

Technology Metals Australia (TMT)

Positive Vanadium PFS

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KEY POINTS

- With the release of the PFS for the Gabanintha vanadium project (WA) we have upgraded our recommendation to include a heavily risk weighted NAV valuation of \$1.35/sh (current SP \$0.58/sh).
- TMT management have responded quickly to a rapidly improving vanadium market by advancing the project through the PFS stage. The next steps for TMT at their Gabanintha Vanadium Project (WA) are complete the DFS and ultimately secure project financing.
- **We move from a Speculative Buy to a Buy Recommendation, with a risked NAV based PT of \$1.35/sh (valuation \$1.36/sh), Very High risk rating.**

Running Fast

Technology Metals Australia Limited (ASX:TMT) is a junior resources company, currently advancing their Gabanintha vanadium project (Western Australia).

Since listing in late 2016 TMT has made rapid progress, key recent achievements including:

- Increasing the resource to 119.9Mt at 0.8% V₂O₅. Including a high grade component of 55.0Mt at 1.1% V₂O₅.
- positive advancements on the project metallurgy
- Successfully completing a Pre-Feasibility Study (PFS).

The PFS results deliver a potentially robust vanadium project at a time when the vanadium sector is buoyant on the back of increased demand for energy storage minerals.

A number of opportunities exist to improve the operational costs and the robustness of the PFS.

Next Steps

- Additional drilling on site for geotechnical and metallurgical studies. Allowing for bulk samples to be taken so that samples can be trialled through the planned process route and also send samples to potential offtake partners.
- The results of the testing will be fed into the DFS, which is expected to take 9 -12 months to complete
- Working on refining the final stages of the processing route so that higher value vanadium products can be produced to target markets such as the aeronautical and battery sectors

Investment Summary: TMT is leveraged to de-risking the Gabanintha Project and changes in the vanadium price. Showing a pathway to potentially securing project financing (Capex est. A\$380m) will be a significant catalyst. We see TMT's tight capital structure and ability to move quickly as positives moving forward. **Our valuation is heavily risk weighted and assumes full dilution of current options.**

Funding risk and risks associated with early stage mining ventures place an investment in TMT in the Very High risk category.

RECOMMENDATION

Buy

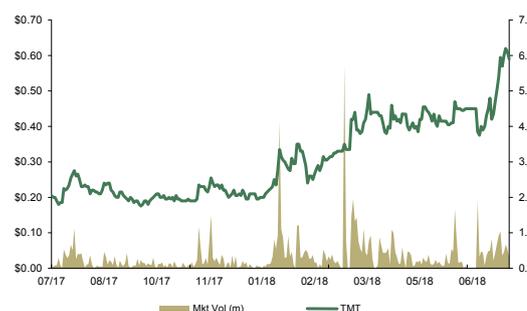
Previous Recommendation	Speculative Buy
Risk Rating	Very High
Current Share Price	\$0.58
12 Month Price Target	\$1.35
Price Target Methodology	Risked NAV
Total Return (Capital + Yield)	135%
DCF Valuation	\$1.36
Market capitalisation	\$32m
Liquidity – Daily Value	\$0.267m

Financial Forecasts & Valuation Metrics

Y/E Jun (\$m)	FY20E	FY21E	FY22E	FY23E
Revenue	0	82	282	315
NPAT	-2.8	14.6	67.2	78.2
EPS (cps)	-1.6	2.9	13.5	15.7
EPS Growth	0.4	>100%	>100%	0.2
DPS (c)	0.0	1.3	5.4	6.3
EV / EBITDA (x)	-44.0	11.0	2.7	1.9
PER (x)	-37.1	20.0	4.4	3.8
Dividend Yield	0.0	2.2	9.2	10.6
Gearing	32.6	102.6	59.8	14.7
Interest Cover (x)	na	3.2	6.2	7.6

Disclosure: PAC Partners acted as Lead Manager for TMT's listing on the ASX, and capital raising, receiving fees on commercial terms for its services.

TMT Price Chart



Source: Iress

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The information contained in this report is to be read in conjunction with other important disclosures at the end of this document.

Overview

Technology Metals Australia Ltd (TMT) main asset is the Gabanintha Project, located in the northern Murchison region of Western Australia.

The primary tenements are positioned north of and south along strike from Australian Vanadium's (ASX:AVL) Gabanintha Vanadium Deposit. The TMT and AVL projects are located on the same geological sequence

TMT has proven that the mineralisation extends onto their ground and is testing the model that the vanadium grades increase to the north.

