

Date of issue

07.05.09

Company Update

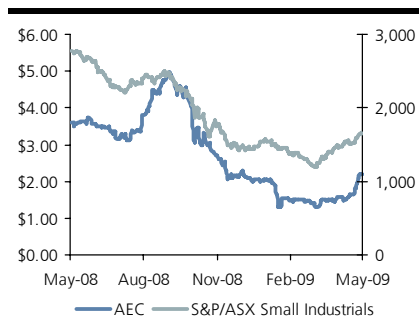
INVESTMENT DATA

Share Price	\$2.20
Issued Capital	
Ordinary shares	25.4m
Options/other	2.6m
Fully diluted	28.1m
Market Capitalisation	\$61.7m
52-week low/high	\$1.3 / \$4.98
Valuation	\$2.68
Price Target (12 months)	\$2.28
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	53.9	47.1	48.7
EBITDA	\$m	11.8	15.0	12.6	13.4
NPAT (adj)	\$m	6.8	8.3	6.5	7.0
EPS (adj)	¢	29.4	30.2	23.3	24.8
EPS growth	%	28.9	2.7	-22.8	6.4
PER	x	7.5	7.3	9.4	8.9
EV/EBITDA	x	6.0	4.6	5.3	4.9
DPS	¢	25.0	15.0	20.0	22.0
Yield	%	11.4	6.8	9.1	10.0
Franking	%	100	100	100	100

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



Ammtec (AEC)

Neutral

Earnings taken to the lab

Prev: Buy

AEC's core metallurgical business is, in our view, less volatile than mining services businesses directly reliant on the commissioning of new projects due to its significant input into the decision making process on whether to proceed and which direction to proceed in with capital expenditure. But in the current environment earnings visibility is not great and there are signs that the MARC Technologies business AEC acquired in 2008 is likely finding conditions tough in 2H09 after a very solid 1H09. Under the circumstances, we believe there is some risk AEC may fall short of its FY09 guidance of \$8.7m net profit. But with ~7 weeks still remaining in the financial year the timing of lumpy revenue from AEC's pilot plants could swing the result above or below the target.

MARC likely doing it tough

100%-owned MARC Technologies provides laboratory equipment, dust and fume control equipment and related engineering services to the mining sector. In 1H09 MARC earned \$2m EBITDA on \$9.6m revenue, contributing just over a quarter of AEC's group EBITDA. But we see MARC as being more directly exposed to capital expenditure decisions than AEC's metallurgical business and note the recent experience of listed laboratory equipment group Essa (ASX code: ESS).

ESS issued a trading update on April 21 in which it warned that 2H09 sales would likely decline 40% year-on-year. We understand softness in demand was likely magnified in the specific case of ESS by the emergence of a competitor that has stolen high-margin product market share from ESS.

AEC quietly expanding horizons

An interesting development last month was the recruitment of two staff to boost AEC's mineralogy activities. We understand the recruits, business development manager Mike Downen and geotechnical advisor Professor Joseph Hamilton, came from CSIRO spin-off Intellection, which created the QEMSCAN software AEC uses for mineralogy (Intellection's assets were acquired by Nasdaq-listed FEI in January).

These recruits have extensive oil & gas experience including the application of automated mineralogy analysis to hydrocarbons. AEC is already utilising these skills in work for projects in Saudi Arabia and Indonesia, representing AEC's first steps into the oil & gas industry.

Earnings estimates adjusted

Given the difficult environment faced by MARC and the volatility regarding AEC's pilot plant activities, we have elected to lower our FY09 EPS estimate by 6.8% and our FY10 forecast EPS by 17%. On that basis, AEC is now priced at 7.3x FY09f EPS and on an EV/EBITDA multiple of 4.6x but with EPS expected to decline 23% in FY10.

Our price target has moved to \$2.28, based on an EV/EBITDA multiple of 3.7x from \$2.25 previously but our recommendation has moved to Neutral (from Buy) following the 57% gain in AEC's share price since our last Company Update.

