

Ammtec (AEC.ASX)

Tuesday 27 January 2009

1HFY09 unaudited result & earnings downgrade.

Metals & Mining

Rating: Buy
(previous): Buy

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Abnormal trading prompts early result release and earnings downgrade. Prompted by "recent abnormal share trading" in Ammtec stock, Management brought forward the first half results (unaudited) and provided a 15% FY09 EPS downgrade. The audited results are expected to be released on 20 February 2009.

1HFY09 unaudited Revenue of \$29.8m. This beat our \$26.0m forecast by 15% and was up 30% on the pcp (1HFY08 of \$22.9m, normalised for the Marc acquisition).

1HFY09 unaudited NPAT of \$4.1m. This was 9% below our \$4.5m forecast and was flat on the pcp (normalised for Marc). The 1HFY09 NPAT margin of 14% was well below the normalised pcp of 18%, as profitability was impacted by one-offs associated with the failed PSI sale as well as margin erosion from the economic downturn.

Interim dividend of 6 cps (fully franked). This was significantly below our forecast of 15cps and the 11cps interim dividend paid last year.

Major project deferrals impacting earnings. The company stated a number of clients have recently deferred major projects and this has adversely impacted earnings. Continuation of this trend poses a significant risk to the current order book. Management have deferred all non-essential capex.

Management downgraded FY09 EPS guidance by 15%, from 40 cps to 34 cps. While FY09 Revenue guidance of \$55.8m remains largely unchanged (was \$55.6m), the company now expects a 350 basis point fall in the FY09 EBITDA margin (from 32.4% to 28.9%), reducing FY09 NPAT by 13% from \$10.0m to \$8.7m.

Revised forecasts. Our FY09e and FY10e EPS forecasts have been reduced by 34% and 45% respectively.

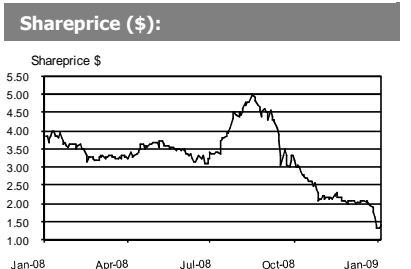
We maintain our Buy recommendation and set our revised price target to \$2.55/share. We have derived our price target by applying a 15% discount to our year-forward DCF valuation to reflect the negative sentiment towards the sector. There is currently 82% upside to our revised price target. We remain 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.

Share price:	\$1.40
Price target:	\$2.55
(Previous)	\$5.75
NPV per share	\$2.55
Risk:	Medium
Shares on issue (m):	25.4
Shares on issue (diluted) (m):	27.3
Free float:	100%
Average daily volume ('000):	17.0
Market cap (\$m):	38.3
FY09e Enterprise value (\$m):	47.7
FY09e Net debt (\$m):	9.4
FY09e Gearing (ND/ND+E):	18.9%
FY09e S'holders equity (\$m):	40.5
FY09e NTA per share (\$):	0.62

Forecast:	2009
Free cash flow (\$m):	6.3
Return on average equity:	19%
Net interest cover:	11.3

Forecast:	2010
Free cash flow (\$m):	6.7
Return on average equity:	17%
Net interest cover:	13.0

Year to June (\$m)	2008a	2009e	2010e	2011e	2012e
Revenue	37.4	52.1	47.9	55.1	59.8
% change	43%	39%	-8%	15%	8%
EBITDA	12.0	14.4	13.4	15.4	17.0
EBITDA margin	32.0%	27.6%	28.0%	28.0%	28.5%
NPAT rep	6.7	7.3	7.2	8.3	9.3
NPAT adj*	6.6	7.3	7.2	8.3	9.3
EPS adj* ¢	29.5	26.9	26.2	30.4	34.0
% change	25%	-9%	-2%	16%	12%
Dividend ¢	25.0	12.4	13.3	16.4	18.3
PER x	4.7	5.2	5.3	4.6	4.1
EV/EBITDA x	3.4	3.3	3.3	2.8	2.3
Yield	17.9%	8.9%	9.5%	11.7%	13.1%



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* Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

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1HFY09 RESULT & EARNINGS DOWNGRADE

Prompted by "recent abnormal share trading" in Ammtec stock, Management brought forward the first half results (unaudited) and provided an earnings downgrade. The audited results are expected to be released on 20 February 2009.

