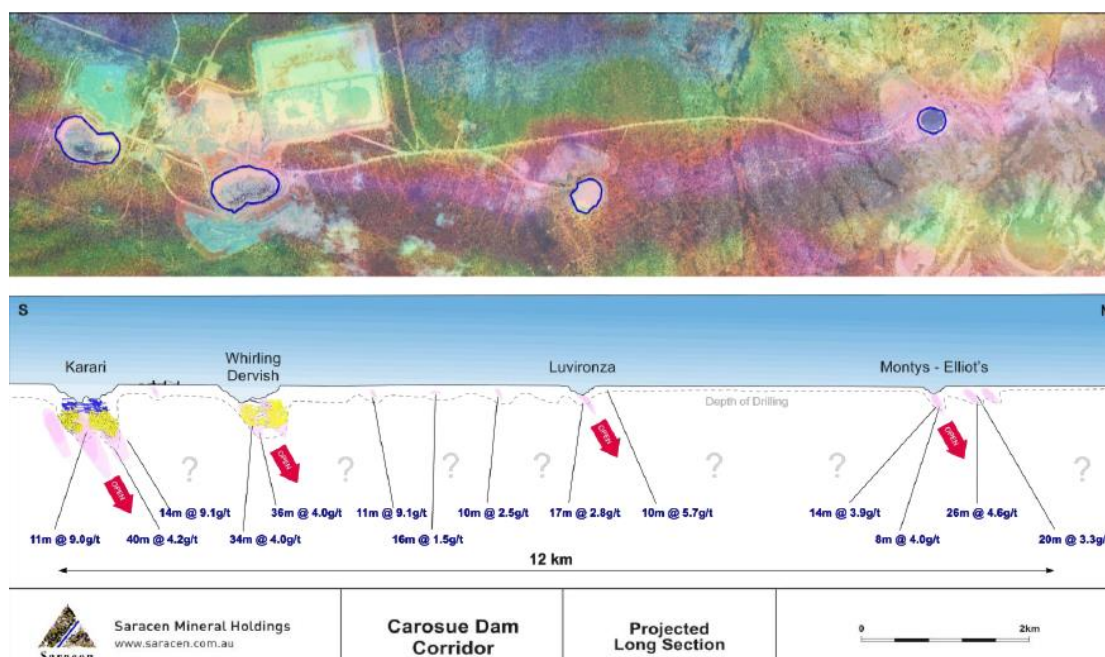
Source: SAR, Macquarie Research, February 2018

### Weaker free cash

- Operating cash flow, after exploration expenditure, of \$92m was 7% below our forecast with higher capex resulting in free cash flow before investments of \$30.4m being 38% below our forecast of \$49.3m. SAR reported cash of \$65m implying a ~11,000oz bullion holding at the end of the calendar year.
- SAR spent A\$37.6m in exploration and project development over the half with Kailis Development the greatest cost at A\$14.5m followed by development at Whirling Dervish of A\$3.8m.

### Karari and Dervish continue to grow

**Fig 2 Focusing brownfields exploration efforts on the Carosue Dam mine corridor**



Source: SAR, February 2018

- SAR continued to have extensional drilling success at Carosue Dam's (CD) Karari and Whirling Dervish (WD) underground mines that were outlined in a recent exploration update. Extensional results at Karari included 47m at 4.4g/t gold, 17.3m at 8.3g/t, 12.2m at 9.3g/t and 19m at 5.3g/t while extensional results at WD included 9.4m at 8.1g/t gold, 10.4m at 5.9g/t and 7.2m at 7.2g/t.
- SAR is hoping to emulate its recent extensional success at Karari and Whirling dervish within the larger Carosue Dam mine corridor. SAR has recently undertaken more detailed look at the ~12km long Carosue Dam mine corridor. SAR is currently improving its geophysics data set to improve the definition of the stratigraphic sequence that hosts know deposits. Target generation within this corridor is currently underway with RC drilling planned to commence during 4QFY18.

