

Date of issue

28.01.09

Company Update

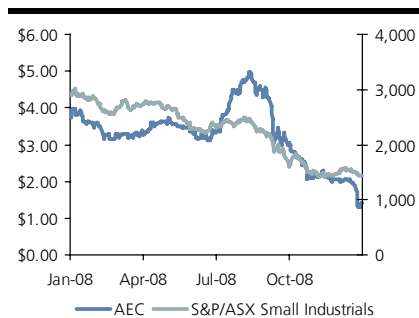
INVESTMENT DATA

Share Price	\$1.40
Issued Capital	
Ordinary shares	25.4m
Options/other	2.6m
Fully diluted	28.1m
Market Capitalisation	\$39.3m
52-week low/high	\$1.31 / \$4.98
Valuation	\$2.90
Price Target (12 months)	\$2.25
Return on Equity (FY08)	34.15%

The top 20 shareholders owned 29.3% of shares on issue (as of August 29, 2008)

Year end	Jun 08a	09f	10f	11f
Revenue	\$m 37.6	54.7	51.2	51.2
EBITDA	\$m 11.8	16.1	15.0	15.3
NPAT (adj)	\$m 6.8	8.9	7.9	8.0
EPS (adj)	¢ 29.4	32.4	28.1	28.6
EPS growth	% 28.9	10.2	-13.3	1.8
PER	x 4.8	4.3	5.0	4.9
EV/EBITDA	x 4.1	3.2	3.2	3.0
DPS	¢ 25.0	15.0	20.0	22.0
Yield	% 17.9	10.7	14.3	15.7
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 2008 placement by Ammtec Limited and received fees for this service.

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Ammtec (AEC)

Buy

Modest management FY09 downgrade but we lower FY10 targets

Minerals laboratory group Ammtec (ASX code: AEC) has lowered its FY09 net profit guidance by 13% and cut its interim dividend. But at the revenue line AEC's expectations remain unchanged despite the company warning it has been affected by the current adverse climate for the resources sector.

AEC now expects \$8.7m NPAT for FY09, down from earlier guidance of \$10m. Management's revenue target has increased to \$55.8m from \$55.6m.

Revision driven by one-off corporate costs and a shift in sales mix

Most of AEC's earnings revision is due to a decline in its projected EBITDA margin to 28.9% from 32.3%. The company's EBITDA projection has fallen by 11% to \$16.11m.

We understand part of the reason for a lower EBITDA margin is the fact that AEC has incurred one-off costs related to corporate activities that were not completed due to the increased severity of the credit crunch (ie the sale of PSI and M&A talks). AEC has not split these out but we have assumed a \$0.6m one-off expense relating to these matters.

It also appears that the mix of earnings between core metallurgical activities, the Marc Environmental Solutions business and the new external assaying operation has not eventuated according to budget, with sales from Marc and external assaying activity below expectations. AEC reported that a \$1.5m dust collection job secured by Marc has been postponed and that there are negotiations on several other large projects.

Below the EBITDA line, AEC increased its projected depreciation expense to just over \$2m from \$1.5m previously, which we expect reflects investment in 1H09 on expanding assay facilities and improving metallurgical laboratory facilities.

First half operating results solid (but a goodwill write-down may be coming)

AEC reported unaudited results for 1H09 of \$29.8m revenue and \$4.1m NPAT. Revenue was in line with our expectations but earnings fell short for the reasons spelt out above.

AEC highlights in its announcement that the unaudited results do not include any write down on investments in PSI or Marc. At June 30 AEC had \$21.4m of goodwill on its balance sheet, predominantly resulting from the acquisition of Marc (\$12.9m goodwill). In the current environment we expect auditors to consider carefully the carrying value of intangibles for all companies.

The interim dividend will be cut to \$0.06 from \$0.11 previously. AEC stated that it wanted to preserve cash to settle \$1.2m in deferred payments due to Marc's vendors. AEC also said it is deferring non-essential capital expenditure. The two decisions together reflect a characteristically cautious approach in an uncertain environment but we also expect operating cash flow was tight in 1H09 as mining clients stretched out payments.