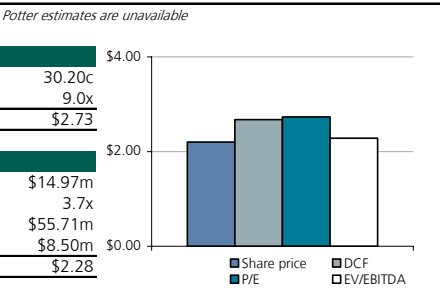
Martin Pretty

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Ammtec (AEC)						Share price: \$2.200					
As at 8/05/2009						Market cap: \$61.7m					
Recommendation: Buy											
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	\$54m	\$47m	\$49m	Adjusted NPAT	4.82	6.78	8.27	6.54	6.97
EBITDA	7.88	11.79	14.97	12.59	13.37	Adjusted EPS	22.8c	29.4c	30.2c	23.3c	24.8c
EBITA	7.15	10.73	12.97	10.26	10.80	EPS growth	-12.6%	28.9%	2.7%	-22.8%	6.4%
Amortisation	0.00	0.00	0.00	0.00	0.00	P/E ratio	9.6x	7.5x	7.3x	9.4x	8.9x
EBIT	7.15	10.73	12.97	10.26	10.80	OpCFPS	29.0c	34.8c	41.3c	33.7c	33.5c
Interest	-0.01	-0.68	-0.72	-0.58	-0.47	Price/OpCFPS	7.6x	6.3x	5.3x	6.5x	6.6x
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	11.65	9.68	10.33	Yield	10.00%	11.36%	6.82%	9.09%	10.00%
Tax	-2.33	-3.42	-3.78	-3.15	-3.36	EV/EBITDA	8.2x	6.0x	4.6x	5.3x	4.9x
Reported net profit	4.85	6.74	7.86	6.54	6.97	Profitability Ratios					
Adjusted net profit	4.82	6.78	8.27	6.54	6.97	Year end June 30	2007A	2008A	2009F	2010F	2011F
<i>(adjusted net profit = pre-tax profit before abnormals and goodwill minus tax at marginal rate)</i>						EBITDA/sales	30.0%	31.4%	27.8%	26.7%	27.5%
Cashflow						EBITDA/sales	27.2%	28.5%	24.1%	21.8%	22.2%
Year end June 30	2007A	2008A	2009F	2010F	2011F	Return on assets (avg.)	30.6%	26.6%	22.2%	16.7%	17.5%
Net profit	\$4.85m	\$6.74m	\$7.86m	\$6.54m	\$6.97m	Return on equity (avg.)	26.3%	24.5%	21.6%	15.9%	16.3%
Amortisation	0.00	0.00	0.00	0.00	0.00	Dividend cover	1.x	1.2x	2.x	1.2x	1.1x
Depreciation	0.73	1.07	2.00	2.33	2.58	Effective tax rate	32.5%	33.6%	32.5%	32.5%	32.5%
Change in working capital	0.59	0.32	1.46	0.60	-0.15	Liquidity & Leverage					
Other	-0.04	-0.11	0.00	0.00	0.00	Year end June 30	2007A	2008A	2009F	2010F	2011F
Net operating cashflow	6.13	8.02	11.33	9.46	9.40	Net debt	\$2.74m	\$9.45m	\$6.86m	\$4.97m	\$3.69m
Investing cashflow						Net debt/equity	14.3%	26.1%	17.0%	11.9%	8.5%
Sale/purchase of PPE	-4.23	-5.64	-5.04	-2.59	-2.68	Interest cover	702.5x	17.4x	20.7x	21.7x	28.7x
Investments & acquisitions	-0.37	-16.22	-1.00	-1.00	-1.00	DCF Valuation					
Other	0.04	0.40	0.00	0.00	0.00	WACC = 12.0%			\$m	\$/share	
Net investing cash flow	-4.56	-21.46	-6.04	-3.59	-3.68	Terminal growth = 2.5%	Enterprise value	74.2	2.64		
Financing activities						Net debt	-12.1	-0.43			
Issue of shares	0.55	14.50	0.10	0.11	0.19	60% PV of franking	13.3	0.47			
Buy backs	0.00	0.00	0.00	0.00	0.00	NPV	75.3	2.68			
Dividends paid	-4.51	-5.12	-3.78	-5.10	-5.63	Comparisons					
Debt	0.00	4.70	0.00	0.00	0.00	Company/sector	P/E	EV/EBITDA			
Others	-0.36	-0.61	0.00	0.00	0.00	<i>Fiscal years adjusted for comparison</i>	FY09	FY10	FY09	FY10	
Net financing cash flow	-4.32	13.47	-3.69	-4.99	-5.44	Coffey	7.4x	6.9x	5.3x	5.6x	
FX impact						Lycopodium	5.4x	8.6x	0.5x	0.6x	
