FOSTER STOCKBROKING
EQUITY RESEARCH
Level 21
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Ammtec (AEC.ASX)

Monday 30 August 2010

CPB increases its cash offer to $3.80/share with revised conditions.

Event:

- CPB has increased its cash offer for AEC to $3.80/share.

Key announcement details:

- Cash offer increased by 13% from $3.35/share to $3.80/share.
- Scrip offer lifted from 2 CPB for 17 AEC (1 for 8.5) to 4 for 33 (1 for 8.25).
- Offer to be declared unconditional subject to obtaining 30% of AEC by 15 Sept.
- CPB has 11.1% of AEC at present.
- Offer may be reduced by the final dividend amount (11cps) if the offer is extended past the record date of 15 October 2010.

Analysis:

- **Sweetener comes earlier than expected.** We initially thought CPB may come back and sweeten the offer to $3.50-$3.70/share to get to 90%, however, the higher offer has come sooner than we anticipated.
- **51% premium.** $3.80/share represents a 51% premium to AEC's pre-bid close of $2.51/share (18 May 2010).
- **Scrip implies $3.79/share.** The revised scrip offer implies $3.79/share for AEC, based on CPB's closing price of $31.30/share.
- **14.9x FY11 PER.** On our forecasts, $3.80/share implies a FY10 and FY11 PER of 20.1x and 14.9x respectively. 15x is a healthy premium to the market in our view. The implied FY10 and FY11 EV/EBITDA multiples are 12.0x and 8.3x.
- **Possible adjustment for final dividend.** Since the CPB offer currently ends before the record date of 15 October 2010 for the AEC final dividend of 11 cps, CPB said it will not reduce the offer amount by 11 cps share at this stage, although it reserves the right to if the offer is extended past the record date. CPB's current position is that it will then reduce the amount (ie to $3.69/share).
- **AEC Board yet to recommend the offer.** AEC said its Board is considering its response to the revised offer.

Earnings & Valuation:

- Our earnings and valuation remain unchanged.

Catalysts:

- CPB's $3.80/share cash or 4 for 33 takeover offer (CPB has 11.1% of AEC). The offer closes 5.00 pm Perth time on 22 September 2010.
- Positive earnings announcements and new contract wins.

Recommendation:

- **We maintain our Hold and revise our price target to $3.80/share.**
- In the near-term, we expect the AEC stock price to be dictated by the takeover offer. However, downside risk to the share price exists if CPB walks away or reduces its offer given AEC is trading well above our forward valuation of $3.20/share.
- Trading on a FY11 PER of 14.8x, we do not regard the fundamentals as compelling at these levels. We view the 95% payout ratio as unsustainable.

Metals & Mining

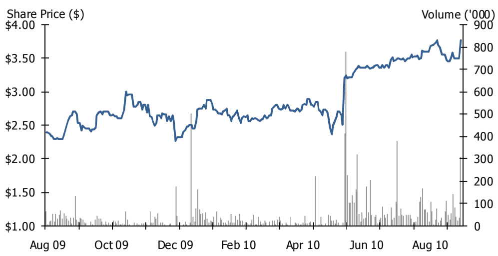
Rating	Hold
Previous	Hold

Share Price ($)	3.77
Price Target ($)	**3.80**
Previous ($)	3.35
NPV ($/share)	3.01
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)	0.04
Market Cap ($m)	152.9
FY11e EV ($m)	161.4

Key Metrics				
Year to June	FY10a	FY11e	FY12e	FY13e
Revenue ($m)	54.0	67.9	76.0	83.2
EBITDA ($m)	12.8	18.5	21.4	23.5
NPAT rep ($m)	6.7	10.3	11.9	13.2
NPAT adj ($m)	6.7	10.3	11.9	13.2
EPS adj (¢)	18.9	25.4	29.2	32.5
DPS (¢)	17.5	19.8	22.7	26.0
Rev growth (%)	-2%	26%	12%	10%
EPS growth (%)	-25%	34%	15%	11%
EBITDA margin (%)	24%	27%	28%	28%
PER (x)	19.9	14.8	12.9	11.6
EV / EBITDA (x)	10.7	8.7	7.6	6.9
Yield (%)	4.6	5.2	6.0	6.9
Op Cashflow ($m)	5.9	10.9	13.0	14.9
Capex ($m)	-9.4	-8.0	-6.5	-5.0
FCF ($m)	-3.5	2.9	6.5	9.9
Net Debt ($m)	2.7	8.5	9.9	8.9
Gearing (%)	4.1	11.3	12.2	10.6
EBITA / Net int (x)	32.4	31.8	18.7	22.8