Vanadium mineralisation at Gabanintha is hosted by a layered mafic igneous unit with a distinct magnetic signature which contains a consistent high grade massive vanadium-titanium-magnetite basal unit, delivering a higher overall V_2O_5 grade when compared to a number of similar style of deposits globally.



Rapid Project Progress

Since listing in late 2016 TMT has made rapid progress on the advancement of their flagship vanadium project. Key recent achievements include an expanding resource and importantly positive advancements on the project metallurgy.

Maiden Resource June 2017

The maiden resource of 62.8Mt at 0.8% V_2O_5 (inferred) included a high grade component of 29.5Mt at 1.1% V_2O_5 . The overall global inferred resource was 62.8Mt @ 0.8% V_2O_5 .

The resource was based on initial drilling undertaken on the northern project area, which left scope for upgrading the resource as drilling was ongoing.

Resource Upgrade March 2018

In a significant upgrade to the resource the Global Resource was increased to 119.9Mt at 0.8% V_2O_5 . Which included a high grade component of 55.0Mt at 1.1% V_2O_5 . The Resource places the project comfortably amongst the highest grade vanadium deposits in the world.

Metallurgy Results February 2018

Recoveries of up to 97.8% achieved into a magnetic concentrate, with concentrate grades of 1.3% V_2O_5 reported. The results were positive as they showed that the vanadium reported to a magnetic concentrate and also that there was a high level of rejection of waste and deleterious minerals.

Metallurgy Results April 2018

Metallurgical testing of possible downstream processing options showed that the mineralisation can be processed using conventional salt roasting/water leach methods. The benefit of this path as opposed to acid leaching is the potential for relatively lower capital and operating costs.

There are a number of processing paths for vanadium concentrate, with the two most common being; salt roasting or hydromet processes. The salt roast method involves adding salt to the magnetite concentrate and then heating to +900°C. Whilst there are a number of factors that influence overall costs the ability to use conventional salt roasting/water leach methods provides TMT a possible strategic advantage.

Metallurgy Results May 2018

Additional metallurgical testing showed that a V_2O_5 product with a purity in excess of 99% that recovered ~97.4% of vanadium from a leach solution generated from salt roasting of magnetic concentrate. These results also confirmed the conventional salt roasting/water leach methods could be utilised.

PFS Results June 2018

The headline PFS results included a target production rate of 13,000tpa V_2O_5 , C1 opex of US\$4.27/lb V_2O_5 , a 13 year mine life and capex of A\$380m. The company released post tax NPV (10% discount) was A\$850m with a payback period of 3.4 years from first draw down (<2.5 years from ramp up).

DFS underway

The next steps for TMT will involve additional drilling, refining the PFS results as part of the DFS and engaging with potential end users and project financiers.

PFS Results

The PFS results deliver a potentially robust vanadium project at a time when the vanadium sector is buoyant on the back of increased demand for energy storage minerals. The drop off in demand for Vanadium from the steel industry is being more than counteracted by demand from specialty use sectors, such as aerospace and batteries.

Project financing options exist

The next major question to be answered will be the ability of TMT to finance the project capital. As there is no offtake agreements in place and interest from American and Chinese customers for vanadium there is potential to source project financing from these end users.

PFS numbers would see TMT potentially supplying ~8% of projected global vanadium demand

PFS Headline Numbers

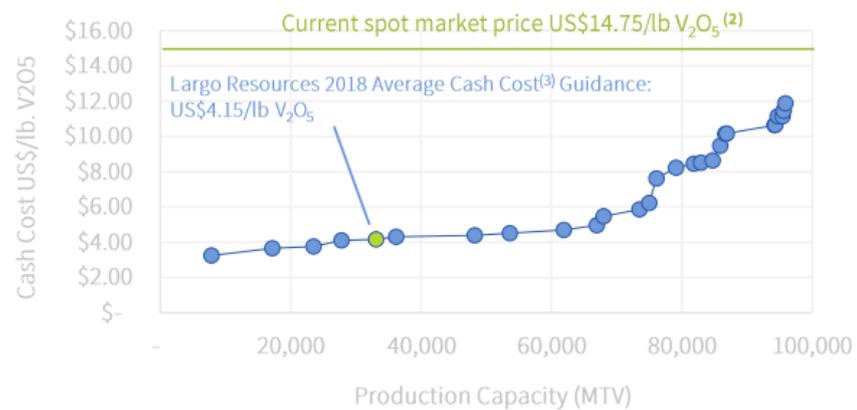
- Target peak production rate of 13,000tpa V₂O₅
- Life of Mine production 129,000t V₂O₅
- Opex US\$4.27/lb V₂O₅, which is at the lower end of the cost curve for current producers, see the chart following taken from Largo Resources (TSX:LGO, mkt cap C\$950m)
- Capex A\$380m
- Assumed V₂O₅ price US\$13/lb, versus current market price range of US\$15 - \$19/lb,
- Mine life 13 years, this is based on the current reserves of 16.7Mt which sit within a much larger resource of 119.9Mt