Net change in cash held	-2.75	0.03	1.60	0.88	0.28	Essa Australia	4.8x	4.0x	2.1x	1.7x	
Balance Sheet						Campbell Brothers	9.0x	12.1x	6.0x	7.5x	
Year end June 30	2007A	2008A	2009F	2010F	2011F	Intertek Group (LSE)	13.7x	12.8x	8.4x	7.8x	
Assets						Bureau Veritas (Euronext)	13.9x	12.8x	9.5x	9.0x	
Cash assets	\$0.00m	\$0.00m	\$1.60m	\$2.48m	\$2.76m	SGS (Swiss)	16.2x	15.6x	9.1x	8.6x	
Receivables	4.75	9.72	10.78	9.43	9.74	Outotec (Helsinki)	8.5x	10.3x	1.5x	1.9x	
Inventories	0.16	1.86	2.20	1.96	2.01	Arithmetic Average	9.9x	10.4x	5.3x	5.3x	
Other	0.12	0.15	0.54	0.47	0.49	Geometric Average	9.0x	9.6x	3.7x	3.9x	
Total current assets	5.03	11.74	15.12	14.34	15.00	Median	8.7x	11.2x	5.7x	6.5x	
Plant and equipment	14.57	21.35	24.39	24.66	24.76	Ammtec	7.5x	7.3x	6.0x	4.6x	
Investment	0.64	0.00	0.00	0.00	0.00	<i>* consensus estimates used where Bell Potter estimates are unavailable</i>					
Intangible assets	4.71	21.41	21.41	21.41	21.41	AEC on peers' FY09 P/E					
Deferred tax assets	0.58	0.75	0.75	0.75	0.75	EPS	30.20c				
Total non-current assets	20.52	43.51	46.55	46.82	46.92	P/E target	9.0x				
Total assets	25.54	55.25	61.67	61.16	61.91	Valuation per share	\$2.73				
Liabilities						AEC on peers' FY09 EV/EBITDA					
Short term debt	0.59	1.13	1.13	1.13	1.13	EBITDA	\$14.97m				
Payables	1.65	3.48	6.17	5.50	5.63	EV/EBITDA target	3.7x				
Current tax liabilities	0.33	2.41	1.14	0.94	1.01	Enterprise value	\$55.71m				
Provisions & other	1.13	1.77	3.61	3.41	3.44	- net debt	\$8.50m				
Total current liabilities	3.69	8.79	12.04	10.98	11.20	Valuation per share	\$2.28				
Other	0.00	1.52	1.52	1.52	1.52	Company Description					
Long term debt	2.15	8.33	7.33	6.33	5.33	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.					
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	9.28	8.28	7.28						
Total liabilities	6.36	19.07	21.32	19.26	18.49						
Net assets	19.19	36.18	40.35	41.90	43.43						
Equity											
Contributed equity	10.55	25.07	25.16	25.27	25.46						
Reserves & outside equity	0.76	1.14	1.14	1.14	1.14						
Retained earnings	7.87	9.97	14.05	15.49	16.83						
Total equity	19.19	36.18	40.35	41.90	43.43						
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						

	\$m	\$/share
Enterprise value	74.2	2.64
Net debt	-12.1	-0.43
60% PV of franking	13.3	0.47
NPV	75.3	2.68

Company/sector	P/E		EV/EBITDA	
<i>Fiscal years adjusted for comparison</i>	FY09	FY10	FY09	FY10
Coffey	7.4x	6.9x	5.3x	5.6x
Lycopodium	5.4x	8.6x	0.5x	0.6x
Essa Australia	4.8x	4.0x	2.1x	1.7x
Campbell Brothers	9.0x	12.1x	6.0x	7.5x
Intertek Group (LSE)	13.7x	12.8x	8.4x	7.8x
Bureau Veritas (Euronext)	13.9x	12.8x	9.5x	9.0x
SGS (Swiss)	16.2x	15.6x	9.1x	8.6x
Outotec (Helsinki)	8.5x	10.3x	1.5x	1.9x
Arithmetic Average	9.9x	10.4x	5.3x	5.3x
Geometric Average	9.0x	9.6x	3.7x	3.9x
Median	8.7x	11.2x	5.7x	6.5x
Ammtec	7.5x	7.3x	6.0x	4.6x



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