FOSTER STOCKBROKING

Level 21
25 Bligh St
Sydney NSW 2000

Ammtec (AEC.ASX)

Tuesday 22 December 2009

Marc'd down once again. 1HFY10 trading update.

Metals & Mining

Ammtec provided 1HFY10 NPAT guidance of $3m, 23% below our $3.9m forecast. 1HFY10 profitability is now likely to be in line with 2HFY09 ($3m) although below the pcp ($3.5m).

Marc to blame. Ammtec said Marc, which designs lab equipment and dust and fume control systems for the mining industry, has experienced another tough trading half due to its exposure to capex projects, many of which have been cancelled or deferred. However, the company noted that Marc has some significant prospects for new work in 2HFY10. Marc was acquired in Feb 08 for $12m and represents 24% of our FY10 revenue forecast.

Core business remains strong. Ammtec said the core Balcatta, WA metallurgical consulting business (64% of FY10 revenue) is trading strongly and the current order book indicates a very strong 2HFY10. A number of significant pilot plant programs committed to commence early in 2HFY10 suggest demand is returning to pre-GFC levels. Ammtec plans to upgrade the Balcatta assay facility to meet increased demand.

Anticipates a stronger second half. Although no FY10 guidance was provided, Ammtec said it anticipates a much stronger 2HFY10 than the first half. If some of Marc's prospects are achieved, the company expects FY10 NPAT to be at least equal to the prior year (FY09 NPAT pre-minorities of $6.9m). We now forecast a 40/60 NPAT skew.

Revised forecasts. FY10 and FY11 EPS down 23% and 24% respectively.

We maintain our Buy recommendation and set our revised price target to $2.85/share. Our price target equals our year-forward DCF valuation. There is currently 26% upside to our revised price target. The stock is now trading on a FY10 PER of 12x and a FY11 PER of 10x. This compares to Campbell Brothers (CPB) on 22x and 16x respectively.

Although the 1HFY09 trading update is disappointing, we remain attracted to Ammtec's medium term growth profile and strong balance sheet (FY10 net cash of $3m). The outlook for the core met business is positive, underpinned by the recovery in the mining industry and capacity expansions (assay upgrades and new hydromet facility). The PSI business remains a free option.

Year to June ($m)	2008a	2009a	2010e	2011e	2012e
Revenue	37.0	54.9	55.4	61.3	68.5
% change	41%	49%	1%	11%	12%
EBITDA	11.9	12.9	13.9	17.2	20.6
EBITDA margin	32.2%	23.5%	25.0%	28.0%	30.0%
NPAT rep	6.7	6.5	6.8	8.9	11.0
NPAT adj*	6.6	6.4	6.8	8.9	11.0
EPS adj* ¢	29.5	25.1	18.7	22.2	27.4
% change	25%	-15%	-26%	18%	24%
Dividend ¢	25.0	16.0	8.2	17.2	21.3
PER x	7.7	9.0	12.1	10.2	8.3
EV/EBITDA x	5.1	5.4	5.7	5.2	4.3
Yield	11.1%	7.1%	3.6%	7.6%	9.4%

* Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

Rating:	Buy
(previous):	Buy

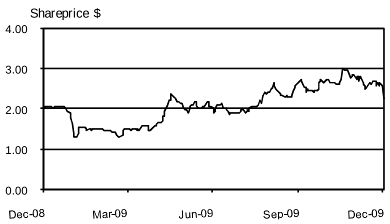
Dominic Rose
dominic.rose@fostock.com.au
+612 9993 8150

Share price:	$2.26
Price target:	$2.85
(Previous)	$3.15
NPV per share	$2.96
Risk:	Medium
Shares on issue (m):	33.2
Shares on issue (diluted) (m):	36.2
Free float:	100%
Average daily volume ('000):	28.0
Market cap ($m):	81.9
FY10e Enterprise value ($m):	79.4
FY10e Net debt ($m):	-2.6
FY10e Gearing (ND/ND+E):	-4.0%
FY10e S'holders equity ($m):	66.4
FY10e NTA per share ($):	1.20

Forecast:	2010
Free cash flow ($m):	-0.2
Return on average equity:	12%
Net interest cover:	14.6

Forecast:	2011
Free cash flow ($m):	3.8
Return on average equity:	13%
Net interest cover:	14.7

Shareprice ($):



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1HFY10 TRADING UPDATE

Ammtec provided 1HFY10 NPAT guidance of $3m, 23% below our $3.9m forecast. 1HFY10 profitability is now likely to be in line with 2HFY09 ($3m) although below the pcp ($3.5m).