Share Price Graph



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Ammtec Ltd (AEC)

Full Year Ended 30 June

Profit and Loss ($m)	2009a	2010a	2011e	2012e
Sales Revenue	54.9	54.0	67.9	76.0
Other Revenue	0.0	0.0	0.0	0.0
Total Revenue	**54.9**	**54.0**	**67.9**	**76.0**
EBITDA	**12.9**	**12.8**	**18.5**	**21.4**
EBITDA margin (%)	23.5	23.8	27.2	28.1
D & A tangibles	1.7	2.1	2.6	2.7
EBITA	**11.2**	**10.7**	**15.9**	**18.7**
EBITA margin (%)	20.4	19.9	23.4	24.6
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	**11.2**	**10.7**	**15.9**	**18.7**
EBIT margin (%)	20.4	19.9	23.4	24.6
Net Interest exp / (income)	1.2	0.3	0.5	1.0
Profit before tax	**10.0**	**10.4**	**15.4**	**17.7**
Tax exp / (benefit)	3.5	3.6	5.1	5.8
NPAT pre minorities	**6.9**	**7.2**	**10.3**	**11.9**
Minoritiy Interests	-0.4	-0.4	0.0	0.0
NPAT pre sig items	**6.5**	**6.7**	**10.3**	**11.9**
Significant items	0.0	0.0	0.0	0.0
NPAT reported	**6.5**	**6.7**	**10.3**	**11.9**
NPAT adjusted *	**6.5**	**6.7**	**10.3**	**11.9**
EPS adj ¢	25.4	18.9	25.4	29.2

* NPAT adjusted for significant items and amortisation of intangibles

Half Year Ended 31 Dec

Profit and Loss ($m)	1H10a	2H10a	1H11e	2H11e
Sales Revenue	24.5	29.5	33.0	35.0
Other Revenue	0.0	0.0	0.0	0.0
Total Revenue	**24.5**	**29.5**	**33.0**	**35.0**
EBITDA	**5.2**	**7.6**	**8.8**	**9.7**
EBITDA margin (%)	21.3	25.8	26.7	27.7
D & A tangibles	1.0	1.1	1.2	1.4
EBITA	**4.2**	**6.5**	**7.6**	**8.3**
EBITA margin (%)	17.2	22.1	23.0	23.7
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	**4.2**	**6.5**	**7.6**	**8.3**
EBIT margin (%)	17.2	22.1	23.0	23.7
Net Interest exp / (income)	0.2	0.1	0.3	0.3
Profit before tax	**4.0**	**6.4**	**7.3**	**8.0**
Tax exp / (benefit)	1.4	2.3	2.4	2.7
NPAT pre minorities	**2.9**	**4.3**	**4.9**	**5.4**
Minoritiy Interests	-0.2	-0.2	0.0	0.0
NPAT pre sig items	**2.6**	**4.1**	**4.9**	**5.4**
Significant items	0.0	0.0	0.0	0.0
NPAT reported	**2.6**	**4.1**	**4.9**	**5.4**
NPAT adjusted *	**2.6**	**4.1**	**4.9**	**5.4**
EPS adj ¢	9.1	9.8	12.1	13.3

* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow ($m)	2009a	2010a	2011e	2012e
EBITDA	**12.9**	**12.8**	**18.5**	**21.4**
Net Interest	-1.2	-0.3	-0.5	-1.0
Tax	-3.5	-3.6	-5.1	-5.8
Δ Working Capital	3.7	-4.9	-2.0	-1.5
Other	2.1	0.7	0.0	0.0
Operating Cashflow	**12.1**	**5.9**	**10.9**	**13.0**
Capex	-5.9	-9.4	-8.0	-6.5
Net Acquisitions	-2.1	-1.2	-1.3	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**	**-10.6**	**-9.3**	**-6.5**
Equity proceeds	0.1	18.8	0.0	0.0
Debt proceeds	1.6	0.0	7.0	1.0
Debt repayment	-0.8	-7.1	-2.0	-1.0
Dividends paid	-4.7	-4.8	-7.5	-7.9
Other	0.0	0.0	0.0	0.0
Financing Cashflow	**-3.8**	**6.9**	**-2.5**	**-7.9**
Net Cashflow	0.5	2.2	-0.8	-1.4

Balance Sheet ($m)	2009a	2010a	2011e	2012e
Cash	1.0	3.1	2.3	1.0
Receivables	9.7	15.4	18.3	20.4
Inventories	2.2	2.5	3.0	3.3
PPE	32.6	39.7	45.1	49.0
Intangibles	22.2	22.1	22.1	22.1
Investments	0.0	0.0	0.0	0.0
Other	1.3	2.0	2.0	2.0
Total Assets	**69.1**	**84.8**	**92.7**	**97.8**
Accounts payable	8.4	8.7	10.0	11.1
Provisions	0.0	0.0	0.0	0.0
Tax liabilities	0.4	1.8	1.8	2.1
Debt	13.1	5.8	10.8	10.8
Other	4.1	4.5	3.1	2.9
Total Liabilities	**26.1**	**20.8**	**25.8**	**26.9**
Reserves and capital	31.1	50.4	50.4	50.4
Retained earnings	11.8	13.7	16.6	20.5
Minorities	0.1	-0.1	0.0	0.0
Total Equity	**43.0**	**64.0**	**67.0**	**70.9**

Ratios	2009a	2010a	2011e	2012e
EPS rep ¢	26.9	20.1	25.4	29.2
EPS adj ¢	25.4	18.9	25.4	29.2
EPS adj growth (%)	-15.4	-25.4	34.4	15.1
PER x	14.9	19.9	14.8	12.9
EV/EBITDA x	8.4	10.7	8.7	7.6
EV/EBIT x	9.7	12.8	10.2	8.7
Payout ratio (%)	79.0	94.6	70.0	70.0
DPS Total ¢	16.0	17.5	19.8	22.7
Yield (%)	4.2	4.6	5.2	6.0
Average RoE (%)	16.4	12.6	15.7	17.2
Average RoA (%)	18.0	13.9	17.9	19.6
Gearing (ND/ND+E) (%)	22.0	4.1	11.3	12.2
Net interest cover x	9.1	32.4	31.8	18.7
ND/EBITDA x	0.9	0.2	0.5	0.5
NTA ($ per share)	0.71	1.09	1.06	1.16
WA # Shares Diluted (m)	25.6	35.6	40.5	40.5

Source: Company; FSB estimates

Divisions ($m)	2009a	2010a	2011e	2012e
Metallurgical Consulting	38.2	39.4	45.4	51.3
Marc Technologies	16.6	14.5	21.0	23.1
PSI	0.1	0.0	1.5	1.5
Other	0.0	0.0	0.0	0.0
Sales Revenue	**54.9**	**54.0**	**67.9**	**76.0**
Metallurgical Consulting	11.6	10.0	11.4	13.3
Marc Technologies	1.3	2.5	4.8	5.7
PSI	-1.5	-1.5	0.0	0.0
Other	-0.2	-0.2	-0.3	-0.3
EBIT	**11.2**	**10.7**	**15.9**	**18.7**

Valuation	now		one year	
	$m	$ ps	$m	$ ps
Business value	130.7	3.22	139.5	3.44
Net debt	8.5	0.21	9.9	0.24
NPV	**122.2**	**3.01**	**129.6**	**3.20**

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