Outlook for FY10 has deteriorated but at these levels Buy rating retained

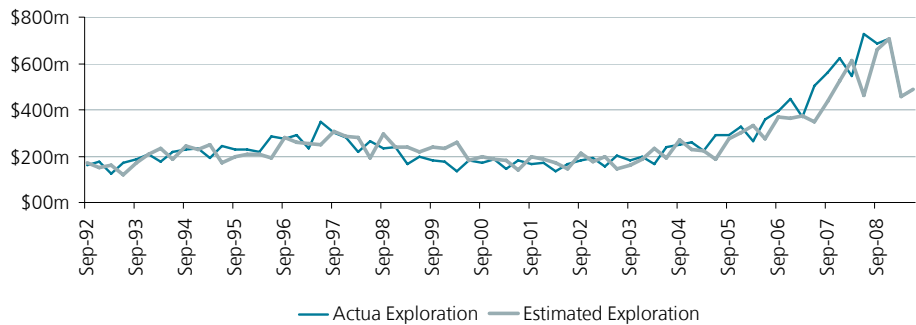
We have made adjustments to our FY09 forecasts that are more conservative than AEC's. The net result is an 18% normalised (and fully diluted) EPS downgrade to \$0.324 a share. We have further curtailed our FY10 projections and now assume EPS will decline 13% to \$0.281 that year as lead indicators point to a high risk of significant declines in both mine development and exploration expenditure (see the following page). We retain our Buy rating as we consider AEC undervalued and well positioned to survive the resources downturn and thrive when the recovery is underway. Our 12m price target is now \$2.25.

Deteriorating Outlook

AEC is exposed to mine development, expansion and exploration activities. A very good lead indicator for exploration expenditure is the S&P/ASX Small Resources Index, which is currently ~55% below its level at the end of the March 2008 quarter. We believe this relationship holds because: (a) miners require access to capital markets in order to raise funds for exploration; and (b) the pricing of resource stocks reflects consensus expectations on the outlook for minerals and commodities.

The correlation between capital expenditure and equity markets is not as close but there is some lagged correlation between exploration expenditure and future capex.

Figure 1: A model for forecasting exploration expenditure based on equities



Source: ABS, Bell Potter estimates

Industry surveying on expected capital expenditure undertaken by the ABS reveals that in the September quarter expectations for 2H09 mining capex were for a total of \$23.4b, compared to an actual figure of \$14.6b a year earlier. But these expectations were formed before the full impact of the credit crunch and the decline in commodity prices and resource sector stock prices was felt. We have since witnessed a number of new projects deferred or cancelled as miners scramble to conserve cash.

Global peers

European-based global leader in laboratory testing, SGS, provided the greatest note of caution to-date among its global peers in its CY08 results: "The fourth quarter of 2008 witnessed a steep decline in commodity pricing principally centered on ferrous and non-ferrous metals and industrial minerals markets. The Minerals sector has taken steps in 2008 to align its cost base to accommodate this change in market conditions and expects 2009 capital consumption to reflect the forecasted decline in exploration and project spending by our clients."

UK-based laboratory group Intertek, which owns Perth-based assayer Genalysis and global minerals laboratory business Caleb Brett, stated in its interim management statement in November that its Minerals division "continued to exhibit very strong growth as the laboratories continued to fill capacity".

Similarly, Euronext-listed Bureau Veritas, which owns AEC's leading domestic competitor Amdel and also Australian coal testing group CCI, reported 21% organic revenue growth in the September quarter in its "Industry" division, which includes its mining and minerals activities.

The key difference between these three European groups and AEC is that the former are all diversified in terms of their industry exposure, providing laboratory and testing services to a range of industries, while AEC is focused on the minerals and metals sector only.

Ammtec (AEC) Share price: \$1.400
As at 28/01/2009 Recommendation: **Buy** Market cap: \$39.3m

