

Ammtec (AEC.ASX)

Friday 20 February 2009

1HFY09 result reflects economic downturn

Ammtec reported 1HFY09 adjusted NPAT of \$3.4m, up 17% on the pcp. The reported NPAT figure (pre-minorities) of \$4.1m was pre-released on 27 January 2009. Ammtec declared a fully franked interim dividend of 6 cents per share (FSBe 6 cps), down 45% on the pcp (1HFY08 11 cps).

1HFY09 sales revenue grew 85% on the pcp to \$29.8m (FSBe & guidance of \$29.8m) and was up 30% when normalising for the Marc acquisition. The WA lab, which contributed 55% of group revenue in 1HFY09 (80% in pcp), exhibited strong momentum with revenue growth of 27% on the pcp and 17% on 2HFY08. This reflected solid demand and increased capacity at the Balcatta lab.

1HFY09 EBITDA of \$6.8m, was up 37% on the pcp but was 15% below our forecast of \$8.0m. The 1HFY09 EBITDA margin of 22.8% (FSBe 26.7%) was considerably below the pcp margin of 30.7%. Profitability was impacted by the economic downturn, as well as some one-offs associated with the failed PSI sale.

Outlook. Little was provided in terms of outlook commentary. Consistent with commentary accompanying the earnings downgrade released on 27 January 09, management said that the company has been affected by the economic climate and poor commodity prices with a number of clients deferring major projects.

Revised forecasts. Our FY09 and FY10 EPS forecasts have been reduced by 12% and 16% respectively.

We maintain our Buy recommendation and set our revised price target to \$2.00/share. We derive our price target by applying a 20% discount to our year-forward DCF valuation to reflect negative sentiment towards the sector and near-term earnings risk. There is currently 33% upside to our revised price target.

We remain attracted to Ammtec's leading position in metallurgical consulting, an important niche service for the various stages of the mining cycle. Importantly, the company now has the capacity to gain strong leverage to the eventual uptick in demand.

Year to June (\$m)	2008a	2009e	2010e	2011e	2012e
Revenue	37.4	52.1	48.5	53.5	57.7
% change	43%	39%	-7%	10%	8%
EBITDA	12.0	12.0	11.0	12.7	14.8
EBITDA margin	32.0%	23.0%	22.7%	23.7%	25.7%
NPAT rep	6.7	6.2	5.4	6.4	7.7
NPAT adj*	6.6	5.8	5.4	6.4	7.7
EPS adj* ¢	29.5	23.6	22.0	25.8	31.3
% change	25%	-20%	-7%	17%	21%
Dividend ¢	25.0	10.4	10.4	13.0	15.7
PER x	5.1	6.4	6.8	5.8	4.8
EV/EBITDA x	3.6	4.0	4.1	3.5	2.8
Yield	16.7%	7.0%	6.9%	8.7%	10.5%

* Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

Metals & Mining

Rating: Buy
(previous): Buy

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Share price: \$1.50
Price target: \$2.00
(Previous) \$2.55
NPV per share \$2.17
Risk: Medium

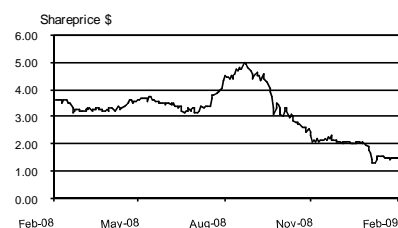
Shares on issue (m): 24.5
Shares on issue (diluted) (m): 24.7
Free float: 100%
Average daily volume ('000): 17.0

Market cap (\$m): 37.0
FY09e Enterprise value (\$m): 48.0
FY09e Net debt (\$m): 11.0
FY09e Gearing (ND/ND+E): 21.7%
FY09e S'holders equity (\$m): 39.7
FY09e NTA per share (\$): 0.41

Forecast: 2009
Free cash flow (\$m): 4.3
Return on average equity: 16%
Net interest cover: 10.9

Forecast: 2010
Free cash flow (\$m): 4.9
Return on average equity: 13%
Net interest cover: 10.2

Shareprice (\$):



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1HFY09 RESULT OVERVIEW

Ammtec reported 1HFY09 adjusted NPAT of \$3.4m, up 17% on the pcp. The reported NPAT figure (pre-minorities) of \$4.1m was pre-released on 27 January 2009.

1HFY09 sales revenue grew 85% on the pcp to \$29.8m (FSBe & guidance of \$29.8m) and was up 30% when normalising for the Marc acquisition. The WA lab, which contributed 55% of group revenue in 1HFY09 (80% in pcp), exhibited strong momentum with revenue growth of 27% on the pcp and 17% on 2HFY08. This reflected solid demand and increased capacity at the Balcatta lab.