Comparing TMT forecast operating cost with global peers

The operational costs reported by various global producers as released by Largo Resources (TSX:LGO)

Based on the PFS results (C1 US\$4.27/lb) this would put TMT at the lower end of the cost curve.

Vanadium Producers Cost Curve 2017 (V₂O₅)⁽¹⁾



Source: Largo Resources Company Presentation

PFS improvement opportunities

Opportunities exist for TMT to refine the operational costs and trim the capital cost

TMT has identified a number of areas where the PFS parameters can be refined to potentially improve the project margins, these include:

- Pit optimisation has scope to increase the pit depths, allowing for more mineralisation to be accessed
- In conjunction with this additional geotechnical studies will be undertaken to determine if the pit walls can be steepened, potentially reducing the strip ratio
- The inclusion of by-product metals sales with the inclusion of a Co-Ni-Cu concentrate plus TiO₂ and possibly iron ore products.

We see that the main opportunity lies in reducing the operational costs, potential savings in capital costs are likely to be minimal relative to the overall cost.

Resource and Reserve

TMT has defined a **global resource of 119.9Mt at 0.8% V₂O₅** split between 98.4Mt at 0.8% V₂O₅ in the Northern Block and 21.5Mt at 0.9% V₂O₅ in the Southern Tenement.

Technology Metals Gabanintha Vanadium Project - Global Mineral Resources as at March 2018										
Material	Classification	Tonnage (Mt)	V2O5%	Fe%	Al2O3%	SiO2%	TiO2%	LOI%	P%	S%
Massive magnetite	Indicated	14.5	1.1	49.2	5.1	5.8	12.8	-0.2	0.007	0.2
	Inferred	40.5	1.1	48.3	5.5	6.5	12.7	0.2	0.007	0.2
	Indicated + Inferred	55.0	1.1	48.5	5.4	6.3	12.7	0.1	0.007	0.2
Disseminated magnetite	Indicated	7.1	0.6	29.9	12.6	24.4	7.8	2.9	0.032	0.1
	Inferred	57.7	0.6	27.2	13.7	26.7	7.2	4.0	0.024	0.2
	Indicated + Inferred	64.9	0.6	27.5	13.5	26.4	7.2	3.9	0.025	0.2
Combined	Indicated + Inferred	119.9	0.8	37.1	9.8	17.2	9.7	2.1	0.016	0.2

Source: Company Presentation

TMT has released a **Probable Reserve** of 16.7Mt at 0.96% V₂O₅ contained within an Indicated Resource of 21.6Mt at 0.9% V₂O₅ (Northern Block only, which includes a high grade component of 14.5Mt at 1.1% V₂O₅).

Scope identified to materially increase the Indicated Resource within an expanded global resource.

Peer Comparisons

The grade and size of the Gabanintha Project help differentiate them from a number of the peer projects. The different geological settings and metallurgical properties of vanadium deposits makes a comparison on grade and size difficult.

ASX listed vanadium companies with JORC resources

Company	Project	Mkt Cap (A\$m)	Resource (Mt)	V ₂ O ₅ (%)	TiO ₂ (%)	Fe ₂ O ₃ (%)
Australian Vanadium (AVL)	Gabanintha (WA)	77	179.6	0.75%	9.0%	34%
Intermin Resources (IRC)	Richmond (QLD)	39	2,579.0	0.32%		
King River Copper Ltd (KRC)	Speewah (WA)	142	4,700.0	0.30%	2.0%	
Neometals Ltd (NMT)	Barrambie (WA)	166	47.2	0.63%	22.2%	47%
Technology Metals (TMT)	Gabanintha (WA)	32	119.9	0.80%	9.7%	38%
TNG Ltd (TNG)	Mount Peak (NT)	100	160.0	0.28%	5.3%	23%
Protean Energy Ltd (POW)	Daejon (South Korea)	10	37.1	0.30%		
Pursuit Minerals (PUR)	Koitelainen (Finland)	6	15.0	0.40%		
Golden Deeps (GED)	Abenab (Namibia)	9	0.9	1.25%		
Aura Energy (AEE)	Haggan (Vanadium)	22	90.0	0.42%		

