

Ammtec (AEC.ASX)

Friday 14 August 2009

FY09 Result – Resilient and expanding

Metals & Mining

Rating: Buy
(previous): Buy

Dominic Rose
dominic.rose@fostock.com.au
+612 9993 8150

Ammtec reported FY09 adjusted NPAT of \$6.4m, down 3% yoy and broadly in line with our estimate and guidance provided in May. EPS fell 15% yoy with the differential reflecting the expanded share base. The 10 cps final dividend was in line.

FY09 revenue grew 49% on the pcp to \$54.9m, 2% ahead of our estimate (\$53.6m). Stripping out the Marc contribution derives organic revenue growth of 17% on the pcp. This was predominantly driven by the Balcatta lab in WA and reflects the significant capital invested over the past few years (~\$16m over the past three fiscal years).

FY09 EBITDA grew 8% yoy to \$12.9m, 3% ahead of our \$12.5m forecast. Although the group EBITDA margin fell significantly from 32.2% in FY08 to 23.5% in FY09, the core business proved relatively resilient, growing its EBITDA by 13% yoy to \$12.9m and suffering only modest EBITDA margin erosion over the period (down just 120 bps to 33.7%).

\$7.7m SPP. Following strong shareholder demand, Ammtec has accepted \$7.7m in new capital via the SPP. We understand Ammtec intends to use the extra proceeds to repay debt (\$6.3m). This should move the balance sheet to a net cash position.

Outlook. Although no specific FY10 guidance was provided, management said that *"the order book for the group is strong and we have seen signs of this growing in recent months, suggesting that confidence is returning to the sector."* We regard Ammtec as well placed for a recovery in demand considering the extra capacity added.

Resilience on display. The core met lab business continued to grow which highlights the resilience of the business. Very few mining services companies (if any) have reported decent organic growth at both the top line and bottom line in FY09.

Revised forecasts. Minor upgrades – FY10 and FY11 EPS up 1% each year.

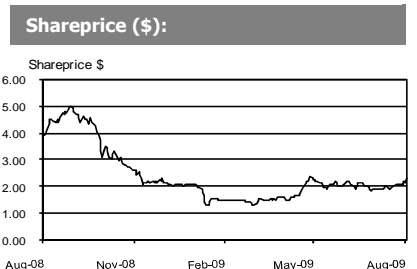
We maintain our Buy recommendation and set our revised price target to \$3.15/share. Our price target equals our year-forward DCF valuation. There is currently 36% upside to our revised price target. The stock appears attractive trading on a FY10e PER of 9.5x, a 6% yield and a strong balance sheet in a net cash position.

Share price:	\$2.31
Price target:	\$3.15
(Previous)	\$3.00
NPV per share	\$3.19
Risk:	Medium
Shares on issue (m):	33.2
Shares on issue (diluted) (m):	35.8
Free float:	100%
Average daily volume ('000):	21.0
Market cap (\$m):	82.8
FY10e Enterprise value (\$m):	80.5
FY10e Net debt (\$m):	-2.3
FY10e Gearing (ND/ND+E):	-3.5%
FY10e S'holders equity (\$m):	66.8
FY10e NTA per share (\$):	1.24

Forecast:	2010
Free cash flow (\$m):	0.6
Return on average equity:	16%
Net interest cover:	9.7

Forecast:	2011
Free cash flow (\$m):	5.7
Return on average equity:	16%
Net interest cover:	18.1

Year to June (\$m)	2008a	2009a	2010e	2011e	2012e
Revenue	37.0	54.9	60.0	67.0	74.8
% change	41%	49%	9%	12%	12%
EBITDA	11.9	12.9	17.3	20.1	23.2
EBITDA margin	32.2%	23.5%	28.8%	30.0%	31.0%
NPAT rep	6.7	6.5	8.8	11.2	13.2
NPAT adj*	6.6	6.4	8.8	11.2	13.2
EPS adj* ¢	29.5	25.1	24.4	29.2	34.2
% change	25%	-15%	-3%	19%	17%
Dividend ¢	25	16	14	22	26
PER x	7.8	9.2	9.5	7.9	6.8
EV/EBITDA x	5.2	5.5	4.7	4.3	3.7
Yield	10.8%	6.9%	5.9%	9.5%	11.1%



www.fostock.com.au

* Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

DISCLAIMER: Foster Stockbroking Pty Ltd does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Refer full disclosures at the end of this report.

