FOSTER STOCKBROKING
EQUITY RESEARCH
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Ammtec (AEC.ASX)

Friday 22 May 2009

Marc'd down but core business steady.

Metals & Mining

Rating:	Buy
(previous):	Buy

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Ammtec downgraded FY09 NPAT guidance by 20% to $7m (FSB $6m). Previous guidance provided in January was for FY09 NPAT of $8.7m. Our forecast of $6m NPAT implied a downgrade of greater magnitude.

Marc business drives downgrade. The company attributed this downgrade to declining demand for Marc Technologies' services. Marc, which designs and builds laboratories and lab equipment, was acquired in February 2008 for $12m. Although Marc is now expected to achieve similar revenues to FY08 (~$12m annualised), the Global Financial Crisis has negatively impacted the business' profitability. However, Ammtec noted that Marc has experienced increased enquiry levels and the order book is strong and growing. This is expected to flow through in the second half of FY10.

Core business steady. Ammtec stated that it is pleased how well its core metallurgical and mineral testing business has held up given the tough economic times and said the future looks positive. The company noted that the volume of gold and iron ore testwork has increased year on year. We attribute this resilience to the blue chip client base and the niche services Ammtec provides to the mining industry.

Expands into uranium, oil and gas. Ammtec also said that it is now conducting laboratory testwork on uranium and oil and gas mineralogy. This diversification reads positively for future growth prospects earnings stability.

Revised forecasts. Given that the downgraded FY09 NPAT figure is above our old forecast and there is just five trading weeks of this financial year remaining, we are increasing our FY09 forecast in line with guidance of $7m. As such, our FY09e EPS forecast has been increased by 11%.

We maintain our Buy recommendation and set our revised price target to $2.35/share. Our price target equals our year-forward DCF valuation. There is currently 20% 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	53.6	50.8	55.1	59.4
% change	43%	43%	-5%	8%	8%
EBITDA	12.0	12.5	11.5	13.0	15.3
EBITDA margin	32.0%	23.4%	22.7%	23.7%	25.7%
NPAT rep	6.7	6.9	5.7	6.6	8.0
NPAT adj*	6.6	6.5	5.7	6.6	8.0
EPS adj* ¢	29.5	26.2	20.4	23.5	28.5
% change	25%	-11%	-22%	15%	21%
Dividend ¢	25.0	8.9	10.5	12.9	15.6
PER x	6.6	7.5	9.6	8.4	6.9
EV/EBITDA x	4.5	4.7	5.4	4.7	3.9
Yield	12.8%	4.5%	5.4%	6.6%	8.0%

* Figures adjusted for NRIs and amortisation of intangibles

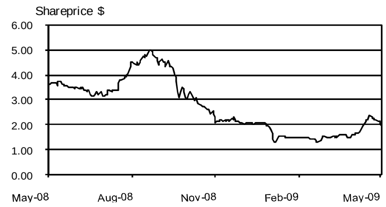
Source: Company, Foster Stockbroking

Share price:	$1.96
Price target:	$2.35
(Previous)	$2.00
NPV per share	$2.31
Risk:	Medium
Shares on issue (m):	24.5
Shares on issue (diluted) (m):	24.7
Free float:	100%
Average daily volume ('000):	19.5
Market cap ($m):	48.3
FY09e Enterprise value ($m):	59.4
FY09e Net debt ($m):	11.1
FY09e Gearing (ND/ND+E):	21.4%
FY09e S'holders equity ($m):	40.7
FY09e NTA per share ($):	0.43

Forecast:	2009
Free cash flow ($m):	4.3
Return on average equity:	18%
Net interest cover:	11.8

Forecast:	2010
Free cash flow ($m):	5.2
Return on average equity:	13%
Net interest cover:	10.7

Shareprice ($):



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EARNINGS DOWNGRADE

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The company attributed this downgrade to declining demand for Marc Technologies' services. Marc, which designs and builds laboratories and lab equipment, was acquired in February 2008 for $12m. Although Marc is now expected to achieve similar revenues to FY08 (~$12m annualised), the Global Financial Crisis has negatively impacted the business' profitability. However, Ammtec noted that Marc has experienced increased enquiry levels and the order book is strong and growing. This is expected to flow through in the second half of FY10.

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FY09 EARNINGS DOWNGRADE

While FY09 revenue guidance of $54.0m has been lowered by just 3%, the company now expects a 510 basis point decline in the FY09 EBITDA margin to 23.8%, reducing FY09 NPAT and EPS by 19% from $8.7m to $7m and 34cps to 28cps. Full year dividend guidance was not provided with the company simply stating that the full year dividend will reflect the full year profitability.