#### **Karari drill platform a foundation for +10-year mine life**

- SAR expects a new underground drill platform at Karari to be complete late in 3QFY18. This drill position will provide improved angles for more effective drilling at depth and to the North in particular. We expect Karari to deliver the majority of reserve additions at CD given its recent realised trend of increasing grade and width at depth. We note WD's potential to provide similar reserve additions at Karari as the geological similarities between the proximal deposits continue to grow.

#### **Earnings and price target revision**

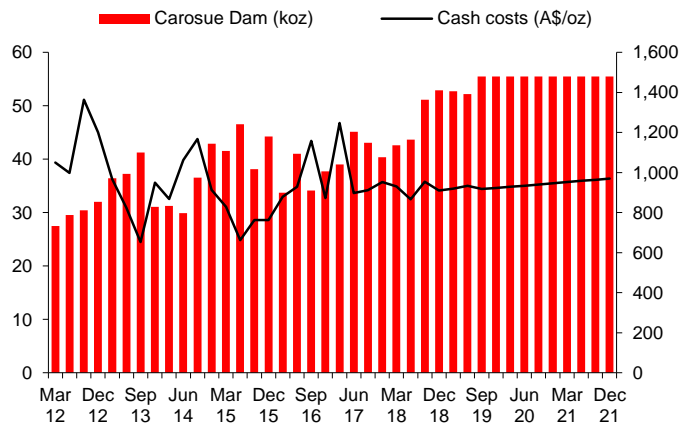
- Incorporating the result and changes to our currency forecasts over FY18 from 0.76 to 0.79 AUD:USD result in FY18 Normalised EPS falling 12% after stripping out the abnormal profit from the King of the Hill sale. FY19 EPS falls 8% while FY20 sees a 2% lift due to currency changes.
- We make no change to our price target A\$1.90.

**Fig 3 SAR earnings changes driven by KOTH abnormal profit and currency changes**

Y/E June	FY18e	FY19e	FY20e	FY21e	Price target
Net profit (A\$m) - old	94	149	212	179	1.90
Net profit (A\$m) - new	83	138	217	180	1.90
Change	(12%)	(8%)	2%	1%	0%

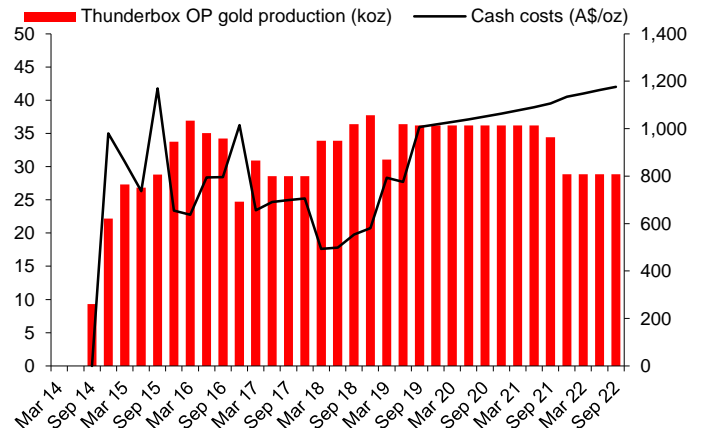
Source: Macquarie Research, February 2018

**Fig 4 Carosue Dam quarterly gold production**



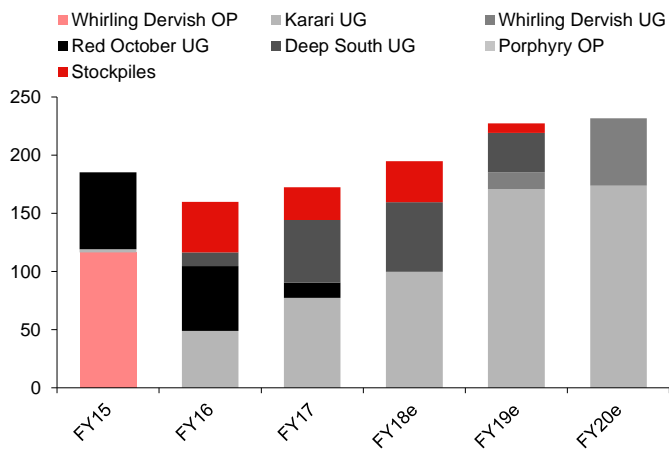
Source: SAR, Macquarie Research, February 2018

