

Date of issue

19.08.08

Company Update

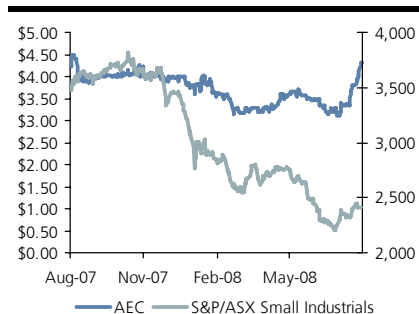
INVESTMENT DATA

Share Price	\$4.32
Issued Capital	
Ordinary shares	25.3m
Options/other	1.0m
Fully diluted	26.3m
Market Capitalisation	\$113.5m
52-week low/high	\$3.1 / \$4.54
Valuation	\$6.34
Price Target (12 months)	\$5.13
Return on Equity (FY07)	34.2%

The top 20 shareholders owned 25.3% of shares on issue (as of July 31, 2007)

Year end Jun	07a	08f	09f	10f
Revenue \$m	26.2	37.6	58.9	60.1
EBITDA \$m	7.9	11.8	19.2	20.2
NPAT (adj) \$m	4.8	6.8	11.8	12.9
EPS (adj) ¢	23.2	29.8	44.6	48.4
EPS growth %	-11.1	28.4	49.7	8.5
PER x	18.6	14.5	9.7	8.9
EV/EBITDA x	14.8	10.4	5.1	4.6
DPS ¢	22.0	25.0	26.0	28.0
Yield %	5.1	5.8	6.0	6.5
Franking %	100	100	100	100

Note: EPS is normalised for tax and one-off items



Important Disclosure: Bell Potter Securities Limited acted as manager of the February 2007 placement by Ammtec Limited and received fees for this service.

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Ammtec (AEC)

Buy

\$US25m Windfall Resin-ates

Leading metallurgical and laboratory group Ammtec (ASX code: AEC) has achieved an instant boost to shareholder value through the unexpected sale of a non-core investment.

AEC yesterday announced the sale of its 68.5% stake in Purity Systems Inc (PSI) for \$US25m, subject to due-diligence and pre-emptive rights from minorities. Settlement is expected in early October.

The book value of this investment was \$4.3m at June 30, 2008.

PSI was a loss-making company developing an ion-exchange resin with applications in the mining sector for treatment of waste streams and sludge.

Recently announced guidance (following our last published note) from AEC had assumed PSI losses (\$1.5m) would continue to be consolidated in FY09.

So revised management guidance, allowing for one quarter of losses from PSI (pre-sale) is now \$19.9m EBITDA and \$12.2m NPAT. This is well ahead of our recent upward-revisions.

A very welcome surprise

We had expected AEC would have to make a decision on PSI's place in the company within the next year or so but the swiftness of this sale is a surprise. As a non-core developmental operation, we had only attributed negative value to PSI in our net valuation of AEC as it was a drag on earnings (see our previous published note for AEC's growth ex-PSI) and there was no clear signal as to when commercial sales could commence.

We understand the buyer is offshore and intends to utilise the resin in a specific project.

One transaction, three key positives

The three key positives from this news are that:

- The price-tag is substantial and unexpected and will return AEC to a net-cash position after recent organic investment (net debt of \$9.5m at June 30, 2008).
- A drag on reported earnings will be removed, enhancing EPS and cash flow.
- And management will have less distractions from focusing on extracting a return from the recent laboratory expansion and the acquisition of MARC.

AEC has 26.3m diluted shares on issue so in gross terms, the sale price equates to about \$1.08 a share (depending on FX rate). Post-tax, AEC should achieve a gain of about \$17m and the cash flow will deliver about \$0.80 a share to the balance sheet.

Substantial upgrades to earnings and valuation

We have moved to upgrade our forecasts for the second time in two weeks, following discussions with management, announcement of guidance and the PSI transaction.

Our FY09 normalised EPS estimate has jumped 22.2% to \$0.446. We now expect EPS growth of 49.7% in FY09 and 8.5% in FY10. The upgrade stems from: a higher EBITDA margin target (32.7% from 28.7%); removal of PSI losses; and interest savings.

Our DCF valuation has risen to \$6.34 from \$4.10 and we have revised our price target to \$5.13 (11.5x F09f EPS) from a very conservative \$3.88 previously (set in July when the share price was \$3.20 and we took a cautious approach ahead of the release of results).