1HFY09 EBITDA of \$6.8m, was up 37% on the pcp but was 15% below our forecast of \$8.0m. The 1HFY09 EBITDA margin of 22.8% (FSBe 26.7%) was considerably below the pcp margin of 30.7%. Profitability was impacted by the economic downturn, as well as some one-offs associated with the failed PSI sale.

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

1HFY09 Actual result vs FSB forecast & pcp (\$m)

	1HFY09 Actual	1HFY09 FSB	Diff	1HFY08 Actual	PCP Diff
Sales Revenue	29.8	29.8	0%	16.1	85%
EBITDA	6.8	8.0	-15%	5.0	37%
EBITDA margin (%)	22.8	26.7	-15%	30.7	-26%
D & A tangibles	0.9	1.1	-20%	0.4	130%
EBITA	5.9	6.8	-14%	4.6	29%
Amort intangibles	0.0	0.0	0%	0.1	nm
EBIT	5.9	6.8	-14%	4.5	32%
EBIT margin (%)	19.8	23.0	-14%	27.8	-29%
Net interest exp	0.5	0.6	-13%	0.3	nm
PBT adj	5.4	6.3	-14%	4.2	30%
Tax exp	1.9	2.1	-10%	1.5	29%
NPAT pre minorities	3.5	4.2	-16%	2.8	26%
Minority Interests	-0.1	-0.1	nm	-0.1	78%
NPAT pre sig items	3.4	4.1	-17%	2.7	25%
Significant items	0.4	0.0	0%	0.0	nm
NPAT reported	3.9	4.1	-4%	2.7	45%
NPAT adjusted	3.4	4.1	-17%	2.9	17%
EPS adj ¢	13.8	15.7	-12%	13.4	3%

Source: Company, FSB estimates

Interim Dividend – 6 cents per share

Ammtec declared a fully franked interim dividend of 6 cents per share (FSBe 6 cps), down 45% on the pcp (1HFY08 11 cps). The dividend payment date is 30 April 2009. This dividend represents a payout ratio of 39% of reported NPAT. This payout ratio is well below historical levels of 75%-90%. We forecast a full year dividend of 10.4 cps in FY09, implying a payout ratio of 42%.

Cashflow

1HFY09 operating cashflow was solid at \$5.1m, up 132% on the pcp (1HFY08 \$2.2m) although down 13% on 2HFY08 (\$5.8m). Operating working capital has been increasing in line with the capacity expansions and acquisition requirements. We anticipate working capital to fall from \$8.8m in 1HFY09 to \$6.8m in 2HFY09.

Capex

1HFY09 capex was \$3.6m (12% of revenue), above the \$3.0m spent in 1HFY08 (19% of revenue) and the \$2.6m spent in 2HFY08 (12% of revenue). In response to the economic downturn, the company recently stated that it will wind back all non-essential capex. We forecast FY09 capex of \$6.6m (13% of revenue), falling to \$3.0m in FY10.

Balance Sheet

Although Ammtec has no cash on hand, the balance sheet is in good order with gearing at 24% and net interest cover strong at 12.4x as at 31 December 2008. We forecast FY09 and FY10 gearing of 22% with 16% with interest cover of 10.9x and 10.2x respectively.

The company provided the following information relating to its liabilities:

- \$0.6m drawn down of a \$2.5m overdraft maturing in 2009 (9.28% p.a.)
- \$6.0m secured bank loan maturing in 2010 (6.15% p.a.)
- \$5.1m of finance leases
- \$0.4m of HP liabilities

OUTLOOK

Little was provided in terms of outlook commentary. Consistent with commentary accompanying the earnings downgrade released on 27 January 09, management said that the company has been affected by the economic climate and poor commodity prices with a number of clients deferring major projects.

REVISED FORECASTS

Our FY09 and FY10 revenue forecasts remain unchanged as we have only recently revised them down to reflect the economic downturn. We note that our FY09 revenue forecast of \$52.1m is 7% below management's guidance of \$55.8m. Our forecast implies a 25% fall in 2HFY09 revenue compared to 1HFY09, reflecting weaker demand.

We have reduced our FY09 EBITDA margin forecast from 27.6% to 23.0% following the weaker than expected 1HFY09 EBITDA margin of 22.8%. Similarly, we have pulled back our FY10 EBITDA margin from 28.0% to 22.7%. Management guidance implies a FY09 EBITDA margin of 28.9% which implies a significant improvement in 2HFY09. At this stage, we prefer to be conservative.

Our FY09 and FY10 adjusted NPAT forecasts have been reduced by 21% and 24% respectively. Our FY09 forecast of \$5.8m, which implies 2HFY09 adjusted NPAT of \$2.4m, is well below guidance of \$8.7m.