Income Statement						Valuation Data					
	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Year end June 30						Year end June 30					
Revenue	\$26m	\$38m	\$55m	\$51m	\$51m	Adjusted NPAT	4.82	6.78	8.88	7.89	8.02
EBITDA	7.88	11.79	16.09	15.00	15.29	Adjusted EPS	22.8c	29.4c	32.4c	28.1c	28.6c
EBITA	7.15	10.73	14.09	12.65	12.68	EPS growth	-12.6%	28.9%	10.2%	-13.3%	1.8%
Amortisation	0.00	0.00	0.00	0.00	0.00	P/E ratio	6.1x	4.8x	4.3x	5.0x	4.9x
EBIT	7.15	10.73	14.09	12.65	12.68	OpCFPS	29.0c	34.8c	23.5c	38.8c	37.9c
Interest	-0.01	-0.68	-0.93	-0.97	-0.80	Price/OpCFPS	4.8x	4.0x	6.0x	3.6x	3.7x
Abnormals	0.04	0.11	-0.60	0.00	0.00	DPS	22.0c	25.0c	15.0c	20.0c	22.0c
Pre-tax profit	7.18	10.16	12.56	11.69	11.88	Yield	15.71%	17.86%	10.71%	14.29%	15.71%
Tax	-2.33	-3.42	-4.08	-3.80	-3.86	EV/EBITDA	5.3x	4.1x	3.2x	3.2x	3.0x
Reported net profit	4.85	6.74	8.48	7.89	8.02						
Adjusted net profit	4.82	6.78	8.88	7.89	8.02						

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

Cashflow						Profitability Ratios					
	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Year end June 30						EBITDA/sales	30.0%	31.4%	29.4%	29.3%	29.9%
Net profit	\$4.85m	\$6.74m	\$8.48m	\$7.89m	\$8.02m	EBIT/sales	27.2%	28.5%	25.7%	24.7%	24.8%
Amortisation	0.00	0.00	0.00	0.00	0.00	Return on assets (avg.)	30.6%	26.6%	24.1%	20.3%	19.8%
Depreciation	0.73	1.07	2.00	2.34	2.61	Return on equity (avg.)	26.3%	24.5%	23.0%	18.6%	17.8%
Change in working capital	0.59	0.32	-4.04	0.65	0.00	Dividend cover	1.x	1.2x	2.2x	1.4x	1.3x
Other	-0.04	-0.11	0.00	0.00	0.00	Effective tax rate	32.5%	33.6%	32.5%	32.5%	32.5%
Net operating cashflow	6.13	8.02	6.43	10.88	10.63						

Reconciliation						Liquidity & Leverage					
	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Net profit	\$4.85m	\$6.74m	\$8.48m	\$7.89m	\$8.02m	Net debt	\$2.74m	\$9.45m	\$11.82m	\$8.75m	\$6.38m
Amortisation	0.00	0.00	0.00	0.00	0.00	Net debt/equity	14.3%	26.1%	28.9%	20.0%	13.7%
Depreciation	0.73	1.07	2.00	2.34	2.61	Interest cover	702.5x	17.4x	17.3x	15.5x	19.1x
Change in working capital	0.59	0.32	-4.04	0.65	0.00						
Other	-0.04	-0.11	0.00	0.00	0.00						
Net operating cashflow	6.13	8.02	6.43	10.88	10.63						

Investing cashflow						DCF Valuation					
	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Year end June 30						WACC = 11.8%					
Sale/purchase of PPE	-4.23	-5.64	-5.10	-2.82	-2.81	Terminal growth = 2.5%					
Investments & acquisitions	-0.37	-16.22	-1.00	-1.00	-1.00						
Other	0.04	0.40	0.00	0.00	0.00						
Net investing cash flow	-4.56	-21.46	-6.10	-3.82	-3.81						

	\$m	\$/share
Enterprise value	79.1	2.82
Net debt	-9.5	-0.34
60% PV of franking	11.7	0.42
NPV	81.3	2.90

Financing activities						Comparisons				
	2007A	2008A	2009F	2010F	2011F	Company/sector	P/E	EV/EBITDA		
	2007A	2008A	2009F	2010F	2011F	Fiscal years adjusted for comparison	FY09	FY10	FY09	FY10
Issue of shares	0.55	14.50	0.10	0.11	0.19	Coffey	5.6x	5.0x	4.3x	4.2x
Buy backs	0.00	0.00	0.00	0.00	0.00	Lycopodium	3.5x	3.8x	0.3x	0.3x
Dividends paid	-4.51	-5.12	-3.79	-5.10	-5.63	Essa Australia	5.5x	4.3x	2.4x	2.0x
Debt	0.00	4.70	4.82	0.00	0.00	Campbell Brothers	7.5x	8.7x	5.0x	5.6x
Others	-0.36	-0.61	0.00	0.00	0.00	Intertek Group (LSE)	11.6x	11.3x	6.7x	6.4x
Net financing cash flow	-4.32	13.47	1.13	-4.99	-5.44	Bureau Veritas (Euronext)	11.8x	11.5x	8.7x	8.7x
						SGS (Swiss)	15.1x	14.3x	8.3x	7.9x
						Outotec (Helsinki)	7.2x	9.3x	0.7x	0.7x