FY09 RESULT OVERVIEW

Ammtec reported FY09 adjusted NPAT of \$6.4m, down 3% yoy and broadly in line with our estimate and guidance provided in May (FY09 NPAT pre-minorities of \$6.8m vs guidance of \$7m). EPS fell 15% yoy with the differential reflecting the expanded share base.

FY09 revenue grew 49% on the pcp to \$54.9m, 2% ahead of our estimate (\$53.6m). Marc contributed a full twelve months to the FY09 result compared to four months in FY08. Stripping out the Marc contribution of \$16.6m derives organic revenue growth of 17% on the pcp. This was predominantly driven by the Balcatta lab in WA (\$31.2m, up 16% yoy) which accounted for 57% of FY09 group revenues (72% in FY08). The core business growth reflects the significant capital invested over the past few years (~\$16m over the past three fiscal years).

FY09 EBITDA grew 8% yoy to \$12.9m, 3% ahead of our \$12.5m forecast. The group EBITDA margin fell significantly from 32.2% in FY08 to 23.5% in FY09, as we had anticipated (FSB 23.4%). The core business proved relatively resilient, growing its EBITDA by 13% yoy to \$12.9m and suffering only modest EBITDA margin erosion over the period (down just 120 bps to 33.7%). The core business provides niche, high value add services so pricing pressure during a downturn is minimal. The group decline was largely due to a sharp drop in Marc's profitability (Marc's EBITDA margin fell from 28% to 10% yoy) as this business is more exposed to capex freezes, as well as the loss making PSI business.

Higher D&A reflected the investment in plant and equipment over the period.

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

FY09 Actual result vs FSB forecast (\$m)

	FY09 Actual	FY09 FSB	Diff	FY08 Actual	PCP Diff
Sales Revenue	54.9	53.6	2%	37.0	49%
EBITDA	12.9	12.5	3%	11.9	8%
EBITDA margin (%)	23.5	23.4	0%	32.2	-27%
D & A tangibles	1.7	1.6	5%	1.1	59%
EBITA	11.2	10.9	3%	10.8	3%
Amort intangibles	0.0	0.0	0%	0.0	nm
EBIT	11.2	10.9	3%	10.8	3%
EBIT margin	20.4	20.4	0%	29.3	-30%
Net interest exp	1.2	0.9	33%	0.7	nm
PBT	10.0	10.0	0%	10.2	-3%
Tax	3.5	3.3	6%	3.4	1%
NPAT pre min	6.8	6.7	2%	6.8	0%
Minorities	-0.4	-0.2	nm	-0.2	108%
NPAT pre sig items	6.4	6.5	-1%	6.6	-3%
Significant items	0.1	0.4	0%	0.1	nm
NPAT reported	6.5	6.9	-6%	6.7	-4%
NPAT adjusted	6.4	6.5	-1%	6.6	-3%
EPS adj c	25.1	26.2	-4%	29.5	-15%

Source: Company, FSB estimates

Divisional summary

- **Core met lab:** FY09 revenue up 17% yoy to \$38.2m; EBITDA up 13% to \$12.9m;
- **Marc:** FY09 revenue \$16.6m (\$4.2m 4 mths pcp); EBITDA \$1.7m (FY08 1.2m) &
- **PSI:** FY09 revenue \$0.1m (FY08 \$0.0m); EBITDA -\$1.5m (FY08 -\$0.6m).

