

Ammtec (AEC.ASX)

Tuesday 16 February 2010

1HFY10 result. Yet another second half story.

Ammtec reported 1HFY10 adjusted NPAT of \$2.6m, down 33% on the pcp, and slightly below our forecast (FSBe \$2.8m). The reported NPAT figure (pre-minorities) of \$2.9m was pre-announced on 21 December 2009. The company declared an interim dividend of 6.5cps, up 8% on the pcp (FSBe 4cps).

1HFY10 sales revenue declined 18% on the pcp to \$24.5m, missing our estimate by 4% (FSBe \$25.5m). While the core WA operations proved relatively resilient, Marc suffered from cancelled and deferred mining capex projects.

1HFY10 EBITDA fell 29% on the pcp to \$5.2m (FSBe \$6.0m), driven largely by the reduced profitability of the Marc business and tough conditions at the satellite labs. The 1HFY09 EBITDA margin of 21.3% (FSBe 23.5%) was well below the pcp (24.8%), although it was broadly in line with 2HFY09 (21.9%). Margins at the core WA operations were relatively stable.

Anticipates a stronger second half. Although no FY10 guidance was provided, Ammtec said in December that it anticipates a much stronger 2HFY10 than 1HFY10. If some of Marc's prospects are achieved, Ammtec expects FY10 NPAT to be at least equal to the prior year (FY09 NPAT pre-minorities of \$6.9m). Our revised FY10 NPAT forecast is ~3% below FY09 and we anticipate a 40/60 NPAT skew in FY10.

Strong balance sheet. Ammtec had a net cash position of \$2.6m as at 31 Dec 09. We forecast FY10 gearing of 1.4% and interest cover of 20.5x. Although planned capex programmes should see debt increase, the company's balance sheet remains strong.

Revised forecasts. FY10 and FY11 EPS down 7% and 1% respectively.

We maintain our Buy recommendation and set our revised price target to \$3.00/share, equal to our year-forward DCF valuation. There is currently 15% upside to our revised price target.

Ammtec is trading on a FY11 PER of 12x. We believe the company warrants a premium multiple to reflect the solid growth profile, driven by a recovery in the sector and capacity expansions, the strong balance sheet and the attractive 7% yield. Further, the PSI business remains a free option as we currently forecast only modest earnings for PSI over the medium term.

Year to June (\$m)	2008a	2009a	2010e	2011e	2012e
Revenue	37.0	54.9	52.5	59.9	68.2
% change	41%	49%	-4%	14%	14%
EBITDA	11.9	12.9	12.4	16.8	20.5
EBITDA margin	32.2%	23.5%	23.5%	28.0%	30.0%
NPAT rep	6.7	6.5	6.3	8.9	11.1
NPAT adj*	6.7	6.5	6.3	8.9	11.1
EPS adj* ¢	30.0	25.4	17.3	22.0	27.6
% change	27%	-15%	-32%	27%	26%
Dividend ¢	25.0	16.0	16.0	18.1	22.7
PER x	8.7	10.3	15.1	11.9	9.4
EV/EBITDA x	5.7	6.1	7.7	6.6	5.4
Yield	9.6%	6.1%	6.1%	6.9%	8.7%

* Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

Metals & Mining

Rating: Buy
(previous): Buy

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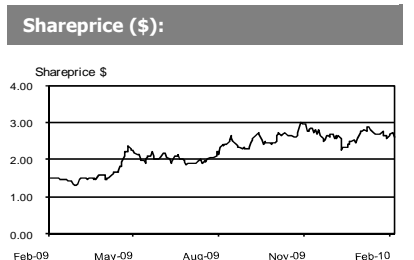
Share price: \$2.61
Price target: \$3.00
(Previous) \$2.85
NPV per share \$3.16
Risk: Medium

Shares on issue (m): 33.2
Shares on issue (diluted) (m): 36.2
Free float: 100%
Average daily volume ('000): 28.0