Ammtec said Marc, which designs lab equipment and dust and fume control systems for the mining industry, has experienced another tough trading half due to its exposure to capex projects, many of which have been cancelled or deferred. However, the company noted that Marc has some significant prospects for new work in 2HFY10. Marc was acquired in Feb 08 for $12m and represents 24% of our FY10 revenue forecast.

We note that ASX-listed comparable, Essa (ESS), which designs and manufactures materials sampling equipment, provided a weak trading update earlier this month (3 Dec 09). ESS expects 1HFY10 revenue ($9m-$10m) to be down more than 50% on the pcp and that the company will incur a loss for the half.

Ammtec said the core Balcatta, WA metallurgical consulting business (64% of FY10 revenue) is trading strongly and the current order book indicates a very strong 2HFY10. A number of significant pilot plant programs committed to commence early in 2HFY10 suggest demand is returning to pre-GFC levels. Ammtec plans to upgrade the Balcatta assay facility to meet increased demand. This business has proven resilient during the downturn thanks to its high value-add, niche services and its exposure to most of the stages within the mining cycle. The ongoing expansionary initiatives provide solid leverage to the recovery.

The company noted that the smaller satellite labs in SA, NSW, and particularly TAS, have experienced tough times in the first half due to reduced mining activities. These labs in total make up just 12% of our FY10 group revenue forecast.

Outlook

Although no FY10 guidance was provided, Ammtec said it anticipates a much stronger 2HFY10 than the first half. If some of Marc's prospects are achieved, the company expects FY10 NPAT to be at least equal to the prior year (FY09 NPAT pre-minorities of $6.9m). Although a pickup in demand for Marc's products will have some impact on the second half, much of the growth should be driven by the core business.

REVISED FORECASTS

We have lowered our FY10 and FY11 revenue forecasts by 8% for each period to $55.4m and $61.3m respectively.

Our 1HFY10 revenue forecast is now $25.5m, which compares to $25.2m in 2HFY09 and $30.0m in 1HFY09. Our revised FY10 revenue forecast implies 2HFY10 revenue of $30.0m, up 18% on 1HFY10, which we view as consistent with management's expectations for a stronger second half. This is principally driven by our 20% revenue growth forecast for the core business to $19m. In 2HFY10, we factor in a 12% revenue uplift from Marc on the first half (to $7m revenue).

We have reduced our FY10 and FY11 EBITDA margin assumptions to 25.0% and 28.0% respectively. This largely reflects tougher trading conditions for the Marc business and the satellite labs.

Our revised forecasts reduce our FY10 NPAT by 23% to $6.8m and our FY11 NPAT by 20% to $8.9m. Our FY10 and FY11 EPS estimates are down 23% and 24% respectively.

We now forecast 1HFY10 NPAT of $3.0m (pre-minorities) which is consistent with the trading update. Our adjusted NPAT forecasts broadly imply a 40/60 first half/second half split. We regard this as consistent with management's anticipation for a stronger second half.

These changes are displayed below.

Forecast changes ($m)

	FY10e NEW	FY10e OLD	Diff	FY11e NEW	FY11e OLD	Diff
Sales Revenue	55.4	60.0	-8%	61.3	67.0	-8%
EBITDA	13.9	17.3	-20%	17.2	20.1	-15%
EBITDA Margin	25.0%	28.8%	-13%	28.0%	30.0%	-7%
D & A tang	2.2	1.8	22%	2.5	2.0	22%
EBITA	11.7	15.5	-25%	14.7	18.1	-19%
Amort intang	0.0	0.0	nm	0.0	0.0	nm
EBIT	11.7	15.5	-25%	14.7	18.1	-19%
EBIT Margin	21.1%	25.8%	-18%	24.0%	27.0%	-11%
Net int exp	0.8	1.6	-50%	1.0	1.0	0%
PBT	10.9	13.9	-22%	13.7	17.1	-20%
Tax exp	3.7	4.7	-22%	4.4	5.5	-20%
NPAT pre minorities	7.2	9.2	-22%	9.3	11.6	-20%
Minorities	-0.4	-0.4	0%	-0.4	-0.4	0%
NPAT pre sig items	6.8	8.8	-23%	8.9	11.2	-20%
Significant items	0.0	0.0	0%	0.0	0.0	0%
NPAT reported	6.8	8.8	-23%	8.9	11.2	-20%
NPAT adjusted*	**6.8**	**8.8**	**-23%**	**8.9**	**11.2**	**-20%**
EPS adjusted	**18.7**	**24.4**	**-23%**	**22.2**	**29.2**	**-24%**