Dividend

Ammtec declared a final fully franked dividend of 10 cents per share to be paid in October, taking the full year dividend to 16 cents per share (FY08 25 cents per share). This represents a payout ratio of 79% (FY08 87%). We expect the company to payout 48% in FY10 and 70% in FY11. The lower payout in FY10 considers the expanded share base.

Cashflow

FY09 operating free cashflow grew 50% on the pcp to \$12.1m (FY08 \$8.0m). This was driven by 8% EBITDA growth and an \$8.5m positive move in working capital. Cash conversion (operating cashflow / EBITDA) improved from 67% to 94% in FY09.

Capex

FY09 capex of \$5.9m was broadly consistent with the \$5.6m invested in the prior year. FY09 capex/sales of 11% was lower than the pcp at 14%. Ammtec has been strategically investing in its business to expand its capacity and technology which maintains its competitive advantage and technical edge.

Capital Management

\$11.5m Placement. In July 2009 Ammtec raised \$11.5m via an institutional placement (at \$1.85/share and cum-the final 10 cent dividend) for further expansionary initiatives. Namely, to fund the purchase of land adjoining the existing Balcatta facilities for the construction of a new hydrometallurgical pilot plant facility, expand the existing Balcatta facilities for mineralogy services, and fund ongoing working capital requirements. The total land acquisition costs and construction costs have been estimated to be \$10m.

\$7.7m SPP. In addition to the placement, the company also announced a SPP to raise \$2m. However, following strong shareholder demand, Ammtec has accepted \$7.7m in new capital via the SPP (also at \$1.85/share and cum-the final 10 cent dividend). This takes the total raising to \$19.2m (10.4m shares, equivalent to 41% of the existing share base). We understand Ammtec intends to use the extra proceeds to repay debt (\$6.3m).

Balance Sheet

As at 30 June 09, net debt was \$12.1m (\$9.4m in FY08) with Net Debt/EBITDA at 0.9X. The major components of the non-current debt are \$6.3m of secured bank loans and a \$4.5m secured lease liability. As mentioned above, we expect the company to pay back the \$6.3m secured bank loans in FY10. We now forecast the company to have a \$3m net cash position by 30 June 2010. This balance sheet flexibility places Ammtec in an enviable position.

OUTLOOK

Although no specific FY10 guidance was provided, management said at the EGM (held to approve the issue of the new shares) that *"the order book for the group is strong and we have seen signs of this growing in recent months, suggesting that confidence is returning to the sector."* We regard Ammtec as well placed for a recovery in demand considering the extra capacity added.

In regard to the Marc business, management said that there have been increased enquiry levels and quotes with signs of a strong order book in the second half of FY10. Ammtec also noted that PSI will require additional working capital in the near term and it expects PSI to generate revenues in FY11.

REVISED FORECASTS

Our FY10 revenue forecast of \$60.0m, up 9% yoy, remains unchanged. We have increased our FY11 revenue estimate by 2% to \$67.0m (12% yoy growth).

We have increased our FY10 and FY11 EBITDA margin assumptions to 28.8% and 30.0% respectively. This largely reflects anticipation of improved trading conditions for the Marc business. These margins are still below historic averages.

The net impact of these changes increases our FY10 NPAT by 3% to \$8.8m and our FY11 NPAT by 9% to \$11.2m. However, the extra shares raised via the SPP offset much of this uplift. Consequently, our FY10 and FY11 EPS estimates are up just 1% in each year.

These changes are displayed below.

Forecast changes (\$m)