Market cap (\$m): 94.6
FY10e Enterprise value (\$m): 95.5
FY10e Net debt (\$m): 0.9
FY10e Gearing (ND/ND+E): 1.4%
FY10e S'holders equity (\$m): 61.5
FY10e NTA per share (\$): 1.04

Forecast: 2010
Free cash flow (\$m): -1.2
Return on average equity: 12%
Net interest cover: 20.5

Forecast: 2011
Free cash flow (\$m): 2.6
Return on average equity: 14%
Net interest cover: 20.6



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1HFY10 RESULT OVERVIEW

Ammtec reported 1HFY10 adjusted NPAT of \$2.6m, down 33% on the pcp, and slightly below our forecast (FSBe \$2.8m). The reported NPAT figure (pre-minorities) of \$2.9m was pre-announced on 21 December 2009.

1HFY10 sales revenue declined 18% on the pcp to \$24.5m, missing our estimate by 4% (FSBe \$25.5m). While the core WA operations (66% of revenue vs 55% in pcp) proved relatively resilient (revenue down 2% on the pcp to \$61.1m and up 9% on 2HFY09), Marc Technologies (23% of revenue vs 32% in pcp) suffered from cancelled and deferred mining capex projects (revenue down 42% on the pcp to \$5.6m and 20% lower than 2HFY09).

1HFY10 EBITDA fell 29% on the pcp to \$5.2m (FSBe \$6.0m), driven largely by the reduced profitability of the Marc business and tough conditions at the satellite labs (TAS & NSW). The 1HFY09 EBITDA margin of 21.3% (FSBe 23.5%) was well below the pcp (24.8%), although it was broadly in line with 2HFY09 (21.9%). Margins at the core WA operations were relatively stable.

A snapshot of the result versus our forecasts is shown below:

1HFY10 Actual result vs FSB forecast & pcp (\$m)

	1HFY10 Actual	1HFY10 FSB	Diff	1HFY09 Actual	PCP Diff
Sales Revenue	24.5	25.5	-4%	29.8	-18%
EBITDA	5.2	6.0	-13%	7.4	-29%
EBITDA margin (%)	21.3	23.5	-9%	24.8	-14%
D & A tangibles	1.0	1.1	-8%	0.9	15%
EBITA	4.2	4.9	-14%	6.5	-36%
Amort intangibles	0.0	0.0	0%	0.0	0%
EBIT	4.2	4.9	-14%	6.5	-36%
EBIT margin (%)	17.2	19.1	-10%	21.8	-21%
Net interest exp	0.2	0.4	-49%	0.5	-60%
PBT adj	4.0	4.5	-11%	6.0	-34%
Tax exp	1.4	1.5	-10%	2.1	-35%
NPAT pre minorities	2.9	3.0	-3%	4.1	-30%
Minority Interests	-0.2	-0.2	nm	-0.1	76%
NPAT pre sig items	2.6	2.8	-5%	3.9	-33%
Significant items	0.0	0.0	0%	0.0	0%
NPAT reported	2.6	2.8	-5%	3.9	-33%
NPAT adjusted	2.6	2.8	-5%	3.9	-33%
EPS adj ¢	8.3	8.9	-6%	16.0	-48%

Source: Company, FSB estimates

Interim Dividend – 6.5 cents per share

Ammtec declared a fully franked interim dividend of 6.5 cents per share, (FSBe 4 cps), up 8% on the pcp (1HFY09 6 cps). The dividend record date is 9 April 2009. This dividend represents a payout ratio of 90% of reported NPAT. We forecast a final dividend for FY10 of 9.5 cps, taking the full year to 16 cps, in line with FY09.

Cashflow

1HFY10 operating cashflow was \$4.9m, down 4% on the pcp (1HFY09 \$5.1m). The decline in 1HFY10 largely reflected lower EBITDA with working capital slightly better than the pcp. We anticipate higher working capital investment over the coming period, in line with the company's expansionary initiatives.

Capex

1HFY10 capex was \$5.0m (20% of revenue), up 38% on the pcp (12% of revenue). The majority of this was accounted for by the ~\$3.5m WA property purchase for the new Hydromet facility. The property was acquired in August 2009 and construction, which should start in 2HFY10, is expected to be completed by mid 2011. Other growth capex included additional equipment for the WA assay lab and mineralogy division.