Source: Company Reports

Gabanintha Model

In modelling the Gabanintha Project we have assumed a number of inputs in line with the recently released PFS results. Namely around mine life, production rates and C1 operating costs.

Our main assumptions are summarised in the following table

Gabanintha Model Assumptions						
	FY21	FY22	FY23	FY24	FY25	FY26
V ₂ O ₅ Price (US\$/lb)	13	13	13	13	13	13
AUD:USD	1	1	1	1	1	1
V ₂ O ₅ Production (Mlb)	4.7	16.3	18.1	20.8	23.5	23.5
C1 Cash Cost (A\$/lb)	6.60	6.60	6.60	6.23	5.86	5.86
All In Cash Cost (A\$/lb)	13.40	10.71	10.25	9.50	8.75	8.68
Sales Price (A\$/lb)	17.3	17.3	17.3	17.3	17.3	17.3
EBITDA (A\$m)	43.9	157.9	177.1	211.2	246.3	246.3
NPAT (A\$m)	15	68	83	109	128	120

Source: PAC Partners estimates

Valuation

Our un-risked NPV based valuation for the Gabanintha is A\$599m (\$7.20/sh), which varies from the valuation of A\$850m as provided by TMT. This is largely due to our operational cost estimates being above that released by TMT. In the absence of guidance on likely All In Sustaining Costs (AISC) we have taken a conservative view.

We have heavily risk weighted the Gabanintha valuation to reflect the early stage of the project, sensitivity to commodity price variations and uncertainty around project finance.

Our risk weighted valuation for the Gabanintha Project is A\$120m (\$1.44/sh).

The opportunity for TMT is to address some of the key risks, therefore unlocking the value in the asset.

Large risk weighting applied given uncertainties surrounding an early stage project.

	Unrisked		Risked	
	Value (A\$)	A\$/share	Value (A\$)	A\$/share
Gabanintha Project	\$599	\$7.20	\$120	\$1.40
Corporate	-\$14	-\$0.17	-\$14	-\$0.17
Debt	\$0	\$0.00	\$0	\$0.00
Cash	\$3	\$0.04	\$3	\$0.04
Exploration	\$5	\$0.06	\$5	\$0.06
Total NAV (A\$m)	\$593	\$7.12	\$113	\$1.36

Source: PAC Partners estimates

Sensitivity Analysis

High sensitive to changes in the vanadium price

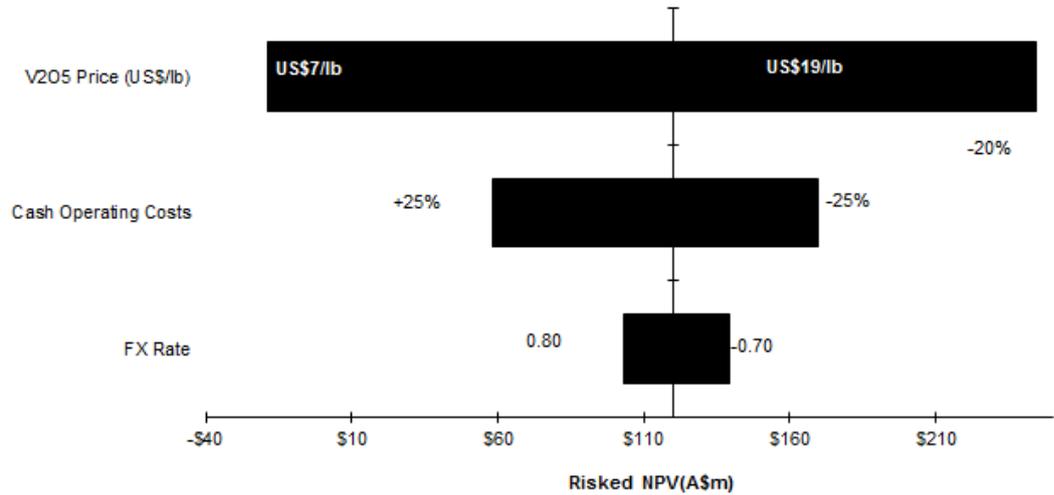
By adjusting the key variables of; commodity price, operating costs and exchange rate we can see that our valuation is very sensitive to changes in the vanadium price.