**Fig 5 Thunderbox quarterly gold production**



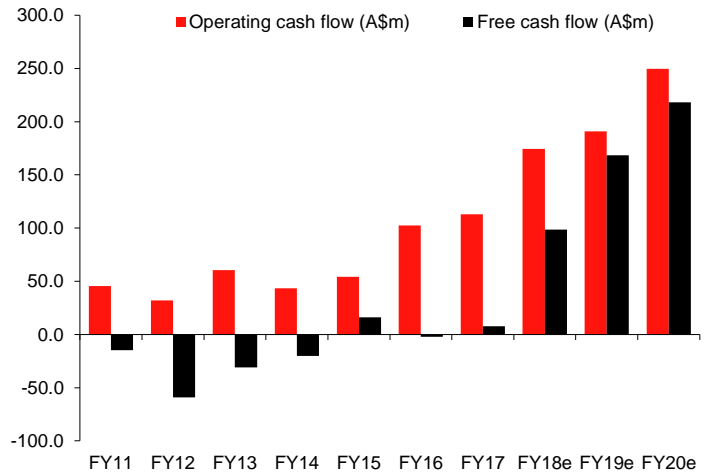
Source: SAR, Macquarie Research, February 2018

**Fig 6 Carosue Dam production by mine**



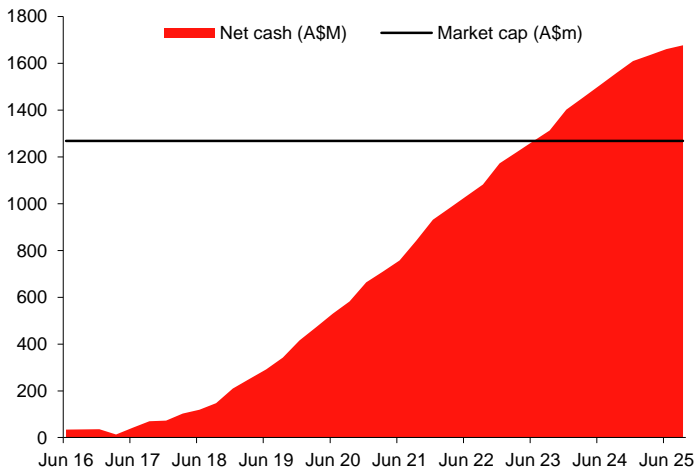
Source: SAR, Macquarie Research, February 2018

**Fig 7 SAR cash flow outlook**



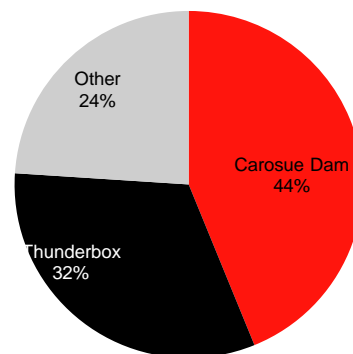
Source: SAR, Macquarie Research, February 2018

