

Ammtec (AEC.ASX)

FY10 NPAT (unaudited) of \$7.2m in line.

Wednesday 21 July 2010

Event:

- AEC announced FY10 NPAT (unaudited) of \$7.2m.

Key details:

- FY10 NPAT (unaudited) \$7.2m, +5% yoy (1H / 2H split: \$2.9m / \$4.3m).
- FY10 met lab revenue +8% yoy (implies \$41m; 1H / 2H: \$19m / \$22m).
- Marc Technologies' FY10 PBT \$2.5m, +92% yoy.
- 11cps final dividend proposed if CPB's takeover does not proceed.
- FY10 dividend would be 17.5 cps, +9% yoy (93% payout).
- AEC Board continues to recommend shareholders reject CPB's bid.
- AEC's Target's Statement is due out 'shortly.'

Analysis:

- NPAT in line.** The unaudited profit figure is broadly in line with guidance released on 26 May 2010 and our \$6.9m projection (pre-minorities).
- Record second half.** 2HFY10 NPAT of \$4.3m is a record half for AEC (2HFY08 \$4.2m & 1HFY09 \$4.1m) reflecting improved demand and capacity enhancements.
- Solid core revenue growth.** 2HFY10 core met lab revenue growth of 15% on the first half appears to be ahead of our more moderate expectations.
- Marc turning.** It is encouraging to see demand for Marc's dust suppression systems picked up in the final months of FY10. The order book is very strong and Marc is expected to return to pre-GFC profitability in FY11.
- PSI sale.** On 8 July 2010 AEC confirmed PSI's first commercial sale worth \$1.5m. PSI should break even in FY11 and AEC expects the resin business to be profitable in FY12. We choose to await further sales announcements.
- FY11 in focus.** With uncertainty around FY10 removed, we suspect the market will focus on the prospects for FY11, particularly in light of AEC's strong guidance (FY11 NPAT growth of 54%-79%).

Earnings & Valuation:

- FY10 NPAT (pre-minorities) +4% to \$7.2m in line with pre-release.
- FY10 EPS +5% & FY11 EPS +2% reflecting NPAT revision.
- DCF valuation +3% to \$3.34/share.

Catalysts:

- CPB's \$3.35/share cash or 2 for 17 takeover offer (CPB has 9.99% of AEC). The offer closes 5.00 pm Perth time on 23 August 2010 unless extended.
- Positive earnings announcements and new contract wins.

Recommendation:

- We maintain our Hold and our \$3.35/share price target.**
- In the near-term, we expect the AEC stock price to be dictated by the takeover offer. However, trading on a FY11 PER of 13.5x, we do not regard the fundamentals as compelling at these levels.

Metals & Mining

Rating	Hold
Previous	Hold

Share Price (\$)	3.52
Price Target (\$)	3.35
Previous (\$)	3.35
NPV (\$/share)	3.34
Risk	Medium

Capital Structure

Shares on Issue (m)	36.5
Shares on Issue diluted (m)	40.5
Free Float (%)	100%
12mth Av Daily Volume (m)	0.05
Market Cap (\$m)	142.7
FY11e EV (\$m)	149.1

Key Metrics

Year to June	FY10a	FY11e	FY12e	FY13e
Revenue (\$m)	55.5	67.7	74.5	80.8
EBITDA (\$m)	12.5	18.6	21.9	24.6
NPAT rep (\$m)	6.7	10.5	12.7	14.3
NPAT adj (\$m)	6.7	10.5	12.7	14.3
EPS adj (¢)	18.1	26.0	31.2	35.3
DPS (¢)	17.5	21.4	25.6	29.0
Rev growth (%)	1%	22%	10%	9%
EPS growth (%)	-29%	44%	20%	13%
EBITDA margin (%)	23%	27%	29%	30%
PER (x)	19.5	13.5	11.3	10.0
EV / EBITDA (x)	10.5	8.0	6.8	6.0
Yield (%)	5.0	6.1	7.3	8.2
Op Cashflow (\$m)	8.9	11.2	14.3	16.3
Capex (\$m)	-10.0	-9.0	-6.5	-5.0
FCF (\$m)	-1.1	2.2	7.8	11.3
Net Debt (\$m)	0.8	6.4	7.2	5.9
Gearing (%)	1.3	9.1	9.5	7.5
EBITA / Net int (x)	34.4	23.1	27.6	31.1

Share Price Graph



Analyst

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Ammtec Ltd (AEC)

Full Year Ended 30 June

Profit and Loss (\$m)	2009a	2010e	2011e	2012e
Sales Revenue	54.9	55.3	67.5	74.3
Other Revenue	0.3	0.2	0.2	0.2
Total Revenue	55.2	55.5	67.7	74.5
EBITDA	12.9	12.5	18.6	21.9
EBITDA margin (%)	23.5	22.6	27.5	29.5
D & A tangibles	1.7	2.0	2.4	2.6
EBITA	11.2	10.5	16.2	19.3
EBITA margin (%)	20.4	19.0	24.0	26.0
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	11.2	10.5	16.2	19.3
EBIT margin (%)	20.4	19.0	24.0	26.0
Net Interest exp / (income)	1.2	0.3	0.7	0.7
Profit before tax	10.3	10.2	15.5	18.6
Tax exp / (benefit)	3.5	3.3	5.0	6.0
NPAT pre minorities	6.9	7.2	10.5	12.7
Minority Interests	-0.4	-0.4	0.0	0.0
NPAT pre sig items	6.5	6.7	10.5	12.7
Significant items	0.0	0.0	0.0	0.0
NPAT reported	6.5	6.7	10.5	12.7
NPAT adjusted *	6.5	6.7	10.5	12.7
EPS adj ¢	25.4	18.1	26.0	31.2