Our FY09 and FY10 EPS forecasts have been reduced by 12% and 16% respectively with the difference to profit reflecting the reduced average number of shares on issue.

The changes to our forecasts are displayed overleaf.

Forecast changes (\$m)

	FY09			FY10		
	NEW	OLD	Diff	NEW	OLD	Diff
Sales Revenue	52.1	52.1	0%	48.5	47.9	1%
EBITDA	12.0	14.4	-16%	11.0	13.4	-18%
EBITDA Margin	23.0%	27.6%	-16%	22.7%	28.0%	-19%
D & A tang	1.9	1.9	-4%	1.8	1.7	7%
EBITA	10.1	12.4	-18%	9.2	11.7	-21%
Amort intang	0.0	0.0	nm	0.0	0.0	nm
EBIT	10.1	12.4	-18%	9.2	11.7	-21%
EBIT Margin	19.5%	23.9%	-18%	19.0%	24.5%	-22%
Net interest exp	0.9	1.1	-16%	0.9	0.9	0%
PBT	9.2	11.3	-19%	8.3	10.8	-23%
Tax exp	3.2	3.8	-17%	2.7	3.5	-23%
NPAT pre min	6.0	7.5	-20%	5.7	7.4	-23%
Minorities	-0.2	-0.2	19%	-0.2	-0.2	19%
NPAT pre sig items	5.8	7.3	-21%	5.4	7.2	-24%
Significant items	0.4	0.0	0%	0.0	0.0	0%
NPAT reported	6.2	7.3	-15%	5.4	7.2	-24%
NPAT adjusted	5.8	7.3	-21%	5.4	7.2	-24%
EPS adj	23.6	26.9	-12%	22.0	26.2	-16%

Source: FSB estimates

VALUATION

Our revised forecasts have reduced our NPV by 15% to \$2.17/share and reduced our one-year forward valuation by 17% to \$2.50/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	64.5	2.62	70.1	2.84
Net debt	11.0	0.45	8.4	0.34
NPV	53.5	2.17	61.7	2.50

Source: Company; FSB estimates

RECOMMENDATION

Ammtec's 1HFY09 result reflected the adverse impact of the economic downturn on the business. Whilst revenue has grown, margins have been impacted and the dividend was slashed to preserve capital. The near-term outlook remains uncertain, hence our conservative stance.

We maintain our Buy recommendation and set our revised price target to \$2.00/share. We derive our price target by applying a 20% discount to our year-forward DCF valuation to reflect negative sentiment towards the sector and near-term earnings risk. There is currently 33% upside to our revised price target.

We remain attracted to Ammtec's leading position in metallurgical consulting, an important niche service for the various stages of the mining cycle. Importantly, the company now has the capacity to gain strong leverage to the eventual uptick in demand.

Ammtec Ltd (AEC)

Full Year Ended 30 June

Profit and Loss (\$m)	2008a	2009e	2010e	2011e
Sales Revenue	37.4	52.1	48.5	53.5
Other Revenue	0.1	0.5	0.5	0.5
Total Revenue	37.5	52.5	49.0	54.0
EBITDA	12.0	12.0	11.0	12.7
EBITDA margin (%)	32.0	23.0	22.7	23.7
D & A tangibles	1.1	1.9	1.8	2.0
EBITA	10.9	10.1	9.2	10.7
EBITA margin (%)	29.2	19.5	19.0	20.0
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	10.9	10.1	9.2	10.7
EBIT margin (%)	29.2	19.5	19.0	20.0
Net Interest exp / (income)	0.7	0.9	0.9	1.0
Profit before tax	10.2	9.2	8.3	9.7
Tax exp / (benefit)	3.4	3.2	2.7	3.1
NPAT pre minorities	6.8	6.0	5.7	6.6
Minority Interests	-0.2	-0.2	-0.2	-0.2
NPAT pre sig items	6.6	5.8	5.4	6.4
Significant items	0.1	0.4	0.0	0.0
NPAT reported	6.7	6.2	5.4	6.4
NPAT adjusted *	6.6	5.8	5.4	6.4
EPS adj ¢	29.5	23.6	22.0	25.8

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2008a	2009e	2010e	2011e
EBITDA	12.0	12.0	11.0	12.7
Net Interest	-0.7	-0.9	-0.9	-1.0
Tax	-3.4	-3.2	-2.7	-3.1
Δ Working Capital	-4.8	1.5	0.5	-0.7
Other	3.9	1.5	0.0	0.0
Operating Cashflow	8.0	10.9	7.9	7.9
Capex	-5.6	-6.6	-3.0	-3.5
Net Acquisitions	-16.2	-0.4	0.0	0.0
Asset Sales	0.4	0.6	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	-21.5	-6.4	-3.0	-3.5
Equity proceeds	14.5	0.1	0.0	0.0
Debt proceeds	4.7	1.3	2.0	0.0
Debt repayment	-0.6	-0.8	-1.0	-1.0
Dividends paid	-5.1	-4.8	-2.4	-2.9
Other	0.0	0.0	0.0	0.0
Financing Cashflow	13.5	-4.2	-1.4	-3.9
Net Cashflow	0.0	0.3	3.6	0.5