**Fig 8 SAR net cash vs market capitalisation**



Source: SAR, Macquarie Research, February 2018

**Fig 9 SAR NPV by project**



Source: SAR, Macquarie Research, February 2018

Fig 10 SAR summary model

Saracen Mineral Holdings																		
ASX: SAR	1.56																	
	1,268																	
						Year end: Jun	Rating: Outperform	Up/dn	TSR									
						Diluted shares (m)	812.8	Target: 1.90	22%	23%								
ASSUMPTIONS	FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	ATTRIBUTABLE MINE OUTPUT										
Exchange Rate	0.75	0.79	0.79	0.76	0.75	0.75	0.75		FY15	FY16	FY17	FY18e	FY19e	FY20e	FY21e			
Spot Gold	1,258	1,295	1,375	1,394	1,388	1,413	1,430	<b>Gold production (equity)</b>										
Spot Gold	1,667	1,648	1,735	1,846	1,850	1,883	1,907	Carosue Dam	(koz)	167.5	157.2	156.0	169.7	209.0	221.8	221.8		
RATIO ANALYSIS	FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	Thunderbox	(koz)	0.0	31.5	116.8	133.3	116.6	141.9	139.8		
Diluted share capital	817.9	823.9	823.9	823.9	823.9	823.9	823.9	Total	(koz)	167.5	188.7	272.8	303.0	325.6	363.7	361.7		
EPS (diluted and pre sig. items)	3.8	10.1	16.7	26.3	21.9	21.4	21.1	<b>Cash costs</b>										
P/E	40.9x	15.5x	9.3x	5.9x	7.1x	7.3x	7.4x	Carosue Dam	(A\$/oz)	878	831	1,036	915	929	926	949		
CFPS (Operating)	13.8	20.0	21.7	30.8	27.9	31.3	27.0	Thunderbox	(A\$/oz)			838	792	689	536	912		
P/CF	11.3x	7.8x	7.2x	5.1x	5.6x	5.0x	5.8x	<b>Cash costs</b>			(A\$/oz)	878	693	951	861	843	774	935
DPS	0.0	2.0	2.0	4.0	5.0	5.0	5.0	<b>AISC Cash Costs</b>										
Dividend yield	0.0%	1.3%	1.3%	2.6%	3.2%	3.2%	3.2%	Carosue Dam	(A\$/oz)	1,156	1,098	1,424	1,220	1,103	1,056	1,056		
Franking Level	0%	25%	100%	100%	100%	100%	100%	Thunderbox	(A\$/oz)			1,276	1,121	836	624	944		
Book value per share	0.36	0.48	0.62	0.87	1.05	1.21	1.37	<b>AISC Cash Costs</b>			(A\$/oz)	1,156	1,098	1,360	1,176	1,008	887	1,013
P/Book value	4.3x	3.3x	2.5x	1.8x	1.5x	1.3x	1.1x	<b>Operational EBITDA Contribution (pre hedging)</b>										
R.O.E. (pre sig items)	11%	21%	27%	30%	21%	18%	15%	Carosue Dam	A\$m	83	123	78	109	154	188	183		
R.O.A. (pre sig items)	9%	24%	31%	36%	25%	20%	17%	Thunderbox	A\$m	0	14	94	102	117	179	125		
Interest Cover	148.9x	-82.7x	-44.7x	-32.1x	-16.0x	-11.1x	-8.6x	<b>OPERATIONAL OUTLOOK</b>										
EBITDA per share	0.14	0.24	0.30	0.43	0.36	0.35	0.33											
EV/EBITDA	11.2x	5.9x	4.1x	2.3x	2.2x	1.6x	1.1x											
FCF Yield	1%	6%	12%	18%	15%	18%	15%											
EARNINGS	FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e											
Sales Revenue	423	483	552	671	669	690	682											
Other Revenue	0	0	0	0	0	0	0											
Total Revenue	423	483	552	671	669	690	682											
Operating Costs	(297)	(275)	(294)	(304)	(361)	(393)	(395)											
Operational EBITDA	126	208	258	366	308	297	286											
Exploration Expense/Write-offs	(2)	(1)	(0)	(0)	(0)	(0)	(0)											
Corporate & Other Costs	(13)	(12)	(11)	(11)	(12)	(12)	(12)											
EBITDA	111	195	246	354	296	285	274											
D&A	(75)	(73)	(54)	(54)	(54)	(54)	(51)											
EBIT	36	122	192	300	242	231	223											
Net Interest	(0)	1	4	9	15	21	26											
Profit Before Tax	36	123	197	310	257	252	249											
Tax Expense	(5)	(40)	(59)	(93)	(77)	(76)	(75)											
Minorities	0	0	0	0	0	0	0											
Adjusted NPAT	31	83	138	217	180	176	174											
Significant Items (post tax)	(3)	11	0	0	0	0	0											
Reported NPAT	28	94	138	217	180	176	174											
CASHFLOW	FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e											
Net Profit	28	94	138	217	180	176	174											
Interest/Tax/D&A	69	78	48	48	48	48	45											
Working Capital/Other	16	(6)	(7)	(11)	2	34	4											
Net Operating Cashflow	113	165	179	254	230	258	222											
Capex	(105)	(93)	(27)	(32)	(35)	(24)	(28)											
Investments	0	5	5	0	0	0	0											
Sale of PPE and Other	0	0	0	0	0	0	0											
Free cash flow	8	77	156	222	195	234	194											
Dividends Paid	0	0	(16)	(16)	(33)	(41)	(41)											
Debt	(8)	1	(0)	(0)	(0)	(0)	(1)											
Equity Issuance	0	0	0	0	0	0	0											
Other	0	0	0	0	0	0	0											
Net Financing Cashflow	(8)	1	(17)	(17)	(33)	(41)	(42)											
Net change in cash	(0)	78	139	206	162	193	152											
BALANCE SHEET	FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e											
Cash	34	112	251	457	618	811	964											
PP&E & Mine Development	261	285	254	231	213	183	160											
Exploration	47	51	57	63	68	74	80											
Total Assets	404	507	630	837	983	1,155	1,287											
Debt	6	2	2	2	1	1	0											
Total Liabilities	110	114	116	122	121	157	155											
Total Net Assets / Equity	294	393	515	715	863	998	1,132											
Net Debt / (Cash)	(28)	(109)	(249)	(455)	(617)	(810)	(964)											
Gearing (net debt/(nd + equity))	(10%)	(38%)	(94%)	(175%)	(251%)	(431%)	(573%)											
Gearing (net debt/equity)	(9%)	(28%)	(48%)	(64%)	(72%)	(81%)	(85%)											
EQUITY DCF VALUATION	Macquarie forecasts				Spot prices													
Projects	A\$m	A\$ps	A\$m	A\$ps														
Carosue Dam	622	0.76	603	0.73														
Thunderbox	458	0.56	445	0.54														
Undeveloped Resources	325	0.39	413	0.50														
Unpaid capital	0	0.00	0	0.00														
Forwards	(16)	(0.02)	(19)	(0.02)														
Corporate	(56)	(0.07)	(56)	(0.07)														
Net cash (debt)	93	0.11	93	0.11														
Net Equity Value (@ 5% WACC Real)	1,426	1.73	1,480	1.80														
Price Target (50% 1.4 x NAV, 50% 5x CFPS)			1.90															
P/NAV			0.90x															