UNAUDITED 1HFY09 RESULT

1HFY09 unaudited Sales Revenue of \$29.8m. This beat our \$26.0m forecast by 15% and was up 30% on the pcp (1HFY08 of \$22.9m, normalised for the Marc acquisition). We suspect this solid result was driven by strong demand and benefited from increased lab capacity at Balcatta.

1HFY09 unaudited NPAT of \$4.1m. This was 9% below our \$4.5m forecast and was flat on the pcp (normalised for Marc). The 1HFY09 NPAT margin of 14% was well below the normalised pcp of 18%, as profitability was impacted by one-offs associated with the failed PSI sale as well as margin erosion from the economic downturn. The company does not expect these one-off costs (yet to be released) to reoccur in 2HFY09.

Interim dividend of 6 cps (fully franked). The interim dividend is expected to be paid in April 2009. This was significantly below our forecast of 15cps and the 11cps interim dividend paid last year. Management stated the lower payout ratio (37% vs 80%-90% historically) was due to the requirement to settle \$1.2m in deferred payments to the Marc vendors. We suspect cash conservation was also a motive.

In response to the economic downturn, Ammtec has deferred all non-essential capex.

FY09 EARNINGS DOWNGRADE

The company stated that it has been adversely affected by the economic climate and poor commodity prices with a number of clients deferring major projects. For example, the Marc business had a \$1.5m dust collection job postponed and negotiations suspended on several other further large projects.

Management downgraded its FY09 EPS guidance by 15% from 40 cps to 34 cps. While FY09 revenue guidance of \$55.8m remains largely unchanged (up \$0.2m), the company now expects a 350 basis point fall in the FY09 EBITDA margin to 28.9%, coupled with increased depreciation and amortisation, reducing FY09 NPAT by 13% from \$10.0m to \$8.71m. We understand that the lower than anticipated DRP take up explains the difference between the EPS and the NPAT revisions.

FY09 Revised Company Guidance (\$m)

	FY09e NEW	FY09e OLD	Diff
Revenue	55.8	55.6	0%
EBITDA	16.11	18.0	-11%
EBITDA margin	28.9%	32.4%	-11%
D&A	1.9	1.5	28%
EBIT	14.19	16.5	-14%
EBIT margin	25.4%	29.7%	-14%
Interest Expense	1.1	1.5	-29%
PBT	13.13	15.0	-12%
Tax	4.4	5.0	-12%
NPAT reported	8.71	10.0	-13%
EPS (cps)	34	40	-15%

Source: Company

REVISED FORECASTS

We have reduced our FY09e and FY10e Sales Revenue forecasts by 10% and 30% respectively.

Our FY09e forecast of \$52.1m is 7% below Management's guidance, reflecting our conservative approach. Based on the unaudited first half revenue result of \$29.8m, we expect a 25% decline in 2HFY09 revenue (vs management's guidance for a 13% decline). We believe this provides for the contract risk inherent within the current order book.

We now anticipate softer demand for Ammtec's metallurgical consultancy services and Marc's automated lab products in FY10e, due to low commodity prices and a weaker macroeconomic backdrop. This view is represented by our forecast of an 8% decline in FY10e sales revenue. We expect a solid recovery in FY11e (FY11e revenue growth of 15%).

We have reduced our margins to account for the more challenging operating conditions going forward. Our FY09e and FY10e EBITDA margin forecasts have fallen 590 and 570 basis points to 27.6% and 28.0% respectively.

These changes, which are displayed below, decrease our FY09e EPS by 34% and our FY10e EPS by 45%.