FY09 Revised Company Guidance ($m)

	FY09e NEW	FY09e OLD	Diff
Revenue	54.0	55.8	-3%
EBITDA	12.9	16.1	-20%
EBITDA margin	23.8	28.9	-18%
D&A	1.6	1.9	-17%
EBIT	11.3	14.2	-21%
EBIT margin	20.8	25.4	-18%
Interest Expense	0.9	1.1	-16%
PBT	10.3	13.1	-21%
Tax	3.3	4.4	-26%
NPAT reported	7.1	8.7	-19%
EPS (cps)	**27.7**	**34.0**	**-19%**

Source: Company

REVISED FORECASTS

Given that the downgraded FY09 NPAT reported figure is above our old forecast and there is just five trading weeks of this financial year remaining, we are increasing our FY09 NPAT reported forecast in line with guidance of $7m.

We have increased our FY09e revenue forecast by 3% to $53.6m, in line with the revised company guidance. Our FY10 revenue growth forecast is now coming off this higher base. Our FY09 EBITDA margin forecast has been increased slightly to 23.4%, broadly consistent with management's forecast.

Our FY09e EPS forecast has been increased by 11% while our FY10 forecast has been reduced by 7%, which reflects the expanded share base.

These changes are displayed below.

Forecast changes ($m)

	FY09e NEW	FY09e OLD	Diff	FY10e NEW	FY10e OLD	Diff
Sales Revenue	53.6	52.1	3%	50.8	48.5	5%
EBITDA	12.5	12.0	4%	11.5	11.0	5%
EBITDA Margin	23.4%	23.0%	1%	22.7%	22.7%	0%
D & A tang	1.6	1.9	-13%	1.9	1.8	5%
EBITA	10.9	10.1	7%	9.6	9.2	5%
Amort intang	0.0	0.0	nm	0.0	0.0	nm
EBIT	10.9	10.1	7%	9.6	9.2	5%
EBIT Margin	20.4%	19.5%	4%	19.0%	19.0%	0%
Net int exp	0.9	0.9	0%	0.9	0.9	0%
PBT	10.0	9.2	8%	8.7	8.3	5%
Tax exp	3.3	3.2	3%	2.8	2.7	5%
NPAT pre minorities	6.7	6.0	11%	5.9	5.7	5%
Minorities	-0.2	-0.2	0%	-0.2	-0.2	0%
NPAT pre sig items	6.5	5.8	11%	5.7	5.4	5%
Significant items	0.4	0.4	0%	0.0	0.0	0%
NPAT reported	6.9	6.2	11%	5.7	5.4	5%
NPAT adjusted*	**6.5**	**5.8**	**11%**	**5.7**	**5.4**	**5%**
EPS adjusted	**26.2**	**23.6**	**11%**	**20.4**	**22.0**	**-7%**

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

We have also reduced our FY09 dividend forecast. We now expect the company to pay 9 cents for the year, implying a final dividend of 3 cents.

VALUATION

Our revised forecasts increase our NPV by 14 cps to $2.31/share and decrease our one-year forward valuation by 15 cps to $2.35/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	67.9	2.75	73.8	2.63
Net debt	11.1	0.45	7.9	0.28
NPV	**56.9**	**2.31**	**65.9**	**2.35**

Source: Company; FSB estimates

RECOMMENDATION

We maintain our Buy recommendation and set our revised price target to $2.35/share. Our price target equals our year-forward DCF valuation. There is currently 20% 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	53.6	50.8	55.1
Other Revenue	0.1	0.5	0.5	0.5
Total Revenue	**37.5**	**54.0**	**51.2**	**55.5**
EBITDA	**12.0**	**12.5**	**11.5**	**13.0**
EBITDA margin (%)	32.0	23.4	22.7	23.7
D & A tangibles	1.1	1.6	1.9	2.0
EBITA	**10.9**	**10.9**	**9.6**	**11.0**
EBITA margin (%)	29.2	20.4	19.0	20.0
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	**10.9**	**10.9**	**9.6**	**11.0**
EBIT margin (%)	29.2	20.4	19.0	20.0
Net Interest exp / (income)	0.7	0.9	0.9	1.0
Profit before tax	**10.2**	**10.0**	**8.7**	**10.0**
Tax exp / (benefit)	3.4	3.3	2.8	3.2
NPAT pre minorities	**6.8**	**6.7**	**5.9**	**6.8**
Minoritiy Interests	-0.2	-0.2	-0.2	-0.2
NPAT pre sig items	**6.6**	**6.5**	**5.7**	**6.6**
Significant items	0.1	0.4	0.0	0.0
NPAT reported	**6.7**	**6.9**	**5.7**	**6.6**
NPAT adjusted *	**6.6**	**6.5**	**5.7**	**6.6**
EPS adj ¢	29.5	26.2	20.4	23.5