Source: SAR, Macquarie Research, February 2018

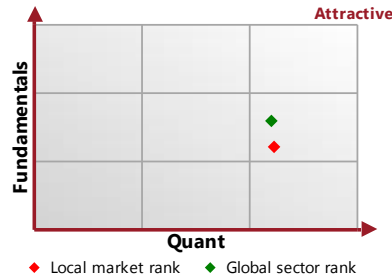
## Macquarie Quant View

The quant model currently holds a reasonably positive view on Saracen Mineral Holdings. The strongest style exposure is Growth, indicating this stock has good historic and/or forecast growth. Growth metrics focus on both top and bottom line items. The weakest style exposure is Valuations, indicating this stock is over-priced in the market relative to its peers.

**427/1596**

Global rank in  
Materials

**% of BUY recommendations** 56% (5/9)  
**Number of Price Target downgrades** 0  
**Number of Price Target upgrades** 1

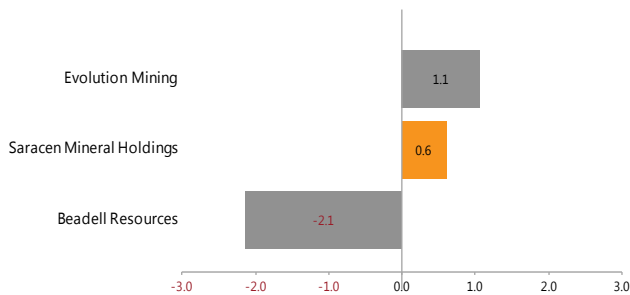


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Australia & NZ) and Global sector (Materials)

## Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



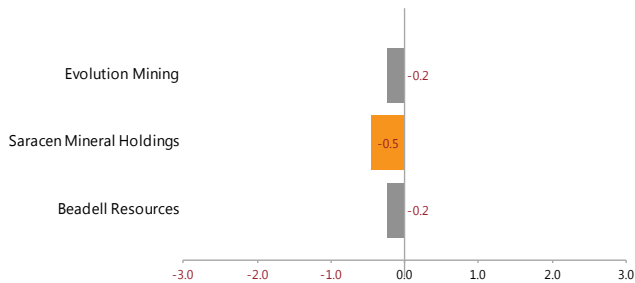
## Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



