Bell Potter
SECURITIES LIMITED

Research

Date of issue

05.08.08

CompanyUpdate

INVESTMENT DATA

Share Price	**$3.38**
Issued Capital	
Ordinary shares	**25.3m**
Options/other	**0.8m**
Fully diluted	**26.1m**
Market Capitalisation	**$88.1m**
52-week low/high	**$3.10 / $4.50**
Valuation	**$4.10**
Price Target (12 months)	**$3.88**
Return on Equity (FY07)	**27.25%**

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

Year end Jun		**07a**	**08a**	**09f**	**10f**
Revenue	**$m**	26.2	37.6	57.8	57.7
EBITDA	**$m**	7.9	11.8	16.6	17.0
NPAT (adj)	**$m**	4.8	6.8	9.5	9.6
EPS (adj)	**¢**	23.2	29.8	36.5	36.7
EPS growth	**%**	-11.1	28.4	22.5	0.5
PER	**x**	14.6	11.3	9.3	9.2
EV/EBITDA	**x**	11.5	8.3	5.9	5.7
DPS	**¢**	22.0	25.0	26.0	28.0
Yield	**%**	6.5	7.4	7.7	8.3
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

The early bird exceeds expectations

Leading metallurgical and laboratory group Ammtec (ASX code: AEC) has delivered a set of annual financial results that were in-line or better than our expectations at every line, including the performance of its recent acquisition, MARC Environmental.

AEC reported $6.7m NPAT for FY08, exceeding Bell Potter's forecast by 4.2% and also bettering management guidance of $6.56m. An annual dividend of $0.25 was up 14%.

Figure 1: AEC's reported FY08 results v. Bell Potter forecasts

	BP(f)	Reported	
Revenue	$38m	$38m	-1.1%
EBITDA	11.61	11.79	1.6%
EBIT	10.32	10.73	3.9%
PBT	9.54	10.16	6.5%
NPAT	6.47	6.74	4.2%
Operating cash flow	6.13	8.02	30.9%

Operating cash flow was a feature of the result, with a net figure of $8.0m including $5.8m in the second half. The figure appeared primarily to exceed NPAT due to the timing of tax payments. Net debt at June 30 was $9.5m.

High level of organic growth + solid acquisition contribution

Growth rates were impressive. Headline results yielded 43% revenue growth and 50% EBITDA growth. If the four months' contribution from MARC is excluded ($4.3m revenue and $1.2m EBITDA), revenue grew 27% and EBITDA 35%.

Furthermore, AEC moved to a controlling position in resin technology company PSI during FY08 and, therefore, consolidated expenditure on the commercialisation of the resin. If the $0.6m loss from PSI is excluded, underlying EBITDA for the minerals testing business grew 42%.

As the figures indicate, AEC achieved EBITDA margin expansion both in terms of FY08 over FY07 and 2H08 over 1H08. This improvement was achieved despite the PSI expenditure. The achievement likely reflects both scalability of the core business and more rationale pricing in the industry following recent consolidation activity detailed in our Initiation of Coverage (July 10, 2008).

Projections upgraded, Buy rating retained

We have revised our earnings forecasts moderately, with our EPS estimates lifted circa-6% for both FY09 and FY10. Based on the last closing price of $3.38, our projections imply a P/E of 9.3x for FY09 with 23% EPS growth in that year, following 28% recorded for FY08.

Growth in FY09 will come from continuing demand for AEC's services, cost savings from bringing assaying in-house and the first full 12 months of earnings from MARC.

Our price target remains largely unchanged at $3.88. Buy retained.