Increasing the vanadium price from our assumed US\$13/lb to the current price of circa US\$19/lb doubles our risked NPV to \$245m (\$2.94/sh)

Conversely dropping the price to US\$7/lb makes the project marginal, bearing in mind that this scenario is a significant price drop from current levels.

Sensitivity Analysis Results

Increasing assumed price to current market prices doubles risked valuation



Source: PAC Partners estimates

Vanadium Sector

New and emerging market for vanadium

Approximately 91% of global vanadium is used in the steel industry, typically as a strengthening agent in alloys. The addition of just 0.2% vanadium to steel increases the strength by up to 100% and reduces the weight by up to 30%. Therefore the vanadium price is largely tied to steel output levels, especially out of China. More recently there has been interest generated in the use of vanadium in energy storage (batteries).

Supply dynamics remain tied to Chinese steel production.

Vanadium is sourced from three main areas:

- Primary: from mined vanadium ores (18%)
- Co-product: produced as a co-product as part of the production of steel from iron ore (71%).
- Secondary: produced in the refining of oil and also burning of oil in power plants (11%).

Global vanadium supply is dominated by China (56%), South Africa (12%) and Russia (10%). Therefore the recent curtailment of production from Chinese magnetite fed steel mills, which have historically been a major source of vanadium has led to some supply constraints.

Vanadium pricing typically tied to steel output levels.

The combination of increasing demand and curtailment of supply has led to dramatic movement in the vanadium pentoxide price, with the price for Ferro Vanadium increasing from US\$15.00/kg to over US\$21.00/kg over the past 9 months.



Demand forecast to increase ~45% in next decade

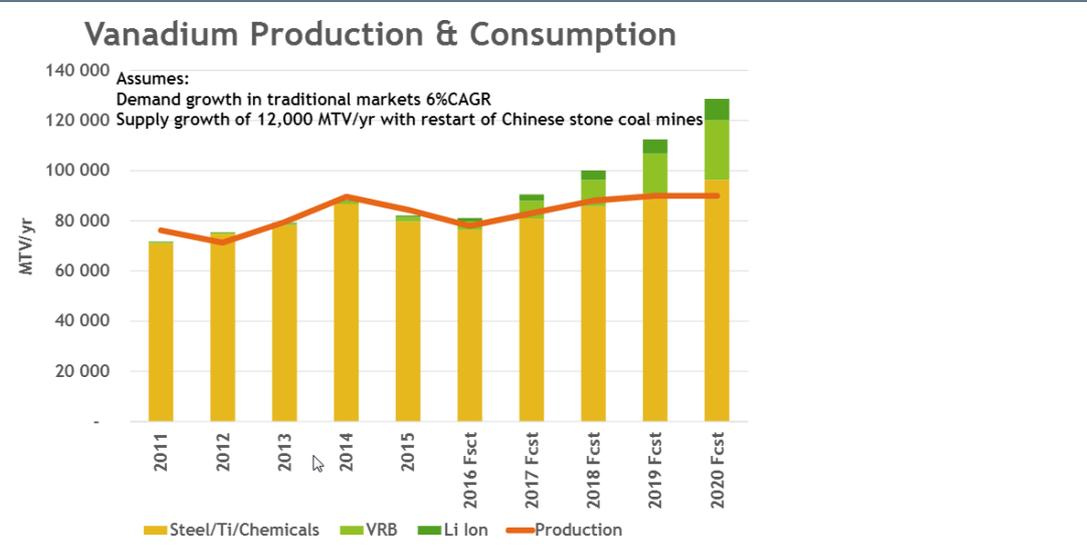
Demand from energy storage to increase overall demand for vanadium

Given continuing tightness in supply and the reported drawdown of stockpiles of vanadium it is expected that this positive price movement will continue for some time to come.

Source: Infomine.com

Global Vanadium consumption is currently about 90,000tpa with market forecasters expecting demand to increase to 131,000tpa by 2025 (source: Roskill), excluding significant growth in the battery sector.