Forecast changes (\$m)

	FY09e			FY10e		
	NEW	OLD	Diff	NEW	OLD	Diff
Sales Revenue	52.1	58.0	-10%	47.9	68.0	-30%
EBITDA	14.4	19.5	-26%	13.4	22.9	-41%
EBITDA Margin	27.6%	33.5%	-18%	28.0%	33.7%	-17%
D & A tang	1.9	1.8	5%	1.7	2.0	-18%
EBITA	12.4	17.6	-29%	11.7	20.9	-44%
Amort intang	0.0	0.0	nm	0.0	0.0	nm
EBIT	12.4	17.6	-29%	11.7	20.9	-44%
EBIT Margin	23.9%	30.4%	-21%	24.5%	30.7%	-20%
Net int exp	1.1	1.5	-27%	0.9	1.2	-25%
PBT	11.3	16.1	-30%	10.8	19.7	-45%
Tax exp	3.8	5.3	-29%	3.5	6.5	-47%
NPAT pre minorities	7.5	10.8	-30%	7.4	13.2	-44%
Minorities	-0.2	-0.2	0%	-0.2	-0.2	0%
NPAT pre sig items	7.3	10.6	-31%	7.2	13.0	-45%
Significant items	0.0	0.0	0%	0.0	0.0	0%
NPAT reported	7.3	10.6	-31%	7.2	13.0	-45%
NPAT adjusted*	7.3	10.6	-31%	7.2	13.0	-45%
EPS adjusted	26.9	40.7	-34%	26.2	48.1	-45%

* NPAT adjusted for significant items and amortisation of intangibles

Source: Company; FSB estimates

We have also reduced our dividend forecasts to reflect a lower payout ratio going forward. In FY09e, we expect the company to pay out 43% of profits (equivalent to 12.4 cents per share) and 47% in FY10e (13.3 cents per share).

VALUATION

Our revised forecasts decrease our NPV by 80% to \$2.55/share and our one-year forward valuation by 76% to \$3.00/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	79.0	2.89	88.1	3.22
Net debt	9.4	0.35	6.1	0.22
NPV	69.6	2.55	82.0	3.00

Source: Company; FSB estimates

RECOMMENDATION

We maintain our Buy recommendation and set our revised price target to \$2.55/share. We have derived our price target by applying a 15% discount to our year-forward DCF valuation to reflect the negative sentiment towards the sector. There is currently 82% 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	47.9	55.1
Other Revenue	0.1	0.1	0.1	0.1
Total Revenue	37.5	52.3	48.0	55.3
EBITDA	12.0	14.4	13.4	15.4
EBITDA margin (%)	32.0	27.6	28.0	28.0
D & A tangibles	1.1	1.9	1.7	1.9
EBITA	10.9	12.4	11.7	13.5
EBITA margin (%)	29.2	23.9	24.5	24.5
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	10.9	12.4	11.7	13.5
EBIT margin (%)	29.2	23.9	24.5	24.5
Net Interest exp / (income)	0.7	1.1	0.9	1.0
Profit before tax	10.2	11.3	10.8	12.5
Tax exp / (benefit)	3.4	3.8	3.5	4.0
NPAT pre minorities	6.8	7.5	7.4	8.5
Minority Interests	-0.2	-0.2	-0.2	-0.2
NPAT pre sig items	6.6	7.3	7.2	8.3
Significant items	0.1	0.0	0.0	0.0
NPAT reported	6.7	7.3	7.2	8.3
NPAT adjusted *	6.6	7.3	7.2	8.3
EPS adj ¢	29.5	26.9	26.2	30.4

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (\$m)	2008a	2009e	2010e	2011e
EBITDA	12.0	14.4	13.4	15.4
Net Interest	-0.7	-1.1	-0.9	-1.0
Tax	-3.4	-3.8	-3.5	-4.0
Δ Working Capital	-4.8	-0.2	0.7	-1.2
Other	3.9	3.0	2.0	1.7
Operating Cashflow	8.0	12.3	11.7	11.0
Capex	-5.6	-6.0	-5.0	-5.5
Net Acquisitions	-16.2	-1.2	0.0	0.0
Asset Sales	0.4	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
Investing Cashflow	-21.5	-7.2	-5.0	-5.5
Equity proceeds	14.5	0.0	0.0	0.0
Debt proceeds	4.7	4.0	2.0	0.0
Debt repayment	-0.6	0.0	0.0	0.0
Dividends paid	-5.1	-5.1	-3.3	-3.8
Other	0.0	0.0	0.0	0.0
Financing Cashflow	13.5	-1.1	-1.3	-3.8
Net Cashflow	0.0	4.0	5.4	1.7