Ammtec (AEC)
As at 5/08/2008

Recommendation: Buy

Share price: $3.380
Market cap: $88.1m

Income Statement

Year end June 30	2006A	2007A	2008A	2009F	2010F
Revenue	$24m	$26m	$38m	$58m	$58m
EBITDA	8.33	7.88	11.79	16.57	16.96
EBITA	7.99	7.15	10.73	14.96	15.10
Amortisation	-0.19	0.00	0.00	0.00	0.00
EBIT	7.80	7.15	10.73	14.96	15.10
Interest	0.05	-0.01	-0.68	-0.83	-0.82
Abnormals	0.03	0.04	0.11	0.00	0.00
Pre-tax profit	7.89	7.18	10.16	14.12	14.28
Tax	-2.46	-2.33	-3.42	-4.59	-4.64
Reported net profit	**5.42**	**4.85**	**6.74**	**9.53**	**9.64**
Adjusted net profit	**5.43**	**4.82**	**6.78**	**9.53**	**9.64**

(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
Reconciliation					
Net profit	$5.42m	$4.85m	$6.74m	$9.53m	$9.64m
Amortisation	0.19	0.00	0.00	0.00	0.00
Depreciation	0.34	0.73	1.07	1.61	1.87
Change in working capital	0.32	0.59	0.32	-1.32	-0.01
Other	0.24	-0.04	-0.11	0.00	0.00
Net operating cashflow	6.50	6.13	8.02	9.82	11.49
Investing cashflow					
Sale/purchase of PPE	-2.50	-4.23	-5.64	-3.51	-3.51
Investments & acquisitions	0.00	-0.37	-16.22	-1.00	-1.00
Other	0.03	0.04	0.40	0.00	0.00
Net investing cash flow	-2.47	-4.56	-21.46	-4.51	-4.51
Financing activities					
Issue of shares	0.91	0.55	14.50	0.00	0.11
Buy backs	0.00	0.00	0.00	0.00	0.00
Dividends paid	-3.42	-4.51	-5.12	-6.57	-7.10
Debt	0.00	0.00	4.70	2.80	0.01
Others	-0.25	-0.36	-0.61	0.00	0.00
Net financing cash flow	-2.77	-4.32	13.47	-3.77	-6.98
FX impact					
Net change in cash held	**1.26**	**-2.75**	**0.03**	**1.54**	**0.00**

Balance Sheet

Year end June 30	2006A	2007A	2008A	2009F	2010F
Assets					
Cash assets	$2.72m	$0.00m	$0.00m	$1.54m	$1.54m
Receivables	3.64	4.75	9.72	9.83	9.81
Inventories	0.28	0.16	1.86	1.09	1.05
Other	0.10	0.12	0.15	0.24	0.24
Total current assets	6.73	5.03	11.74	12.69	12.64
Plant and equipment	9.00	14.57	21.35	23.25	24.90
Investment	0.32	0.64	0.00	0.00	0.00
Intangible assets	4.71	4.71	21.41	21.41	21.41
Deferred tax assets	0.43	0.58	0.75	0.75	0.75
Total non-current assets	14.47	20.52	43.51	45.41	47.06
Total assets	**21.21**	**25.54**	**55.25**	**58.10**	**59.69**
Liabilities					
Short term debt	0.33	0.59	1.13	1.13	1.13
Payables	0.60	1.65	3.48	2.61	2.53
Current tax liabilities	0.74	0.33	2.41	1.38	1.39
Provisions & other	0.92	1.13	1.77	1.77	1.77
Total current liabilities	2.59	3.69	8.79	6.88	6.81
Other	0.00	0.00	1.52	1.52	1.52
Long term debt	0.68	2.15	8.33	10.13	9.13
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	12.08	11.09
Total liabilities	**3.73**	**6.36**	**19.07**	**18.97**	**17.90**
Net assets	**17.48**	**19.19**	**36.18**	**39.14**	**41.79**
Equity					
Contributed equity	9.94	10.55	25.07	25.07	25.18
Reserves & outside equity	0.00	0.76	1.14	1.14	1.14
Retained earnings	7.54	7.87	9.97	12.93	15.47
Total equity	**17.48**	**19.19**	**36.18**	**39.14**	**41.79**
Diluted shares on issue	20.78	21.29	26.07	26.21	26.35
Weighted ave diluted shares	20.82	20.77	22.73	26.14	26.24