	FY10e			FY11e		
	NEW	OLD	Diff	NEW	OLD	Diff
Sales Revenue	60.0	60.0	0%	67.0	65.8	2%
EBITDA	17.3	15.6	11%	20.1	18.4	9%
EBITDA Margin	28.8%	26.0%	11%	30.0%	28.0%	7%
D & A tang	1.8	1.8	0%	2.0	2.0	2%
EBITA	15.5	13.8	12%	18.1	16.4	10%
Amort intang	0.0	0.0	nm	0.0	0.0	nm
EBIT	15.5	13.8	12%	18.1	16.4	10%
EBIT Margin	25.8%	23.0%	12%	27.0%	25.0%	8%
Net int exp	1.6	0.9	78%	1.0	1.0	0%
PBT	13.9	12.9	8%	17.1	15.4	11%
Tax exp	4.7	4.1	14%	5.5	4.9	11%
NPAT pre minorities	9.2	8.8	4%	11.6	10.5	11%
Minorities	-0.4	-0.2	68%	-0.4	-0.2	68%
NPAT pre sig items	8.8	8.5	3%	11.2	10.3	9%
Significant items	0.0	0.0	0%	0.0	0.0	0%
NPAT reported	8.8	8.5	3%	11.2	10.3	9%
NPAT adjusted*	8.8	8.5	3%	11.2	10.3	9%
EPS adjusted	24.4	24.1	1%	29.2	29.0	1%

* NPAT adjusted for significant items and amortisation of intangibles
Source: Company; FSB estimates

VALUATION

Our revised forecasts and rolling the model forward derive our NPV of \$3.19/share and our one-year forward valuation of \$3.15/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	111.9	3.12	119.4	3.11
Net debt	-2.3	-0.06	-1.8	-0.08
NPV	114.2	3.19	121.2	3.15

Source: Company; FSB estimates

RECOMMENDATION

In our view, Ammtec produced a solid result in light of the difficult trading conditions over the period. The core met lab business continued to grow which highlights the resilience of the business. Ammtec provides high specialised, niche services through various phases of the mining cycle. Indeed, very few mining services companies (if any) have reported decent organic growth at both the top line and bottom line in FY09.

Our favourable outlook for Ammtec is upheld, expecting the company to benefit from the continued capital investment in the business, expanding both capacity and technical expertise to maintain a competitive edge.

We maintain our Buy recommendation and set our revised price target to \$3.15/share. Our price target equals our year-forward DCF valuation. There is currently 36% upside to our revised price target. The stock appears attractive trading on a FY10e PER of 9.5x, a 6% yield and a strong balance sheet in a net cash position.

Ammtec Ltd (AEC)

Full Year Ended 30 June

Profit and Loss (\$m)	2008a	2009a	2010e	2011e
Sales Revenue	37.0	54.9	60.0	67.0
Other Revenue	0.2	0.3	0.2	0.2
Total Revenue	37.1	55.2	60.2	67.2
EBITDA	11.9	12.9	17.3	20.1
EBITDA margin (%)	32.2	23.5	28.8	30.0
D & A tangibles	1.1	1.7	1.8	2.0
EBITA	10.8	11.2	15.5	18.1
EBITA margin (%)	29.3	20.4	25.8	27.0
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	10.8	11.2	15.5	18.1
EBIT margin (%)	29.3	20.4	25.8	27.0
Net Interest exp / (income)	0.7	1.2	1.6	1.0
Profit before tax	10.2	10.0	13.9	17.1
Tax exp / (benefit)	3.4	3.5	4.7	5.5
NPAT pre minorities	6.8	6.8	9.2	11.6
Minority Interests	-0.2	-0.4	-0.4	-0.4
NPAT pre sig items	6.6	6.4	8.8	11.2
Significant items	0.1	0.1	0.0	0.0
NPAT reported	6.7	6.5	8.8	11.2
NPAT adjusted *	6.6	6.4	8.8	11.2
EPS adj ¢	29.5	25.1	24.4	29.2

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2008a	2009a	2010e	2011e
EBITDA	11.9	12.9	17.3	20.1
Net Interest	-0.7	-1.2	-1.6	-1.0
Tax	-3.4	-3.5	-4.7	-5.5
Δ Working Capital	-4.8	3.7	-1.8	-0.9
Other	4.0	2.1	0.0	0.0
Operating Cashflow	8.0	12.1	9.1	12.7
Capex	-5.6	-5.9	-8.5	-7.0
Net Acquisitions	-16.2	-2.1	0.0	0.0
Asset Sales	0.4	0.3	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	-21.5	-7.7	-8.5	-7.0
Equity proceeds	14.5	0.1	19.2	0.0
Debt proceeds	4.7	1.6	0.0	0.0
Debt repayment	-0.6	-0.8	-6.8	-1.0
Dividends paid	-5.1	-4.7	-5.4	-6.2
Other	0.0	0.0	0.0	0.0
Financing Cashflow	13.5	-3.8	7.0	-7.2
Net Cashflow	0.0	0.5	7.6	-1.5