Vanadium demand forecast



Source: Vanadium Corp presentation (https://www.dropbox.com/s/kixp7iq8srh9kn6/S16-01_Perles_an.pdf?dl=0) accessed 26/05/2017

VANADIUM USE IN RENEWABLE BATTERY STORAGE

Outside of demand for vanadium from traditional markets, such as the steel industry a potential significant new area for demand is in the energy storage (battery) sector. The energy storage sector is expected to grow to >US\$350bn by 2030. With Vanadium Redox Batteries (VRB's) forecast to take up a significant share of the stationary storage market. The implication for the vanadium market is that there is potential for an additional demand for vanadium by 10,000–20,000tpa by 2025.

VRB's are an electrochemical storage system which stores energy in two solutions consisting of different oxidisation states of vanadium. The liquids are held in separate tanks and when required pumped into a central reactor where the two solutions flow adjacent to each other, separated by a membrane and generate a charge by moving electrons back and forth during charging and discharging.

Given the physical size of the batteries (shipping container size) and large storage capacity, VRB's are better suited to static storage situations, such as augmenting power grids.

The advantage of this style of battery is that it can offer almost unlimited energy capacity simply by using larger electrolyte storage tanks. It can be left completely discharged for long periods, with no ill effects, making maintenance simpler than other batteries. They are also fully containerised, non-flammable, compact, re-usable over semi-infinite cycles, discharge 100% of the stored energy and do not degrade for more than 20 years.

The new flow batteries reduce storage cost to about USD 5c/Kwh. These batteries are best suited to industrial and utility scale applications. Compared to Li-ion they are safer, more scalable, longer lasting and cheaper (approx. half the cost per kWh).

Vanadium Reflow Vs Lithium Ion Batteries

	Vanadium	LiOn (Lithium)
Capacity	Double	Half
Weight	Heavy	Light
Life	Long (up to 20yrs)	5 to 7 years
Cycles	20,000	2000
Grid Scale	Ideal	Not ideal
Mobile	No	Yes
End of Life	Easy to recycle	Hard to recycle

Source: PAC Partners estimates

Risks

Metallurgy: whilst TMT has undertaken extensive metallurgical testing as part of the PFS and will undertake additional testing the risk remains for variability in the mineralisation in potential mining operation. .

Country Risk: Jurisdictional risk is low as the project is located in Western Australia.

Geology variability: The nature of vanadium mineralisation is subject to geological variations that could fall outside of the scope of testing methods used.

Regularity Approvals: Permitting and approvals will be required to commence mining.

Project Financing: At this stage the ability to secure project financing is a key risk. We acknowledge that TMT does have options available to source funding, possibly tied to off-take agreements.

Board and Management

Michael Fry
Non-Executive Chairman

Michael brings to TMT corporate and commercial experience, financial and capital market knowledge and a background in corporate treasury management. He holds a Bachelor of Commerce Degree.

In addition to TMT Michael is currently Non-Executive Chairman of Brookside Energy Limited (ASX: BRK), Non-Executive Chairman of Challenger Energy Limited (ASX:SEY) and Non-Executive Chairman of Norwest Energy NL (ASX:NWE)

Mr Ian Prentice,
Executive Director

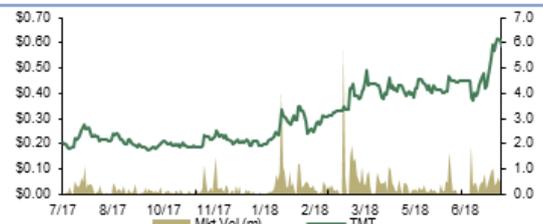
Ian is an experienced geologist and corporate executive, with 25 years of experience from exploration and operational roles across a variety of commodities, focused on gold, nickel and copper, in Australia, New Zealand, South East Asia and Africa.

Corporate experience includes Directorships for a number of ASX-listed resource companies, including Managing Director of Gleneagle Gold Limited.

Mr Sonu Cheema
Non-Executive Director
and Company Secretary

Sonu has completed a Bachelor of Commerce majoring in Accounting and has over 10 years' experience working with public and private companies in Australia and abroad.