Ammtec (AEC) Share price: \$4.320
As at 19/08/2008 Recommendation: Buy Market cap: \$113.5m

Income Statement					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Revenue	\$24m	\$26m	\$38m	\$59m	\$60m
EBITDA	8.33	7.88	11.79	19.23	20.19
EBITA	7.99	7.15	10.73	17.58	18.22
Amortisation	-0.19	0.00	0.00	0.00	0.00
EBIT	7.80	7.15	10.73	17.58	18.22
Interest	0.05	-0.01	-0.68	-0.04	0.86
Abnormals	0.03	0.04	0.11	16.88	0.00
Pre-tax profit	7.89	7.18	10.16	34.41	19.08
Tax	-2.46	-2.33	-3.42	-5.70	-6.20
Reported net profit	5.42	4.85	6.74	28.71	12.88
Adjusted net profit	5.43	4.82	6.78	11.84	12.88

(adjusted net profit = pre-tax profit before abnormals and goodwill minus tax at marginal rate)

Cashflow					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Net profit	\$5.42m	\$4.85m	\$6.74m	\$28.71m	\$12.88m
Amortisation	0.19	0.00	0.00	0.00	0.00
Depreciation	0.34	0.73	1.07	1.66	1.97
Change in working capital	0.32	0.59	0.32	-1.28	-0.10
Other	0.24	-0.04	-0.11	-16.88	0.00
Net operating cashflow	6.50	6.13	8.02	12.22	14.75

Investing cashflow					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Sale/purchase of PPE	-2.50	-4.23	-5.64	-4.75	-3.64
Investments & acquisitions	0.00	-0.37	-16.22	-1.00	-1.00
Other	0.03	0.04	0.40	21.18	0.00
Net investing cash flow	-2.47	-4.56	-21.46	15.43	-4.64

Financing activities					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Issue of shares	0.91	0.55	14.50	1.57	0.11
Buy backs	0.00	0.00	0.00	0.00	0.00
Dividends paid	-3.42	-4.51	-5.12	-5.13	-7.20
Debt	0.00	0.00	4.70	0.00	0.00
Others	-0.25	-0.36	-0.61	0.00	0.00
Net financing cash flow	-2.77	-4.32	13.47	-3.57	-7.10

FX impact
Net change in cash held **1.26** **-2.75** **0.03** **24.08** **3.01**

Balance Sheet					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Assets					
Cash assets	\$2.72m	\$0.00m	\$0.00m	\$24.08m	\$27.09m
Receivables	3.64	4.75	9.72	10.01	10.21
Inventories	0.28	0.16	1.86	1.02	0.98
Other	0.10	0.12	0.15	0.24	0.25
Total current assets	6.73	5.03	11.74	35.35	38.53
Plant and equipment	9.00	14.57	21.35	23.91	25.58
Investment	0.32	0.64	0.00	0.00	0.00
Intangible assets	4.71	4.71	21.41	17.64	17.64
Deferred tax assets	0.43	0.58	0.75	0.75	0.75
Total non-current assets	14.47	20.52	43.51	42.30	43.97
Total assets	21.21	25.54	55.25	77.65	82.51

Liabilities					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Short term debt	0.33	0.59	1.13	1.13	1.13
Payables	0.60	1.65	3.48	2.44	2.36
Current tax liabilities	0.74	0.33	2.41	1.71	1.86
Provisions & other	0.92	1.13	1.77	1.77	1.77
Total current liabilities	2.59	3.69	8.79	7.05	7.12
Other	0.00	0.00	1.52	1.52	1.52
Long term debt	0.68	2.15	8.33	7.33	6.33
Deferred tax liabilities	0.32	0.32	0.32	0.32	0.32
Provisions	0.14	0.20	0.12	0.12	0.12
Total non-current liabilities	1.14	2.67	10.28	9.28	8.28
Total liabilities	3.73	6.36	19.07	16.33	15.40
Net assets	17.48	19.19	36.18	61.32	67.11

Equity					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Contributed equity	9.94	10.55	25.07	26.63	26.74
Reserves & outside equity	0.00	0.76	1.14	1.14	1.14
Retained earnings	7.54	7.87	9.97	33.55	39.23
Total equity	17.48	19.19	36.18	61.32	67.11
Diluted shares on issue	20.78	21.29	26.07	26.60	26.74
Weighted ave diluted shares	20.82	20.77	22.73	26.57	26.63