Ratios	2008a	2009a	2010e	2011e
EPS rep ¢	30.0	25.4	24.4	29.2
EPS adj ¢	29.5	25.1	24.4	29.2
EPS adj growth (%)	25.4	-14.9	-2.6	19.4
PER x	7.8	9.2	9.5	7.9
EV/EBITDA x	5.2	5.5	4.7	4.3
EV/EBIT x	5.7	6.4	5.2	4.8
Payout ratio (%)	86.5	78.7	47.5	70.0
DPS Total ¢	25.0	16.0	13.6	21.9
Yield (%)	10.8	6.9	5.9	9.5
Average RoE (%)	24.3	16.4	16.0	16.2
Average RoA (%)	26.8	18.1	20.1	20.4
Gearing (ND/ND+E) (%)	20.7	22.0	-3.5	-2.6
Net interest cover x	16.0	9.1	9.7	18.1
ND/EBITDA x	0.8	0.9	-0.1	-0.1
NTA (\$ per share)	0.57	0.71	1.24	1.28
WA # Shares Diluted (m)	22.5	25.6	35.8	38.4

Source: Company; FSB estimates

Half Year Ended 31 Dec

Profit and Loss (\$m)	1H08a	2H08a	1H09a	2H09a
Sales Revenue	16.1	20.8	29.8	25.1
Other Revenue	0.1	0.1	0.2	0.1
Total Revenue	16.2	20.9	30.0	25.2
EBITDA	5.0	6.9	6.8	6.1
EBITDA margin (%)	30.7	33.3	22.8	24.3
D & A tangibles	0.4	0.7	0.9	0.8
EBITA	4.6	6.3	5.9	5.3
EBITA margin (%)	28.4	30.0	19.8	21.0
Amortisation intangibles	0.1	0.0	0.0	0.0
EBIT	4.5	6.4	5.9	5.3
EBIT margin (%)	27.8	30.5	19.8	21.0
Net Interest exp / (income)	0.3	0.4	0.5	0.5
Profit before tax	4.2	6.0	5.4	4.5
Tax exp / (benefit)	1.5	1.9	1.9	1.6
NPAT pre minorities	2.8	4.0	3.5	3.3
Minority Interests	-0.1	-0.1	-0.1	-0.3
NPAT pre sig items	2.7	3.9	3.4	3.0
Significant items	0.0	0.1	0.0	0.0
NPAT reported	2.7	4.0	3.9	2.6
NPAT adjusted *	2.9	3.7	3.4	3.0
EPS adj ¢	13.4	16.1	13.8	11.3

* NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2008a	2009a	2010e	2011e
Cash	0.0	0.5	8.1	6.6
Receivables	9.7	9.7	12.4	13.8
Inventories	1.9	2.2	2.8	3.1
PPE	21.3	32.6	39.3	44.2
Intangibles	21.4	22.2	22.2	22.2
Investments	0.0	0.0	0.0	0.0
Other	0.9	1.3	1.0	1.0
Total Assets	55.2	68.6	85.8	91.1
Accounts payable	5.0	8.4	10.0	11.0
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	2.4	0.4	0.4	0.5
Debt	9.4	12.6	5.8	4.8
Other	2.2	4.1	2.8	3.2
Total Liabilities	19.1	25.6	19.1	19.5
Reserves and capital	26.0	31.1	50.3	50.1
Retained earnings	10.0	11.8	16.4	21.4
Minorities	0.2	0.1	0.1	0.1
Total Equity	36.2	43.0	66.8	71.5