Currently he is Company Secretary for Corizon Limited (ASX: CIZ), , Yojee Limited (ASX: YOJ)

COMPANY SUMMARY				FINANCIAL SUMMARY							
Technology Metals				Year End - Jun							
TMT.AX				KEY METRICS							
17/07/2018				EPS Growth (%)	NA	NA	42.9%	>100%	>100%	16.3%	
Price Information				PER (x)	-108.92	-20.96	-36.67	19.89	4.35	3.74	
Price (\$/Share)	\$0.58	Target Price (\$/Share)	\$1.35	Dividend Yield (%)	0	0	0	2	9	11	
Mkt Cap (\$m) (dil)	\$48			EV/EBITDA (x)	-19.4	-18.1	-43.5	11.0	2.7	1.9	
Enterprise Value (\$m)	\$35			EV (\$m)	29	36	120	482	420	331	
Share Price & Volume Chart				ROE (%)	-20.8%	-44.6%	-8.6%	12.0%	33.4%	32.9%	
				ROA (%)	NA	NA	-7.2%	6.3%	17.9%	22.8%	
Commodity / FX forecasts				ROIC (%)	NA	NA	-3.6%	5.5%	22.8%	29.5%	
	FY18E	FY19E	FY20E	FY21E	PROFIT & LOSS (AUD \$m)						
V205 Price (US\$/lb)	13	13	13	13	Revenue	0	0	0	82	282	315
AUD:USD	0.75	0.75	0.75	0.75	EBITDA	-2	-2	-3	44	158	177
					Depreciation & Amortisation	0	0	0	13	44	48
Production					EBIT	-1.5	-2.0	-2.8	31.1	114.4	128.7
	FY21e	FY22e	FY23e	FY24e	Net Interest Expense	1.2	0.0	0.0	-9.6	-18.3	-17.0
Gabarinthia (Mlb)	4.75	16.28	18.09	20.78	Income Tax Expense	0.0	0.0	0.0	-6.9	-28.8	-33.5
					NPAT Reported	-0.3	-2.0	-2.8	14.6	67.2	78.2
					NPAT Adjusted	-0.3	-2.0	-2.8	14.6	67.2	78.2
NAV Valuation					PER SHARE DATA (cps)						
	Un Risked		Risked		Shares on Issue (m)	56	73	175	509	509	509
	A\$m	Per Share	A\$m	Per Share	EPS Reported	-0.5	-2.7	-1.6	2.9	13.2	15.4
Gabarinthia	\$599.4	\$0.00	\$119.9	\$1.44	EPS Adjusted	-0.5	-2.7	-1.6	2.9	13.2	15.4
Corporate	-\$14.4	-\$0.17	-\$14.4	-\$0.17	DPS	0.0	0.0	0.0	1.3	5.3	6.1
Debt	\$0.0	\$0.00	\$0.0	\$0.00	BALANCE SHEET (AUD \$m)						
Exploration	\$5.0	\$0.06	\$5.0	\$0.06	Cash	3	6	5	-2	50	125
Total NAV (A\$m)	\$593.0	\$7.12	\$113.5	\$1.36	Debtors & Inventory	0	0	0	8	13	16
					PP&E	0	0	76	368	327	280
					Intangibles	0	0	0	0	0	0
					Total Assets	3	6	82	388	413	446
					Borrowings	0	0	24	189	177	163
					Creditors	0	0	0	12	24	24
					Total Liabilities	0	0	24	202	200	187
					Net Assets	3	6	58	186	213	259
					BALANCE SHEETS RATIOS						
					Gearing - Debt/Equity (%)	-100.0	-94.3	32.6	102.6	59.8	14.7
					Interest Cover (x)	na	na	na	3.2	6.2	7.6
					NTA per Share (cps)	5.1	8.5	32.8	36.5	41.8	50.8
					CASH FLOW (AUD \$m)						
					EBITDA	0	-1	-2	37	162	193
					Interest & Tax	0	0	0	-17	-47	-51
					Working Capital Change	0	0	0	0	0	0
					Operating Cash Flow	0	-2	-3	19	114	142
					Maintenance Capex	0	0	0	-1	-2	-2
					Free Cash Flow	0	-2	-3	18	112	140
					Capex	0	0	-76	-304	0	0
					Equity Issues / (Buy Backs)	3	8	43	152	0	0
					Proceeds from Borrowings	0.0	0.0	38.0	136.6	-30.8	-30.8
					Other	-1.9	-3.0	-3.0	-3.0	-2.7	-2.4
					Net Cash Flow	1	3	-1	-7	51	76

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PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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Buy	Hold	Sell
>20%	20% – 5%	<5%