We forecast 2HFY10 capex of \$5m, taking FY10 capex to \$10m (19% of revenue). We expect the main construction spend for the Hydromet lab to fall in FY11 (~\$6m split evenly between each half).

Balance Sheet

As at 31 December 2009, Ammtec's balance sheet stood strong with a net cash position of \$2.6m (\$8.6m of cash and \$6.0m of debt). The company raised ~\$19m via an institutional placement and SPP in August 2009 to fund the new Hydromet lab, working capital and pay down its \$6m bank loan. We forecast FY10 and FY11 gearing of 1.4% and 7.3% respectively with interest cover 20.5x and 20.6x respectively.

The company provided the following information relating to its existing liabilities as at 31 December 2009:

- \$5.4m of finance leases;
- \$0.3m of HP liabilities; &
- \$0.3m drawn on a market rate facility (6.3% p.a., matures 2014).

OUTLOOK

Ammtec's outlook commentary was broadly consistent with that provided with the earnings downgrade released on 21 December 2009. The recovery of the mining sector, particularly in WA, brightens the near-term prospects of the underperforming Marc business and underpins growth at the core WA operations.

Although no FY10 guidance was provided with the result, Ammtec said in December that it anticipates a much stronger 2HFY10 than 1HFY10. If some of Marc's prospects are achieved (contract wins from tenders), Ammtec expects FY10 NPAT to be at least equal to the prior year (FY09 NPAT pre-minorities of \$6.9m). This implies a 40/60 NPAT skew in FY10. Our positive outlook for the business rests upon stronger commodity prices driving increased metallurgical consulting activity and mining project capex.

REVISED FORECASTS

We have reduced our FY10 and FY11 revenue forecasts by 5% and 2% respectively. Our revised FY10 forecast implies a 14% improvement in 2HFY09 revenue compared to 1HFY09. This is largely driven by 13% top line growth at the WA operations and a 17% uplift for the struggling Marc business.

Our FY10 EBITDA margin forecast has been lowered by 150 bps to 23.5% while our FY11 forecast remains unchanged. We expect the 2HFY10 EBITDA margin to improve 420 bps to 25.5% compared to 1HFY10. This largely reflects a recovery in the Marc business.

Our FY10 and FY11 adjusted NPAT forecasts have been reduced by 7% and 1% respectively. Our FY10 forecast of \$6.3m, which implies 2HFY10 adjusted NPAT of \$3.7m (42:58 skew), is ~3% below the guidance of \$6.5m (equal to FY09).

Our FY10 and FY11 EPS forecasts are down in line with NPAT.

The changes to our forecasts are displayed below.

Forecast changes (\$m)

	FY10 NEW	FY10 OLD	Diff	FY11 NEW	FY11 OLD	Diff
Sales Revenue	52.5	55.4	-5%	59.9	61.3	-2%
EBITDA	12.4	13.9	-11%	16.8	17.2	-2%
EBITDA Margin	23.5%	25.0%	-6%	28.0%	28.0%	0%
D & A tang	2.0	2.2	-9%	2.4	2.5	-2%
EBITA	10.3	11.7	-11%	14.4	14.7	-2%
Amort intang	0.0	0.0	nm	0.0	0.0	nm
EBIT	10.3	11.7	-11%	14.4	14.7	-2%
EBIT Margin	19.7%	21.1%	-6%	24.0%	24.0%	0%
Net interest exp	0.5	0.8	-37%	0.7	1.0	-30%
PBT	9.8	10.9	-10%	13.7	13.7	0%
Tax exp	3.4	3.7	-9%	4.4	4.4	0%
NPAT pre min	6.7	7.2	-6%	9.3	9.3	0%
Minorities	-0.4	-0.4	11%	-0.4	-0.4	11%
NPAT pre sig items	6.3	6.8	-7%	8.9	8.9	-1%
Significant items	0.0	0.0	0%	0.0	0.0	0%
NPAT reported	6.3	6.8	-7%	8.9	8.9	-1%
NPAT adjusted	6.3	6.8	-7%	8.9	8.9	-1%
EPS adj	17.3	18.7	-7%	22.0	22.2	-1%

Source: FSB estimates

VALUATION

Rolling our model forward has provided some valuation uplift, although this has been slightly mitigated by our downwardly revised near-term profit forecasts. Our revised NPV is \$3.16/share and our one-year forward valuation is \$2.97/share. We retain our WACC of 12.5% and our terminal growth rate of 3%.