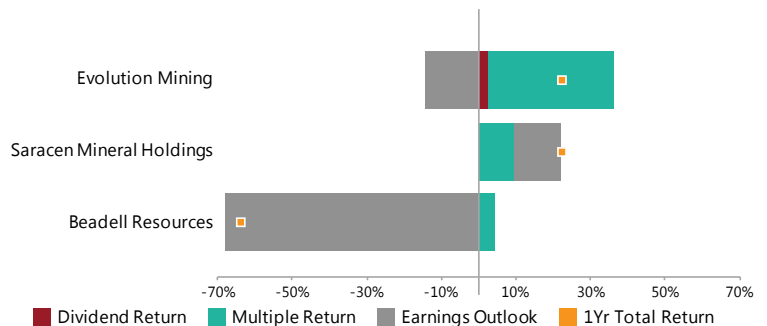
## Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



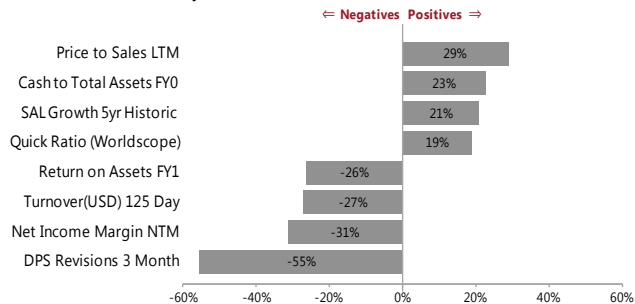
## Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



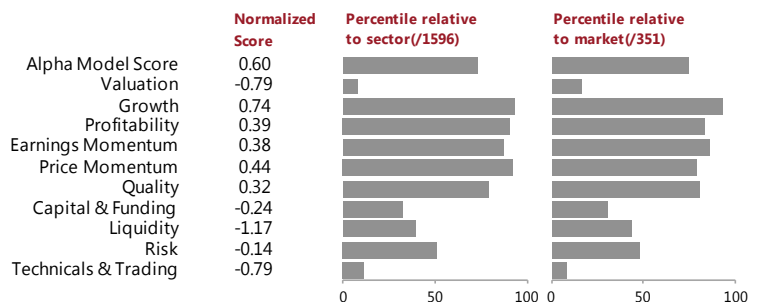
## What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



## How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group ([cpg@macquarie.com](mailto:cpg@macquarie.com))

## Important disclosures:

## Recommendation definitions

## Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

## Macquarie – Asia/Europe

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Macquarie – South Africa

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Macquarie - Canada

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

## Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.  
 \* Applicable to Asia/Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

## Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / efpowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

## Recommendation proportions – For quarter ending 31 December 2017

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.82%	55.57%	44.05%	45.06%	60.00%	42.51%	(for global coverage by Macquarie, 4.36% of stocks followed are investment banking clients)
Neutral	35.40%	28.60%	36.90%	47.59%	28.67%	40.42%	(for global coverage by Macquarie, 2.58% of stocks followed are investment banking clients)
Underperform	12.77%	15.83%	19.05%	7.34%	11.33%	17.07%	(for global coverage by Macquarie, 0.69% of stocks followed are investment banking clients)