FX impact						Company/sector				
	2007A	2008A	2009F	2010F	2011F	Fiscal years adjusted for comparison	P/E	EV/EBITDA		
	2007A	2008A	2009F	2010F	2011F	FY09	FY10	FY09	FY10	
Net change in cash held	-2.75	0.03	1.46	2.07	1.37	Arithmetic Average	8.5x	8.5x	4.6x	4.5x

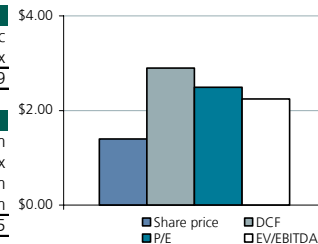
Balance Sheet						Ammtec					
	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Year end June 30						Geometric Average	7.7x	7.7x	2.9x	2.9x	
Cash assets	\$0.00m	\$0.00m	\$1.46m	\$3.53m	\$4.90m	Median	7.4x	9.0x	4.7x	4.9x	
Receivables	4.75	9.72	12.31	11.53	11.51	Ammtec	4.8x	4.3x	4.1x	3.2x	
Inventories	0.16	1.86	1.02	0.97	0.94						
Other	0.12	0.15	0.22	0.21	0.21						
Total current assets	5.03	11.74	15.01	16.23	17.57						
Plant and equipment	14.57	21.35	24.45	24.92	25.13						
Investment	0.64	0.00	0.00	0.00	0.00						
Intangible assets	4.71	21.41	21.41	21.41	21.41						
Deferred tax assets	0.58	0.75	0.75	0.75	0.75						
Total non-current assets	20.52	43.51	46.61	47.08	47.29						
Total assets	25.54	55.25	61.62	63.31	64.86						

Assets						AEC on peers' FY09 P/E					
	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Year end June 30						EPS	32.40c				
Cash assets	\$0.00m	\$0.00m	\$1.46m	\$3.53m	\$4.90m	P/E target	7.7x				
Receivables	4.75	9.72	12.31	11.53	11.51	Valuation per share	\$2.49				
Inventories	0.16	1.86	1.02	0.97	0.94						
Other	0.12	0.15	0.22	0.21	0.21						
Total current assets	5.03	11.74	15.01	16.23	17.57						

Liabilities						AEC on peers' FY09 EV/EBITDA					
	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Year end June 30						EBITDA	\$16.09m				
Short term debt	0.59	1.13	1.13	1.13	1.13	EV/EBITDA target	2.9x				
Payables	1.65	3.48	2.44	2.32	2.27	Enterprise value	\$47.36m				
Current tax liabilities	0.33	2.41	1.22	1.14	1.16	- net debt	\$11.19m				
Provisions & other	1.13	1.77	1.77	1.77	1.77	Valuation per share	\$2.25				
Total current liabilities	3.69	8.79	6.56	6.35	6.32						

Other						Company Description					
	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Year end June 30						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.					
Long term debt	2.15	8.33	12.15	11.15	10.15						
Deferred tax liabilities	0.32	0.32	0.32	0.32	0.32						
Provisions	0.20	0.12	0.12	0.12	0.12						
Total non-current liabilities	2.67	10.28	14.11	13.11	12.11						
Total liabilities	6.36	19.07	20.67	19.46	18.43						
Net assets	19.19	36.18	40.95	43.85	46.43						

Equity						Share price					
	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Year end June 30						Share price	\$1.40				
Contributed equity	10.55	25.07	25.16	25.27	25.46	P/E	4.8x				
Reserves & outside equity	0.76	1.14	1.14	1.14	1.14	DCF	\$2.25				
Retained earnings	7.87	9.97	14.65	17.44	19.83	EV/EBITDA	4.1x				
Total equity	19.19	36.18	40.95	43.85	46.43						
Diluted shares on issue	21.29	26.07	28.07	28.07	28.07						
Weighted ave diluted shares	21.13	23.08	27.39	28.07	28.07						



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