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

VALUATION

Our revised forecasts derive our NPV of $2.96/share and our one-year forward valuation of $2.85/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	104.7	2.89	113.2	2.81
Net debt	-2.6	-0.07	-1.7	-0.07
NPV	**107.3**	**2.96**	**115.0**	**2.85**

Source: Company; FSB estimates

RECOMMENDATION

We maintain our Buy recommendation and set our revised price target to $2.85/share. Our price target equals our year-forward DCF valuation. There is currently 26% upside to our revised price target. The stock is now trading on a FY10 PER of 12x and a FY11 PER of 10x. This compares to Campbell Brothers (CPB) on 22x and 16x respectively.

Although the 1HFY09 trading update is disappointing, we remain attracted to Ammtec's medium term growth profile and strong balance sheet (FY10 net cash of $3m). The outlook for the core met business is positive, underpinned by the recovery in the mining industry and capacity expansions (assay upgrades and new hydromet facility). The PSI business remains a free option.

Ammtec Ltd (AEC)

Full Year Ended 30 June

Profit and Loss ($m)	2009a	2010e	2011e	2012e
Sales Revenue	54.9	55.4	61.3	68.5
Other Revenue	0.3	0.2	0.2	0.2
Total Revenue	**55.2**	**55.6**	**61.5**	**68.7**
EBITDA	**12.9**	**13.9**	**17.2**	**20.6**
EBITDA margin (%)	23.5	25.0	28.0	30.0
D & A tangibles	1.7	2.2	2.5	2.7
EBITA	**11.2**	**11.7**	**14.7**	**17.8**
EBITA margin (%)	20.4	21.1	24.0	26.0
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	**11.2**	**11.7**	**14.7**	**17.8**
EBIT margin (%)	20.4	21.1	24.0	26.0
Net Interest exp / (income)	1.2	0.8	1.0	1.0
Profit before tax	**10.0**	**10.9**	**13.7**	**16.8**
Tax exp / (benefit)	3.5	3.7	4.4	5.4
NPAT pre minorities	**6.8**	**7.2**	**9.3**	**11.4**
Minoritiy Interests	-0.4	-0.4	-0.4	-0.4
NPAT pre sig items	**6.4**	**6.8**	**8.9**	**11.0**
Significant items	0.1	0.0	0.0	0.0
NPAT reported	**6.5**	**6.8**	**8.9**	**11.0**
NPAT adjusted *	**6.4**	**6.8**	**8.9**	**11.0**
EPS adj ¢	25.1	18.7	22.2	27.4

* NPAT adjusted for significant items and amortisation of intangibles

Half Year Ended 31 Dec

Profit and Loss ($m)	1H09a	2H09a	1H10e	2H10e
Sales Revenue	29.8	25.1	25.5	29.9
Other Revenue	0.2	0.1	0.1	0.1
Total Revenue	**30.0**	**25.2**	**25.6**	**30.0**
EBITDA	**6.8**	**6.1**	**6.0**	**7.9**
EBITDA margin (%)	22.8	24.3	23.5	26.4
D & A tangibles	0.9	0.8	1.1	1.1
EBITA	**5.9**	**5.3**	**4.9**	**6.8**
EBITA margin (%)	19.8	21.0	19.1	22.7
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	**5.9**	**5.3**	**4.9**	**6.8**
EBIT margin (%)	19.8	21.0	19.1	22.7
Net Interest exp / (income)	0.5	0.8	0.4	0.4
Profit before tax	**5.4**	**4.5**	**4.5**	**6.4**
Tax exp / (benefit)	1.9	1.6	1.5	2.2
NPAT pre minorities	**3.5**	**3.3**	**3.0**	**4.2**
Minoritiy Interests	-0.1	-0.3	-0.2	-0.2
NPAT pre sig items	**3.4**	**3.0**	**2.8**	**4.0**
Significant items	0.0	0.0	0.0	0.0
NPAT reported	**3.9**	**2.6**	**2.8**	**4.0**
NPAT adjusted *	**3.4**	**3.0**	**2.8**	**4.0**
EPS adj ¢	13.8	11.3	8.9	9.8

