

Date of issue

04.11.08

Company Update

INVESTMENT DATA

Share Price	\$2.80
Issued Capital	
Ordinary shares	25.3m
Options/other	1.0m
Fully diluted	26.3m
Market Capitalisation	\$73.6m
52-week low/high	\$2.76 / \$4.98
Valuation	\$5.74
Price Target (12 months)	\$3.98
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	08a	09f	10f	11f
Revenue	\$m	37.6	56.5	59.6	66.0
EBITDA	\$m	11.8	17.9	19.4	22.3
NPAT (adj)	\$m	6.8	10.4	11.3	13.2
EPS (adj)	¢	29.8	39.5	43.0	49.9
EPS growth	%	28.4	32.6	8.9	16.0
PER	x	9.4	7.1	6.5	5.6
EV/EBITDA	x	7.0	4.7	4.2	3.5
DPS	¢	25.0	26.0	28.0	30.0
Yield	%	8.9	9.3	10.0	10.7
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 2007 placement by Ammtec Limited and received fees for this service.

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Ammtec (AEC)

Buy

As you were—resin deal crunched but life goes on

The proposed (and anonymous) buyer of AEC's non-core PSI resin technology investment has failed to settle within the agreed time on the \$US25m transaction.

- AEC had agreed to sell its 69.5% stake in PSI to an unnamed bidder for \$US25m.
- The transaction was due to be settled overnight and was a binding agreement but the funds were not received.
- AEC says the buyer, which we understand was a mining company with a specific project for which it required the resin, may pursue settlement at a later date but AEC itself would not be expecting a sale to occur in the near-term.

In the absence of this transaction AEC retains its pre-sale earnings guidance of \$55.6m revenue, \$10m NPAT and \$0.40 EPS.

When the PSI transaction was announced in August it came as a significant positive surprise and we adjusted our estimates to reflect the removal of a drain on expenses (PSI is a minor drain on earnings) and the interest savings/income from the cash receipts. There is still a possibility the transaction will be settled late but we will not be factoring this in given the buyer has clearly experienced financing issues since August.

Balcatta expansion on track + \$10m contract for Marc

We recently attended AEC's AGM and visited its cornerstone Balcatta (WA, 80%+ of AEC's metallurgical revenue) laboratory facilities to observe recent expansion, including the ramp-up of assaying activities and a revised lay-out designed to improve productivity.

The 2000m² assay lab is now fully operational, improving efficiency within the laboratory, removing reliance on external service providers and also introducing a new revenue stream. Expansion has met AEC can now run four pilot plants at one time rather than one and the company has also invested in expanding its testing machines.

At the AGM AEC announced a \$10m contract win for recent acquisition Marc Environmental Solutions. This is Marc's biggest ever single contract. Marc is also relocating to larger premises.

Price target of \$3.98 + 9% franked yield following revisions

We have adjusted our earnings estimates to remove the assumption of a sale of PSI and we have also revisited the outlook for AEC's metallurgical business, which is exposed to mining project development. We believe it is prudent to expect some softening in demand from current high levels in 2H09 but Marc's \$10m contract mitigates any significant downgrade.

The end result is that our FY09 estimates are largely in-line with management projections, with 50% revenue growth flowing through to 33% EPS growth to \$0.395 a share. That places AEC on 7.1x forward earnings (based on \$2.80 close).

We are currently revising price targets across our universe of coverage in order to reflect prevailing relativities in the current market environment. In the case of AEC, we now elect to set a target based on a P/E of 10x FY09f EPS, resulting in our target post-revisions falling to \$3.98 from \$5.13 under the previous scenario, where we factored in the sale of the PSI investment (note our revised price target and valuation includes a small negative value contribution from PSI reflecting expenditure on development of the resin).

Our Buy recommendation is reiterated and we note in particular the attractive 9% fully-franked dividend yield AEC offers at its current price.