## SAR AU vs Small Ordinaries, &amp; rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, February 2018

## 12-month target price methodology

SAR AU: A\$1.90 based on a Blend of 50% 1.4x NAV and 50% 5x CFPS methodology

## Company-specific disclosures:

**SAR AU:** Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of Saracen Mineral Holdings Ltd.

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Date	Stock Code (BBG code)	Recommendation	Target Price
15-Feb-2018	SAR AU	Outperform	A\$1.90
06-Jan-2018	SAR AU	Neutral	A\$1.90
01-Dec-2017	SAR AU	Outperform	A\$1.80
23-Oct-2017	SAR AU	Outperform	A\$1.60
10-Oct-2017	SAR AU	Outperform	A\$1.50
08-Sep-2017	SAR AU	Neutral	A\$1.50
02-Aug-2017	SAR AU	Outperform	A\$1.50
18-Jul-2017	SAR AU	Outperform	A\$1.40
11-May-2017	SAR AU	Outperform	A\$1.30
19-Apr-2017	SAR AU	Neutral	A\$1.00
11-Jan-2017	SAR AU	Neutral	A\$1.10
20-Dec-2016	SAR AU	Outperform	A\$1.00
07-Dec-2016	SAR AU	Outperform	A\$1.30
25-Oct-2016	SAR AU	Neutral	A\$1.30
26-Aug-2016	SAR AU	Underperform	A\$1.40
19-Jul-2016	SAR AU	Underperform	A\$1.30
07-Jul-2016	SAR AU	Underperform	A\$1.40
01-Jul-2016	SAR AU	Underperform	A\$1.20
11-May-2016	SAR AU	Underperform	A\$1.00
19-Apr-2016	SAR AU	Underperform	A\$.90
06-Apr-2016	SAR AU	Underperform	A\$1.00
15-Mar-2016	SAR AU	Underperform	A\$.90
24-Feb-2016	SAR AU	Neutral	A\$.80
29-Jan-2016	SAR AU	Neutral	A\$.77

11-Jan-2016	SAR AU	Neutral	A\$.76
21-Oct-2015	SAR AU	Outperform	A\$.70
24-Sep-2015	SAR AU	Outperform	A\$.65
27-Aug-2015	SAR AU	Outperform	A\$.54
24-Jul-2015	SAR AU	Outperform	A\$.43
09-Apr-2015	SAR AU	Outperform	A\$.55
23-Mar-2015	SAR AU	Outperform	A\$.56
21-Mar-2015	SAR AU	Outperform	A\$.60
02-Mar-2015	SAR AU	Outperform	A\$.55

**Target price risk disclosures:**

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## Research

### Head of Equity Research

Peter Redhead (Global)	(44 20) 3037 4263
Paul Checchin (Australia & NZ)	(612) 8232 4197

### Retail / Consumer / Food & Bev

Rob Freeman	(612) 8237 1152
Quinn Pierson	(612) 8232 6391

### Energy

Andrew Hodge	(612) 8237 0321
--------------	-----------------

### ESG

Phineas Glover	(612) 8232 7394
----------------	-----------------

### Financials

#### Banks & Diversified Financials

Victor German	(612) 8232 6089
Brendan Carrig	(612) 8237 6043
Anita Stanley (maternity)	(612) 8232 9869
John Buonaccorsi	(612) 8232 0523

#### Insurance

Andrew Buncombe	(612) 8232 0629
-----------------	-----------------

#### Healthcare

David Bailey	(612) 8237 2427
--------------	-----------------

#### Industrials

##### Capital Goods

John Purtell	(612) 8232 8633
Pelen Ji	(612) 8237 3523

##### Infrastructure

Ian Myles	(612) 8232 4157
-----------	-----------------

##### Transport & Gaming

David Fabris	(612) 8232 5705
--------------	-----------------

### Chemicals, D&C, Packaging, Builders, Steel

John Purtell	(612) 8232 8633
Pelen Ji	(612) 8237 3523
Peter Steyn	(612) 8232 5144

### Resources

Hayden Bairstow	(618) 9224 0838
Ben Crowley	(618) 9224 0839
Andrew Hodge	(612) 8237 0321

### Real Estate

Paul Checchin	(612) 8232 4197
Rob Freeman	(612) 8237 1152

### Telcos / Media

Andrew Levy	(612) 8232 5165
-------------	-----------------

### Utilities

Ian Myles	(612) 8232 4157
-----------	-----------------

### Commodities & Precious Metals

Tom Price (London)	(44 20) 3037 2849
Jim Lennon (London)	(44 20) 3037 4271

### New Zealand

Stephen Hudson	(649) 363 1414
Warren Doak	(649) 363 1416
Daniel Frost	(649) 363 1474
Nick Mar	(649) 363 1476
Andrew Levy (Telecommunications)	(612) 8232 5165