* NPAT adjusted for significant items and amortisation of intangibles

Half Year Ended 31 Dec

Profit and Loss ($m)	1H08a	2H08a	1H09a	2H09e
Sales Revenue	16.1	21.3	29.8	23.7
Other Revenue	0.1	0.0	0.2	0.2
Total Revenue	**16.2**	**21.3**	**30.0**	**24.0**
EBITDA	**5.0**	**7.0**	**6.8**	**5.7**
EBITDA margin (%)	30.7	33.0	22.8	24.1
D & A tangibles	0.4	0.7	0.9	0.7
EBITA	**4.6**	**6.3**	**5.9**	**5.0**
EBITA margin (%)	28.4	29.8	19.8	21.0
Amortisation intangibles	0.1	0.0	0.0	0.0
EBIT	**4.5**	**6.4**	**5.9**	**5.0**
EBIT margin (%)	27.8	30.3	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	1.4
NPAT pre minorities	**2.8**	**4.0**	**3.5**	**3.2**
Minoritiy Interests	-0.1	-0.1	-0.1	-0.1
NPAT pre sig items	**2.7**	**3.9**	**3.4**	**3.1**
Significant items	0.0	0.1	0.4	0.0
NPAT reported	**2.7**	**4.0**	**3.9**	**2.9**
NPAT adjusted *	**2.9**	**3.7**	**3.4**	**3.1**
EPS adj ¢	13.4	16.1	13.8	12.5

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow ($m)	2008a	2009e	2010e	2011e
EBITDA	**12.0**	**12.5**	**11.5**	**13.0**
Net Interest	-0.7	-0.9	-0.9	-1.0
Tax	-3.4	-3.3	-2.8	-3.2
Δ Working Capital	-4.8	1.0	0.4	-0.6
Other	3.9	1.5	0.0	0.0
Operating Cashflow	**8.0**	**10.9**	**8.2**	**8.2**
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	-2.0	-3.0
Other	0.0	0.0	0.0	0.0
Financing Cashflow	**13.5**	**-4.2**	**-1.0**	**-4.0**
Net Cashflow	0.0	0.3	4.2	0.7

Balance Sheet ($m)	2008a	2009e	2010e	2011e
Cash	0.0	0.7	4.9	5.6
Receivables	9.7	9.7	9.2	10.0
Inventories	1.9	2.8	2.6	2.9
PPE	21.3	26.8	27.9	29.3
Intangibles	21.4	22.1	22.1	22.1
Investments	0.0	0.0	0.0	0.0
Other	0.9	4.1	3.9	4.2
Total Assets	**55.2**	**66.1**	**70.6**	**74.1**
Accounts payable	5.0	6.8	6.5	6.9
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	2.4	1.6	1.4	1.6
Debt	9.4	11.7	12.7	11.7
Other	2.2	5.3	5.7	5.9
Total Liabilities	**19.1**	**25.4**	**26.3**	**26.1**
Reserves and capital	26.0	27.6	27.6	27.6
Retained earnings	10.0	12.9	16.5	20.1
Minorities	0.2	0.2	0.2	0.2
Total Equity	**36.2**	**40.7**	**44.4**	**48.0**

Ratios	2008a	2009e	2010e	2011e
EPS rep ¢	30.0	27.9	20.4	23.5
EPS adj ¢	29.5	26.2	20.4	23.5
EPS adj growth (%)	25.4	-11.0	-22.3	15.1
PER x	6.6	7.5	9.6	8.4
EV/EBITDA x	4.5	4.7	5.4	4.7
EV/EBIT x	4.9	5.4	6.5	5.5
Payout ratio (%)	72.0	32.4	47.0	50.0
DPS Total ¢	25.0	8.9	10.5	12.9
Yield (%)	12.8	4.5	5.4	6.6
Average RoE (%)	24.3	17.9	13.4	14.2
Average RoA (%)	27.0	18.0	14.1	15.2
Gearing (ND/ND+E) (%)	20.7	21.4	15.1	11.4
Net interest cover x	16.1	11.8	10.7	11.0
ND/EBITDA x	0.8	0.9	0.7	0.5
NTA ($ per share)	0.57	0.43	0.51	0.63
WA # Shares Diluted (m)	22.5	24.7	28.0	28.0

Source: Company; FSB estimates

Divisions ($m)	2008a	2009e	2010e	2011e
WA	26.9	33.9	31.5	35.0
TAS	3.2	3.7	3.7	3.8
NSW	1.8	2.8	2.8	2.9
SA	1.2	1.1	1.2	1.2
Total Met Revenue	**33.1**	**41.5**	**39.3**	**43.0**
Marc	4.3	12.0	11.4	12.0
Other	0.1	0.5	0.5	0.5
Total Revenue	**37.5**	**54.0**	**51.1**	**55.4**

Valuation	now		one year	
	$m	$ ps	$m	$ ps
Business value	67.9	2.75	73.8	2.63
Net debt	11.1	0.45	7.9	0.28
NPV	**56.9**	**2.31**	**65.9**	**2.35**

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