Ratios	2008a	2009e	2010e	2011e
EPS rep ¢	30.0	25.3	22.0	25.8
EPS adj ¢	29.5	23.6	22.0	25.8
EPS adj growth (%)	25.4	-20.1	-6.7	17.4
PER x	5.1	6.4	6.8	5.8
EV/EBITDA x	3.6	4.0	4.1	3.5
EV/EBIT x	4.0	4.7	4.9	4.1
Payout ratio (%)	72.0	41.9	47.0	50.0
DPS Total ¢	25.0	10.4	10.4	13.0
Yield (%)	16.7	7.0	6.9	8.7
Average RoE (%)	24.3	16.4	13.2	14.3
Average RoA (%)	27.0	17.0	13.9	15.3
Gearing (ND/ND+E) (%)	20.7	21.7	16.5	13.0
Net interest cover x	16.1	10.9	10.2	10.7
ND/EBITDA x	0.8	0.9	0.8	0.5
NTA (\$ per share)	0.57	0.41	0.55	0.68
WA # Shares Diluted (m)	22.5	24.7	24.7	24.7

Source: Company; FSB estimates

Half Year Ended 31 Dec

Profit and Loss (\$m)	1H08a	2H08a	1H09a	2H09e
Sales Revenue	16.1	21.3	29.8	22.3
Other Revenue	0.1	0.0	0.2	0.2
Total Revenue	16.2	21.3	30.0	22.5
EBITDA	5.0	7.0	6.8	5.2
EBITDA margin (%)	30.7	33.0	22.8	23.4
D & A tangibles	0.4	0.7	0.9	1.0
EBITA	4.6	6.3	5.9	4.2
EBITA margin (%)	28.4	29.8	19.8	19.0
Amortisation intangibles	0.1	0.0	0.0	0.0
EBIT	4.5	6.4	5.9	4.2
EBIT margin (%)	27.8	30.3	19.8	19.0
Net Interest exp / (income)	0.3	0.4	0.5	0.5
Profit before tax	4.2	6.0	5.4	3.8
Tax exp / (benefit)	1.5	1.9	1.9	1.3
NPAT pre minorities	2.8	4.0	3.5	2.5
Minority Interests	-0.1	-0.1	-0.1	-0.1
NPAT pre sig items	2.7	3.9	3.4	2.4
Significant items	0.0	0.1	0.4	0.0
NPAT reported	2.7	4.0	3.9	2.3
NPAT adjusted *	2.9	3.7	3.4	2.4
EPS adj ¢	13.4	16.1	13.8	9.8

* NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2008a	2009e	2010e	2011e
Cash	0.0	0.8	4.3	4.8
Receivables	9.7	9.1	8.5	9.4
Inventories	1.9	2.6	2.4	2.7
PPE	21.3	26.5	27.7	29.2
Intangibles	21.4	22.1	22.1	22.1
Investments	0.0	0.0	0.0	0.0
Other	0.9	3.3	3.1	3.3
Total Assets	55.2	64.4	68.2	71.6
Accounts payable	5.0	6.4	6.0	6.5
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	2.4	1.5	1.3	1.5
Debt	9.4	11.7	12.7	11.7
Other	2.2	5.2	5.5	5.6
Total Liabilities	19.1	24.9	25.5	25.3
Reserves and capital	26.0	27.6	27.6	27.6
Retained earnings	10.0	11.8	14.9	18.4
Minorities	0.2	0.2	0.2	0.2
Total Equity	36.2	39.7	42.7	46.2

Divisions (\$m)	2008a	2009e	2010e	2011e
WA	26.9	28.6	27.1	31.2
TAS	3.2	3.5	3.5	3.6
NSW	1.8	2.7	2.8	2.9
SA	1.2	1.1	1.1	1.2
Total Met Revenue	33.1	35.8	34.6	38.9
Marc	4.3	16.3	13.8	14.5
Other	0.1	0.5	0.5	0.5
Total Revenue	37.5	52.5	48.9	53.9

Valuation	now		one year	
	\$m	\$ ps	\$m	\$ ps
Business value	64.5	2.62	70.1	2.84
Net debt	11.0	0.45	8.4	0.34
NPV	53.5	2.17	61.7	2.50

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