Ratios	2008a	2009e	2010e	2011e
EPS rep ¢	30.0	26.9	26.2	30.4
EPS adj ¢	29.5	26.9	26.2	30.4
EPS adj growth (%)	25.4	-9.0	-2.4	15.9
PER x	4.7	5.2	5.3	4.6
EV/EBITDA x	3.4	3.3	3.3	2.8
EV/EBIT x	3.7	3.8	3.8	3.2
Payout ratio (%)	72.0	42.8	47.0	50.0
DPS Total ¢	25.0	12.4	13.3	16.4
Yield (%)	17.9	8.9	9.5	11.7
Average RoE (%)	24.3	19.1	16.9	17.8
Average RoA (%)	27.0	20.9	17.3	18.0
Gearing (ND/ND+E) (%)	20.7	18.9	12.0	8.1
Net interest cover x	16.1	11.3	13.0	13.5
ND/EBITDA x	0.8	0.7	0.5	0.3
NTA (\$ per share)	0.57	0.62	0.76	0.93
WA # Shares Diluted (m)	22.5	27.3	27.3	27.3

Source: Company; FSB estimates

Half Year Ended 31 Dec

Profit and Loss (\$m)	1H08a	2H08a	1H09e	2H09e
Sales Revenue	16.1	21.3	29.8	22.3
Other Revenue	0.1	0.0	0.1	0.1
Total Revenue	16.2	21.3	29.8	22.4
EBITDA	4.9	7.1	8.0	6.4
EBITDA margin (%)	30.6	33.2	26.7	28.7
D & A tangibles	0.4	0.7	1.1	0.8
EBITA	4.5	6.4	6.8	5.6
EBITA margin (%)	28.2	29.9	23.0	25.0
Amortisation intangibles	0.1	0.0	0.0	0.0
EBIT	4.4	6.5	6.8	5.6
EBIT margin (%)	27.6	30.4	23.0	25.0
Net Interest exp / (income)	0.3	0.4	0.6	0.6
Profit before tax	4.2	6.1	6.3	5.0
Tax exp / (benefit)	1.4	2.0	2.1	1.7
NPAT pre minorities	2.8	4.0	4.2	3.3
Minority Interests	-0.1	-0.1	-0.1	-0.1
NPAT pre sig items	2.7	3.9	4.1	3.2
Significant items	0.0	0.1	0.0	0.0
NPAT reported	2.7	4.0	4.1	3.2
NPAT adjusted *	2.9	3.8	4.1	3.2
EPS adj ¢	13.3	16.2	15.7	11.2

* NPAT adjusted for significant items and amortisation of intangibles

Balance Sheet (\$m)	2008a	2009e	2010e	2011e
Cash	0.0	4.0	9.4	11.1
Receivables	9.7	10.2	9.4	10.8
Inventories	1.9	2.0	1.8	2.1
PPE	21.3	25.4	28.7	32.3
Intangibles	21.4	21.4	21.4	21.4
Investments	0.0	0.0	0.0	0.0
Other	0.9	0.9	0.9	0.9
Total Assets	55.2	63.9	71.6	78.6
Accounts payable	5.0	5.6	5.1	5.8
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	2.4	2.0	1.8	2.1
Debt	9.4	13.4	15.4	15.4
Other	2.2	2.4	4.9	6.3
Total Liabilities	19.1	23.4	27.2	29.6
Reserves and capital	26.0	26.2	26.2	26.2
Retained earnings	10.0	14.2	18.0	22.6
Minorities	0.2	0.2	0.2	0.2
Total Equity	36.2	40.5	44.4	48.9

Divisions (\$m)	2008a	2009e	2010e	2011e
WA	26.9	36.8	33.1	39.8
TAS	3.2	3.0	3.0	3.1
NSW	1.8	1.8	1.9	1.9
SA	1.2	1.8	1.9	2.0
Total Met Revenue	33.1	43.4	39.9	46.8
Marc	4.3	8.7	7.9	8.3
Other	0.1	0.1	0.1	0.1
Total Revenue	37.5	52.3	47.9	55.2

Valuation	now	one year		
	\$m	\$ ps	\$m	\$ ps
Business value	79.0	2.89	88.1	3.22
Net debt	9.4	0.35	6.1	0.22
NPV	69.6	2.55	82.0	3.00

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