### Emerging Leaders – Industrials

Tim Lawson	(612) 8237 7332
Deana Mitchell	(612) 8232 4576
Mitchell Sonogan	(612) 8232 0675
Shaun Weick	(612) 8232 8248

### Quantitative

Gurvinder Brar (Global)	(44 20) 3037 4036
John Conomos (Australia)	(612) 8232 5157
Jeremy Lamplough	(612) 8232 1060

### Data Services

Sheridan Maher	(612) 8232 9786
----------------	-----------------

### Economics & Strategy

Ric Deverell (Chief Economist & Head of Macro Research)	(612) 8232 4307
Justin Fabo	(612) 8232 0696

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CapitalIQ	<a href="http://www.capitaliq.com">www.capitaliq.com</a>
Contact	<a href="mailto:macresearch@macquarie.com">macresearch@macquarie.com</a> for access requests.

### Email addresses

[FirstName.Surname@macquarie.com](mailto:FirstName.Surname@macquarie.com)  
eg. [peter.redhead@macquarie.com](mailto:peter.redhead@macquarie.com)

## Sales

### Equities

Dan Ritchie (Australia)	(612) 8232 3124
Dave Robertson (New Zealand)	(649) 363 1498

### Sales

Kristen Edmond (Desk Head - Sydney)	(612) 8232 3111
Mike Johnson (Desk Head - International Sales)	(612) 8232 4717
Andrew Haigh (Desk Head - London)	(44 20) 3037 4843
Leighton Patrick (Desk Head - New York)	(1 212) 231 2552
Dominic Smith (Desk Head - Asia)	(65) 6601 0212
Dan Pittorino (Sydney)	(612) 8237 0905
Richard Weekes (Sydney)	(612) 8232 7586
Alex Williams (Sydney)	(612) 8232 3110
David Harris (Melbourne)	(613) 9635 8595
Daniel Raats (Melbourne)	(613) 9635 8271
Julia Thomas (Melbourne)	(613) 9635 9323
Tim Russell (London)	(44 20) 3037 4865
Michael McNair (New York)	(1 212) 231 2571
Jay Shyam (New York)	(1 212) 231 2491
Anura Logan (Asia)	(613) 9635 8177

### Sales Trading

Tim Shaw (Head of Sales Trading)	(612) 8232 4386
Andrew Donald (Desk Head - Melbourne)	(613) 9635 8270
Sam Molina (Sydney)	(612) 8232 5935
Francis Sarks (Sydney)	(612) 8232 4458
Ben McIntyre (Sydney)	(612) 8237 2833
Jon Holland (Auckland)	(649) 363 1471
Mike Keen (London)	(44 20) 3037 4905

### Electronic Execution

Valerie Kingsmill	(612) 8237 2230
Darren Miller	(612) 8232 8261
Tarinee De Silva	(612) 8232 3151

### Portfolio Trading

Garth Leslie	(612) 8232 9982
Michael Khalife	(612) 8232 8893

### Block Trading

Tim Shaw (Desk Head - Sydney)	(612) 8232 4386
-------------------------------	-----------------

### Specialist Sales

Phil Zammit (Emerging Leaders)	(612) 8232 3122
Harry Boghossian (Emerging Leaders)	(612) 8237 5456
Owen Johnston (Emerging Leaders)	(612) 8232 3328
Kurt Dalton (Property)	(612) 8232 5943
Stuart Murray (Derivatives)	(612) 8232 5090
Gavin Maher (Resources)	(612) 8232 4151

### Alternative Strategies

Greg Mann (Equity Finance)	(612) 8232 1820
Shannon Donohoe (Stock Borrow & Loan)	(612) 8232 6997

### Syndication

Paul Staines	(612) 8232 7781
Angus Firth	(612) 8232 4039
Tiffany Ward	(612) 8232 5151
Eric Roles	(612) 8232 4565

### Corporate Access

Julie Loring	(612) 8232 7543
Eliza Davidson	(612) 8237 5064

### Transition Management & Portfolio Solutions

Mick Larkin	(612) 8232 0639
Scott Macaulay	(612) 8232 4782
Elliot Graham	(612) 8237 4704
Mark Levinson	(612) 8232 5245
David Goodman (London)	(612) 8232 5245