Valuation

	NPV now		NPV in one year	
	\$m	\$ Per share	\$m	\$ Per share
Business value	115.5	3.19	124.8	3.10
Net debt	0.9	0.02	5.0	0.13
NPV	114.6	3.16	119.7	2.97

Source: Company; FSB estimates

RECOMMENDATION

Ammtec's 1HFY09 was dragged down by the Marc business which was more directly exposed to the mining capex downturn. The resilience of the core business was a highlight.

We maintain our Buy recommendation and set our revised price target to \$3.00/share, equal to our year-forward DCF valuation. There is currently 15% upside to our revised price target.

Ammtec is trading on a FY11 PER of 12x. We believe the company warrants a premium to reflect the solid growth profile, driven by a recovery in the sector and capacity expansions, the strong balance sheet and the attractive 7% yield. Further, the PSI business remains a free option as we currently forecast only modest earnings for PSI over the medium term.

Ammtec Ltd (AEC)

Full Year Ended 30 June

Profit and Loss (\$m)	2009a	2010e	2011e	2012e
Sales Revenue	54.9	52.5	59.9	68.2
Other Revenue	0.3	0.2	0.2	0.2
Total Revenue	55.2	52.7	60.1	68.4
EBITDA	12.9	12.4	16.8	20.5
EBITDA margin (%)	23.5	23.5	28.0	30.0
D & A tangibles	1.7	2.0	2.4	2.7
EBITA	11.2	10.3	14.4	17.7
EBITA margin (%)	20.4	19.7	24.0	26.0
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	11.2	10.3	14.4	17.7
EBIT margin (%)	20.4	19.7	24.0	26.0
Net Interest exp / (income)	1.2	0.5	0.7	0.7
Profit before tax	10.3	9.8	13.7	17.0
Tax exp / (benefit)	3.5	3.4	4.4	5.5
NPAT pre minorities	6.9	6.7	9.3	11.6
Minority Interests	-0.4	-0.4	-0.4	-0.4
NPAT pre sig items	6.5	6.3	8.9	11.1
Significant items	0.0	0.0	0.0	0.0
NPAT reported	6.5	6.3	8.9	11.1
NPAT adjusted *	6.5	6.3	8.9	11.1
EPS adj ¢	25.4	17.3	22.0	27.6

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2009a	2010e	2011e	2012e
EBITDA	12.9	12.4	16.8	20.5
Net Interest	-1.2	-0.5	-0.7	-0.7
Tax	-3.5	-3.4	-4.4	-5.5
Δ Working Capital	3.7	-0.8	-1.1	-1.1
Other	2.1	1.3	0.0	0.0
Operating Cashflow	12.1	8.8	10.6	13.2
Capex	-5.9	-10.0	-8.0	-6.5
Net Acquisitions	-2.1	-1.1	0.0	0.0
Asset Sales	0.3	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	-7.7	-11.1	-8.0	-6.5
Equity proceeds	0.1	18.8	0.0	0.0
Debt proceeds	1.6	0.0	5.0	0.0
Debt repayment	-0.8	-7.0	-1.0	-1.0
Dividends paid	-4.7	-5.3	-6.7	-7.4
Other	0.0	0.0	0.0	0.0
Financing Cashflow	-3.8	6.4	-2.7	-8.4
Net Cashflow	0.5	4.1	-0.2	-1.7