Ammtec (AEC) Share price: \$2.800
As at 3/11/2008 Recommendation: **Buy** Market cap: \$73.6m

Income Statement						Valuation Data					
Year end June 30	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Revenue	\$26m	\$38m	\$56m	\$60m	\$66m	Adjusted NPAT	4.82	6.78	10.38	11.29	13.18
EBITDA	7.88	11.79	17.86	19.45	22.34	Adjusted EPS	23.2c	29.8c	39.5c	43.0c	49.9c
EBITA	7.15	10.73	16.21	17.50	20.11	EPS growth	-11.1%	28.4%	32.6%	8.9%	16.0%
Amortisation	0.00	0.00	0.00	0.00	0.00	P/E ratio	12.1x	9.4x	7.1x	6.5x	5.6x
EBIT	7.15	10.73	16.21	17.50	20.11	OpCFPS	29.5c	35.3c	41.8c	49.0c	55.6c
Interest	-0.01	-0.68	-0.83	-0.77	-0.58	Price/OpCFPS	9.5x	7.9x	6.7x	5.7x	5.0x
Abnormals	0.04	0.11	0.00	0.00	0.00	DPS	22.0c	25.0c	26.0c	28.0c	30.0c
Pre-tax profit	7.18	10.16	15.38	16.72	19.52	Yield	7.86%	8.93%	9.29%	10.00%	10.71%
Tax	-2.33	-3.42	-5.00	-5.43	-6.35	EV/EBITDA	9.7x	7.0x	4.7x	4.2x	3.5x
Reported net profit	4.85	6.74	10.38	11.29	13.18						
Adjusted net profit	4.82	6.78	10.38	11.29	13.18						

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

Cashflow						Profitability Ratios					
Year end June 30	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Net profit	\$4.85m	\$6.74m	\$10.38m	\$11.29m	\$13.18m	EBITDA/sales	30.0%	31.4%	31.6%	32.6%	33.9%
Amortisation	0.00	0.00	0.00	0.00	0.00	EBITA/sales	27.2%	28.5%	28.7%	29.3%	30.5%
Depreciation	0.73	1.07	1.65	1.95	2.23	Return on assets (avg.)	30.6%	26.6%	28.4%	28.9%	31.0%
Change in working capital	0.59	0.32	-1.07	-0.36	-0.74	Return on equity (avg.)	26.3%	24.5%	27.2%	26.8%	27.9%
Other	-0.04	-0.11	0.00	0.00	0.00	Dividend cover	1.1x	1.2x	1.5x	1.5x	1.7x
Net operating cashflow	6.13	8.02	10.96	12.88	14.67	Effective tax rate	32.5%	33.6%	32.5%	32.5%	32.5%

Reconciliation						Liquidity & Leverage					
Year end June 30	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Net profit	\$4.85m	\$6.74m	\$10.38m	\$11.29m	\$13.18m	Net debt	\$2.74m	\$9.45m	\$9.60m	\$7.34m	\$4.08m
Amortisation	0.00	0.00	0.00	0.00	0.00	Net debt/equity	14.3%	26.1%	24.0%	16.6%	8.2%
Depreciation	0.73	1.07	1.65	1.95	2.23	Interest cover	702.5x	17.4x	21.5x	25.1x	38.3x
Change in working capital	0.59	0.32	-1.07	-0.36	-0.74						
Other	-0.04	-0.11	0.00	0.00	0.00						
Net operating cashflow	6.13	8.02	10.96	12.88	14.67						

Investing cashflow						DCF Valuation		
Year end June 30	2007A	2008A	2009F	2010F	2011F			
Sale/purchase of PPE	-4.23	-5.64	-4.57	-3.62	-3.98	WACC = 13.6%	\$m	
Investments & acquisitions	-0.37	-16.22	-1.00	-1.00	-1.00	Terminal growth = 2.5%	\$/share	
Other	0.04	0.40	0.00	0.00	0.00	Enterprise value	140.9	5.36
Net investing cash flow	-4.56	-21.46	-5.57	-4.62	-4.98	Net debt	-9.5	-0.36
						60% PV of franking	19.4	0.74
						NPV	150.8	5.74