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2009a	2010e	2011e	2012e
EBITDA	12.9	12.5	18.6	21.9
Net Interest	-1.2	-0.3	-0.7	-0.7
Tax	-3.5	-3.3	-5.0	-6.0
Δ Working Capital	3.7	-1.2	-1.7	-1.0
Other	2.1	1.3	0.0	0.0
Operating Cashflow	12.1	8.9	11.2	14.3
Capex	-5.9	-10.0	-9.0	-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	-9.0	-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	-7.8	-8.6
Other	0.0	0.0	0.0	0.0
Financing Cashflow	-3.8	6.4	-3.8	-9.6
Net Cashflow	0.5	4.2	-1.6	-1.8

Ratios	2009a	2010e	2011e	2012e
EPS rep ¢	25.4	18.1	26.0	31.2
EPS adj ¢	25.4	18.1	26.0	31.2
EPS adj growth (%)	-15.4	-28.8	44.0	20.0
PER x	13.9	19.5	13.5	11.3
EV/EBITDA x	7.9	10.5	8.0	6.8
EV/EBIT x	9.1	12.6	9.2	7.8
Payout ratio (%)	79.0	92.6	74.0	74.0
DPS Total ¢	16.0	17.5	21.4	25.6
Yield (%)	4.5	5.0	6.1	7.3
Average RoE (%)	16.4	12.9	16.8	19.1
Average RoA (%)	18.1	14.1	19.2	21.5
Gearing (ND/ND+E) (%)	22.0	1.3	9.1	9.5
Net interest cover x	9.1	34.4	23.1	27.6
ND/EBITDA x	0.9	0.1	0.3	0.3
NTA (\$ per share)	0.71	0.99	0.98	1.08
WA # Shares Diluted (m)	25.6	37.3	40.5	40.5

Source: Company; FSB estimates

Half Year Ended 31 Dec

Profit and Loss (\$m)	1H09a	2H09a	1H10a	2H10e
Sales Revenue	29.8	25.1	24.5	30.8
Other Revenue	0.2	0.1	0.1	0.1
Total Revenue	30.0	25.2	24.6	30.9
EBITDA	7.4	5.5	5.2	7.3
EBITDA margin (%)	24.8	21.9	21.3	23.7
D & A tangibles	0.9	0.8	1.0	1.0
EBITA	6.5	4.7	4.2	6.3
EBITA margin (%)	21.8	18.6	17.2	20.4
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	6.5	4.7	4.2	6.3
EBIT margin (%)	21.8	18.6	17.2	20.4
Net Interest exp / (income)	0.5	0.8	0.2	0.1
Profit before tax	6.0	4.3	4.0	6.2
Tax exp / (benefit)	2.1	1.4	1.4	1.9
NPAT pre minorities	4.1	2.8	2.9	4.3
Minority Interests	-0.1	-0.3	-0.2	-0.2
NPAT pre sig items	3.9	2.6	2.6	4.1
Significant items	0.0	0.0	0.0	0.0
NPAT reported	3.9	2.6	2.6	4.1
NPAT adjusted *	3.9	2.6	2.6	4.1
EPS adj ¢	16.0	9.4	8.1	10.0

* NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2009a	2010e	2011e	2012e
Cash	0.5	4.7	3.1	1.3
Receivables	9.7	9.2	11.2	12.3
Inventories	2.2	3.0	3.7	4.0
PPE	32.6	40.6	47.2	51.1
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	80.4	88.1	91.7
Accounts payable	8.4	7.5	8.6	9.2
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	0.4	0.4	0.7	0.8
Debt	12.6	5.5	9.5	8.5
Other	4.1	5.4	5.1	4.9
Total Liabilities	25.6	18.9	23.9	23.4
Reserves and capital	31.1	49.4	49.4	49.4
Retained earnings	11.8	12.0	14.8	18.8
Minorities	0.1	0.1	0.1	0.1
Total Equity	43.0	61.5	64.3	68.4

Divisions (\$m)	2009a	2010e	2011e	2012e
WA	31.2	35.2	40.5	45.4
TAS	3.4	2.8	3.0	3.1
NSW	2.6	1.9	2.0	2.1
SA	1.1	1.4	1.5	1.6
Total Met Revenue	38.2	41.3	47.0	52.2
Marc	16.6	14.0	19.0	20.3
Other	0.3	0.2	0.2	0.2
Total Revenue	55.1	55.5	66.2	72.7

Valuation	now	one year		
	\$m	\$ ps	\$m	\$ ps
Business value	125.2	3.36	135.4	3.34
Net debt	0.8	0.02	6.4	0.16
NPV	124.4	3.34	129.0	3.18

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