Valuation Data

Year end June 30	2006A	2007A	2008A	2009F	2010F
Adjusted NPAT	5.43	4.82	6.78	9.53	9.64
Adjusted EPS	26.1c	23.2c	29.8c	36.5c	36.7c
EPS growth	45.0%	-11.1%	28.4%	22.5%	0.5%
P/E ratio	13.0x	14.6x	11.3x	9.3x	9.2x
OpCFPS	31.2c	29.5c	35.3c	37.6c	43.8c
Price/OpCFPS	10.8x	11.5x	9.6x	9.0x	7.7x
DPS	22.0c	22.0c	25.0c	26.0c	28.0c
Yield	6.51%	6.51%	7.40%	7.69%	8.28%
EV/EBITDA	10.4x	11.5x	8.3x	5.9x	5.7x

Profitability Ratios

Year end June 30	2006A	2007A	2008A	2009F	2010F
EBITDA/sales	35.2%	30.0%	31.4%	28.7%	29.4%
EBITA/sales	33.7%	27.2%	28.5%	25.9%	26.2%
Return on assets (avg.)	40.3%	30.6%	26.6%	26.4%	25.6%
Return on equity (avg.)	34.1%	26.3%	24.5%	25.3%	23.8%
Dividend cover	1.2x	1.1x	1.2x	1.4x	1.3x
Effective tax rate	31.2%	32.5%	33.6%	32.5%	32.5%

Liquidity & Leverage

Year end June 30	2006A	2007A	2008A	2009F	2010F
Net debt	-$1.71m	$2.74m	$9.45m	$9.71m	$8.72m
Net debt/equity	-9.8%	14.3%	26.1%	24.8%	20.9%
Interest cover	-164.9x	702.5x	17.4x	19.9x	20.6x

DCF Valuation

WACC = 13.7%
Terminal growth = 2.5%

	$m	$/share
Enterprise value	99.4	3.81
Net debt	-9.5	-0.36
60% PV of franking	17.0	0.65
NPV	**106.9**	**4.10**

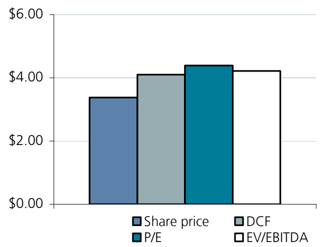
Comparisons

Company/sector	P/E FY08	P/E FY09	EV/EBITDA FY08	EV/EBITDA FY09
Coffey	8.0x	7.1x	5.7x	5.4x
Lycopodium	13.2x	12.0x	8.0x	7.5x
Essa	9.5x	7.9x	5.6x	4.7x
Campbell Brothers	19.5x	15.8x	11.5x	9.3x
Intertek Group (LSE)	16.2x	14.8x	9.4x	8.5x
Bureau Veritas (Euronext)	18.9x	16.1x	13.0x	11.4x
SGS (Swiss)	19.6x	17.5x	11.0x	9.9x
Outotec (Helsinki)	12.0x	9.6x	6.2x	5.1x
Average	14.6x	12.6x	8.8x	7.7x
Median	14.7x	13.4x	8.7x	8.0x
Ammtec	**11.3x**	**9.3x**	**8.3x**	**5.9x**

** consensus estimates used where Bell Potter estimates are unavailable*

AEC on peers' FY09 P/E	
EPS	36.50c
P/E (10% discount)	12.0x
Valuation per share	$4.39

AEC on peers' FY09 EV/EBITDA	
EBITDA	$16.57m
EV/EBITDA (10% discount)	7.2x
Enterprise value	$119.39m
- net debt	-$9.45m
Valuation per share	$4.22



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 Pert, 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	2008F	2009F	2010F
Metallurgical services	23.61	26.21	32.75	40.83	39.24
MARC Environmental	0.00	0.00	4.74	16.91	18.38

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