Financing activities						Comparisons					
Year end June 30	2007A	2008A	2009F	2010F	2011F	Company/sector	P/E		EV/EBITDA		
Issue of shares	0.55	14.50	0.03	0.11	0.19	<i>Fiscal years adjusted for comparison</i>	FY09	FY10	FY09	FY10	
Buy backs	0.00	0.00	0.00	0.00	0.00	Coffey	6.7x	6.5x	5.0x	4.8x	
Dividends paid	-4.51	-5.12	-6.57	-7.10	-7.63	Lycopodium	7.4x	6.6x	5.6x	5.2x	
Debt	0.00	4.70	2.65	0.00	0.00	Essa	5.4x	4.6x	3.0x	2.6x	
Others	-0.36	-0.61	0.00	0.00	0.00	Campbell Brothers	10.4x	11.7x	6.6x	7.3x	
Net financing cash flow	-4.32	13.47	-3.89	-6.99	-7.44	Intertek Group (LSE)	10.7x	9.9x	6.6x	6.0x	
						Bureau Veritas (Euronext)	10.7x	9.7x	8.1x	7.6x	
						SGS (Swiss)	13.7x	12.6x	7.6x	6.9x	
						Outotec (Helsinki)	5.3x	6.2x	0.6x	0.7x	

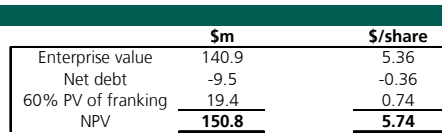
FX impact
Net change in cash held **-2.75** **0.03** **1.50** **1.27** **2.25**

Balance Sheet						Assets					
Year end June 30	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Cash assets	\$0.00m	\$0.00m	\$1.50m	\$2.77m	\$5.02m	Receivables	4.75	9.72	9.60	10.14	11.21
Receivables	4.75	9.72	9.60	10.14	11.21	Inventories	0.16	1.86	1.02	1.05	1.12
Inventories	0.16	1.86	1.02	1.05	1.12	Other	0.12	0.15	0.23	0.24	0.27
Other	0.12	0.15	0.23	0.24	0.27	Total current assets	5.03	11.74	12.35	14.21	17.62
Total current assets	5.03	11.74	12.35	14.21	17.62						
Plant and equipment	14.57	21.35	24.26	25.93	27.67	Plant and equipment	14.57	21.35	24.26	25.93	27.67
Investment	0.64	0.00	0.00	0.00	0.00	Investment	0.64	0.00	0.00	0.00	0.00
Intangible assets	4.71	21.41	21.41	21.41	21.41	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	Deferred tax assets	0.58	0.75	0.75	0.75	0.75
Total non-current assets	20.52	43.51	46.42	48.09	49.83	Total non-current assets	20.52	43.51	46.42	48.09	49.83
Total assets	25.54	55.25	58.78	62.30	67.46						

Liabilities						AEC on peers' FY09 P/E					
Year end June 30	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Short term debt	0.59	1.13	1.13	1.13	1.13	EPS					
Payables	1.65	3.48	2.44	2.53	2.68	P/E target					
Current tax liabilities	0.33	2.41	1.50	1.63	1.90	Valuation per share					
Provisions & other	1.13	1.77	1.77	1.77	1.77						
Total current liabilities	3.69	8.79	6.84	7.05	7.48						
Other	0.00	1.52	1.52	1.52	1.52						
Long term debt	2.15	8.33	9.98	8.98	7.98						
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	11.94	10.94	9.94						
Total liabilities	6.36	19.07	18.77	17.99	17.42						
Net assets	19.19	36.18	40.01	44.30	50.04						

Equity						AEC on peers' FY09 EV/EBITDA					
Year end June 30	2007A	2008A	2009F	2010F	2011F	Year end June 30	2007A	2008A	2009F	2010F	2011F
Contributed equity	10.55	25.07	25.09	25.20	25.39	EBITDA					
Reserves & outside equity	0.76	1.14	1.14	1.14	1.14	EV/EBITDA target					
Retained earnings	7.87	9.97	13.77	17.96	23.51	Enterprise value					
Total equity	19.19	36.18	40.01	44.30	50.04	- net debt					
						Valuation per share					

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.					
Diluted shares on issue	21.29	26.07	26.22	26.36	26.50
Weighted ave diluted shares	20.77	22.73	26.24	26.26	26.39



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