Valuation Data					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Adjusted NPAT	5.43	4.82	6.78	11.84	12.88
Adjusted EPS	26.1c	23.2c	29.8c	44.6c	48.4c
EPS growth	45.0%	-11.1%	28.4%	49.7%	8.5%
P/E ratio	16.6x	18.6x	14.5x	9.7x	8.9x
OpCFPS	31.2c	29.5c	35.3c	46.0c	55.4c
Price/OpCFPS	13.8x	14.6x	12.2x	9.4x	7.8x
DPS	22.0c	22.0c	25.0c	26.0c	28.0c
Yield	5.09%	5.09%	5.79%	6.02%	6.48%
EV/EBITDA	13.4x	14.8x	10.4x	5.1x	4.6x

Profitability Ratios					
Year end June 30	2006A	2007A	2008A	2009F	2010F
EBITDA/sales	35.2%	30.0%	31.4%	32.7%	33.6%
EBITA/sales	33.7%	27.2%	28.5%	29.8%	30.3%
Return on assets (avg.)	40.3%	30.6%	26.6%	26.5%	22.8%
Return on equity (avg.)	34.1%	26.3%	24.5%	24.3%	20.1%
Dividend cover	1.2x	1.1x	1.2x	1.7x	1.7x
Effective tax rate	31.2%	32.5%	33.6%	16.6%	32.5%

Liquidity & Leverage					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Net debt	-\$1.71m	\$2.74m	\$9.45m	-\$15.63m	-\$19.64m
Net debt/equity	-9.8%	14.3%	26.1%	-25.5%	-29.3%
Interest cover	-164.9x	702.5x	17.4x	498.9x	-23.5x

DCF Valuation			
	\$m	\$/share	
WACC = 13.9%			
Terminal growth = 2.5%			
Enterprise value	154.8	5.89	
Net debt	-9.5	-0.36	
60% PV of franking	21.3	0.81	
NPV	166.7	6.34	

Comparisons					
Company/sector	P/E		EV/EBITDA		
	FY08	FY09	FY08	FY09	
Coffey	9.8x	8.7x	6.7x	6.4x	
Lycopodium	12.3x	11.1x	7.4x	6.9x	
Essa	9.3x	7.8x	5.5x	4.6x	
Campbell Brothers	25.3x	20.5x	14.5x	11.7x	
Intertek Group (LSE)	15.8x	14.4x	9.2x	8.3x	
Bureau Veritas (Euronext)	18.7x	16.0x	12.9x	11.4x	
SGS (Swiss)	18.6x	16.6x	10.4x	9.4x	
Outotec (Helsinki)	11.8x	9.5x	6.1x	5.0x	
Average	15.2x	13.1x	9.1x	8.0x	
Median	14.0x	12.8x	8.3x	7.6x	
Ammtec	14.5x	9.7x	10.4x	5.1x	

* consensus estimates used where Bell Potter estimates are unavailable

AEC on peers' FY09 P/E		Bar Chart Data
EPS	44.60c	
P/E (10% discount)	11.5x	
Valuation per share	\$5.13	
AEC on peers' FY09 EV/EBITDA		
EBITDA	\$19.23m	
EV/EBITDA (10% discount)	6.9x	
Enterprise value	\$132.27m	
- net debt	\$11.19m	
Valuation per share	\$5.50	

Company Description
Ammtec (ASX code: AEC) is Australia's leading provider of metallurgical services. The company specialises in testing minerals and advising miners on the most effective processing and handling procedures. Metallurgical studies are among the key inputs into feasibility studies required by miners wishing to secure funding to commercialise a project. AEC operates metallurgical laboratories in Perth, Sydney, Adelaide and Tasmania. It also operates pilot plants that allow miners to test their proposed processing methodology and recently expanded its WA operations with a new assay laboratory. AEC recently acquired a specialist engineering company for \$12m that focuses on laboratory design and installation (predominantly for the mining industry) and dust extraction systems.

Segment revenue					
Year end June 30	2006A	2007A	2008A	2009F	2010F
Metallurgical services	23.61	26.21	32.75	41.61	40.53
MARC Environmental	0.00	0.00	4.74	17.21	19.46

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