Divisions (\$m)	2008a	2009a	2010e	2011e
WA	26.8	31.2	36.6	41.0
TAS	3.0	3.4	3.6	3.7
NSW	1.7	2.6	2.8	2.9
SA	1.2	1.1	1.2	1.2
Total Met Revenue	32.7	38.2	44.2	48.8
Marc	4.2	16.6	15.6	17.1
Other	0.2	0.3	0.2	0.2
Total Revenue	37.1	55.1	59.9	66.1

Valuation	now		one year	
	\$m	\$ ps	\$m	\$ ps
Business value	111.9	3.12	119.4	3.11
Net debt	-2.3	-0.06	-1.8	-0.08
NPV	114.2	3.19	121.2	3.15

FOSTER STOCKBROKING CONTACTS

DEALERS

Stuart Foster	+61 (0)2 9993 8131	stuart.foster@fostock.com.au
Kevin Massey	+61 (0)2 9993 8130	kevin.massey@fostock.com.au
Kevin Curran	+61 (0)2 9993 8167	kevin.curran@fostock.com.au
Trenton Brown	+61 (0)2 9993 8161	trenton.brown@fostock.com.au
Tolga Dokumcu	+61 (0)2 9993 8144	tolga.dokumcu@fostock.com.au

ANALYSTS

Dominic Rose	+61 (0)2 9993 8150	dominic.rose@fostock.com.au
Michael Evans	+61 (0)2 9993 8163	michael.evans@fostock.com.au

FOSTER STOCKBROKING Pty Limited A.B.N 15 088 747 148 FSR Licence No. 223687
 Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
 Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
 Email: contact@fostock.com.au
 PARTICIPANT OF ASX GROUP

Foster Stockbroking recommendation ratings: Buy = return >10%; Hold = return between -10% and 10%; Sell = return <-10%. Spec Buy = return > 20% for stock with very high risk. All other ratings are for stocks with low-to-high risk. Returns quoted are annual.

Important Notice:

Disclaimer & Disclosure of Interests. Foster Stockbroking Pty Limited has prepared this report. This document contains general securities advice only. In preparing the report, Foster Stockbroking did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Foster Stockbroking is not aware that a recipient intends to rely on this report and is not aware of the manner in which it will be used by the recipient.

Investors must obtain personal financial advice from their investment advisor to determine whether the information contained in this report is appropriate to the investor's financial circumstances. Recipients should not regard the report as a substitute for the exercise of their own judgment.

The views expressed in this report are that of the analyst named on the cover page, and no part of compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst receives compensation partly based on Foster Stockbroking revenues, including any investment banking and proprietary trading revenues, as well as performance measures such as accuracy and efficacy of both recommendations and research reports.

Foster Stockbroking believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation or warranty is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this document and, to the maximum extent permitted by law, Foster Stockbroking disclaims all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through relying on anything contained in or omitted from this document. Foster Stockbroking is under no obligation to update or keep current the information contained herein and has no obligation to tell you when opinions or information in this report change. Foster Stockbroking, and its directors, officers and employees or clients may have or had interests in the securities of the instruments referred to herein, and may make purchases or sales in them as principal or agent at any time and may effect transactions which may not be consistent with the opinion set out in this report. Foster Stockbroking and its Associates state that they may earn brokerage, fees or other benefits from securities referred to in this report. Furthermore, Foster Stockbroking may have or have had a relationship with or may provide or has provided investment banking, capital markets and/or other financial services to the relevant company.

Specific disclosure: The analyst, Foster Stockbroking and/or associated parties have beneficial ownership or other interests in securities issued by Ammtec at the time of this report. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing the report and making the recommendation.

Specific disclosure: Foster Stockbroking and/or associated parties have received fees in the past 12 months from Ammtec for services provided in managing the recent institutional placement. Diligent care has been taken by the analyst to maintain an honest and fair objectivity in writing the report and making the recommendation.