Ratios	2009a	2010e	2011e	2012e
EPS rep ¢	25.4	17.3	22.0	27.6
EPS adj ¢	25.4	17.3	22.0	27.6
EPS adj growth (%)	-15.4	-31.6	26.8	25.7
PER x	10.3	15.1	11.9	9.4
EV/EBITDA x	6.1	7.7	6.6	5.4
EV/EBIT x	7.1	9.2	7.7	6.3
Payout ratio (%)	79.0	92.5	74.0	74.0
DPS Total ¢	16.0	16.0	18.1	22.7
Yield (%)	6.1	6.1	6.9	8.7
Average RoE (%)	16.4	12.0	14.2	17.0
Average RoA (%)	18.1	14.0	17.4	20.1
Gearing (ND/ND+E) (%)	22.0	1.4	7.3	7.8
Net interest cover x	9.1	20.5	20.6	25.3
ND/EBITDA x	0.9	0.1	0.3	0.3
NTA (\$ per share)	0.71	1.04	0.99	1.08
WA # Shares Diluted (m)	25.6	36.2	40.3	40.3

Source: Company; FSB estimates

Half Year Ended 31 Dec

Profit and Loss (\$m)	1H09a	2H09a	1H10e	2H10e
Sales Revenue	29.8	25.1	24.5	28.0
Other Revenue	0.2	0.1	0.1	0.1
Total Revenue	30.0	25.2	24.6	28.1
EBITDA	7.4	5.5	5.2	7.1
EBITDA margin (%)	24.8	21.9	21.3	25.5
D & A tangibles	0.9	0.8	1.0	1.0
EBITA	6.5	4.7	4.2	6.1
EBITA margin (%)	21.8	18.6	17.2	21.9
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	6.5	4.7	4.2	6.1
EBIT margin (%)	21.8	18.6	17.2	21.9
Net Interest exp / (income)	0.5	0.8	0.2	0.3
Profit before tax	6.0	4.3	4.0	5.8
Tax exp / (benefit)	2.1	1.4	1.4	2.0
NPAT pre minorities	4.1	2.8	2.9	3.9
Minority Interests	-0.1	-0.3	-0.2	-0.2
NPAT pre sig items	3.9	2.6	2.6	3.7
Significant items	0.0	0.0	0.0	0.0
NPAT reported	3.9	2.6	2.6	3.7
NPAT adjusted *	3.9	2.6	2.6	3.7
EPS adj ¢	16.0	9.4	8.3	9.0

* NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2009a	2010e	2011e	2012e
Cash	0.5	4.6	4.5	2.8
Receivables	9.7	8.3	9.5	10.8
Inventories	2.2	2.7	3.1	3.5
PPE	32.6	40.6	46.2	49.9
Intangibles	22.2	21.8	21.8	21.8
Investments	0.0	0.0	0.0	0.0
Other	1.3	1.2	1.2	1.2
Total Assets	68.6	79.2	86.2	90.1
Accounts payable	8.4	6.7	7.2	7.9
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	0.4	0.4	0.6	0.7
Debt	12.6	5.5	9.5	8.5
Other	4.1	4.7	4.9	5.2
Total Liabilities	25.6	17.4	22.2	22.4
Reserves and capital	31.1	49.4	49.4	49.4
Retained earnings	11.8	12.0	14.1	17.8
Minorities	0.1	0.1	0.1	0.1
Total Equity	43.0	61.5	63.6	67.4

Divisions (\$m)	2009a	2010e	2011e	2012e
WA	31.2	34.4	39.5	45.5
TAS	3.4	2.8	2.9	3.0
NSW	2.6	1.9	2.0	2.1
SA	1.1	1.3	1.3	1.4
Total Met Revenue	38.2	40.3	45.8	51.9
Marc	16.6	12.1	14.0	16.1
Other	0.3	0.2	0.2	0.2
Total Revenue	55.1	52.6	60.0	68.3

Valuation	now		one year	
	\$m	\$ ps	\$m	\$ ps
Business value	115.5	3.19	124.8	3.10
Net debt	0.9	0.02	5.0	0.13
NPV	114.6	3.16	119.7	2.97

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