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow ($m)	2009a	2010e	2011e	2012e
EBITDA	**12.9**	**13.9**	**17.2**	**20.6**
Net Interest	-1.2	-0.8	-1.0	-1.0
Tax	-3.5	-3.7	-4.4	-5.4
Δ Working Capital	3.7	-1.1	-1.0	-1.0
Other	2.1	0.0	0.0	0.0
Operating Cashflow	**12.1**	**8.3**	**10.8**	**13.1**
Capex	-5.9	-8.5	-7.0	-5.0
Net Acquisitions	-2.1	0.0	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**	**-8.5**	**-7.0**	**-5.0**
Equity proceeds	0.1	19.2	0.0	0.0
Debt proceeds	1.6	0.0	0.0	0.0
Debt repayment	-0.8	-1.0	-1.0	-1.0
Dividends paid	-4.7	-4.3	-4.6	-7.0
Other	0.0	0.0	0.0	0.0
Financing Cashflow	**-3.8**	**13.9**	**-5.6**	**-8.0**
Net Cashflow	0.5	13.7	-1.8	0.1

Balance Sheet ($m)	2009a	2010e	2011e	2012e
Cash	0.5	14.2	12.4	12.5
Receivables	9.7	11.6	12.8	14.4
Inventories	2.2	2.6	2.9	3.2
PPE	32.6	38.9	43.4	45.7
Intangibles	22.2	22.2	22.2	22.2
Investments	0.0	0.0	0.0	0.0
Other	1.3	1.0	1.0	1.0
Total Assets	**68.6**	**90.6**	**94.8**	**99.1**
Accounts payable	8.4	9.8	10.4	11.3
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	0.4	0.4	0.5	0.6
Debt	12.6	11.6	10.6	9.6
Other	4.1	2.3	2.6	2.8
Total Liabilities	**25.6**	**24.2**	**24.1**	**24.3**
Reserves and capital	31.1	50.3	50.3	50.3
Retained earnings	11.8	16.0	20.3	24.4
Minorities	0.1	0.1	0.1	0.1
Total Equity	**43.0**	**66.4**	**70.7**	**74.7**

Ratios	2009a	2010e	2011e	2012e
EPS rep ¢	25.4	18.7	22.2	27.4
EPS adj ¢	25.1	18.7	22.2	27.4
EPS adj growth (%)	-14.9	-25.5	18.5	23.7
PER x	9.0	12.1	10.2	8.3
EV/EBITDA x	5.4	5.7	5.2	4.3
EV/EBIT x	6.3	6.8	6.1	4.9
Payout ratio (%)	74.0	70.0	70.0	70.0
DPS Total ¢	16.0	8.2	17.2	21.3
Yield (%)	7.1	3.6	7.6	9.4
Average RoE (%)	16.4	12.4	13.0	15.2
Average RoA (%)	18.1	14.7	15.9	18.4
Gearing (ND/ND+E) (%)	22.0	-4.0	-2.5	-4.0
Net interest cover x	9.1	14.6	14.7	17.8
ND/EBITDA x	0.9	-0.2	-0.1	-0.1
NTA ($ per share)	0.71	1.20	1.19	1.29
WA # Shares Diluted (m)	25.6	36.2	40.3	40.3

Source: Company; FSB estimates

Divisions ($m)	2009a	2010e	2011e	2012e
WA	31.2	35.4	39.7	45.6
TAS	3.4	2.9	3.0	3.1
NSW	2.6	2.6	2.7	2.8
SA	1.1	1.1	1.2	1.2
Total Met Revenue	**38.2**	**42.1**	**46.5**	**52.7**
Marc	16.6	13.3	14.7	15.7
Other	0.3	0.2	0.2	0.2
Total Revenue	**55.1**	**55.6**	**61.4**	**68.6**

Valuation	now		one year	
	$m	$ ps	$m	$ ps
Business value	104.7	2.89	113.2	2.81
Net debt	-2.6	-0.07	-1.7	-0.07
NPV	**107.3**	**2.96**	**115.0**	**2.85**

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

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