

Intec Limited

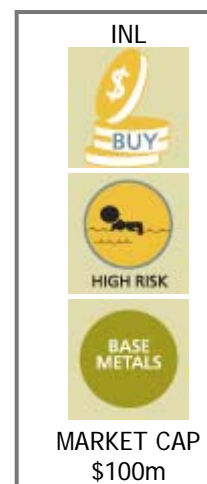
28 Mar, 2007

Strategic games confuse market

INL; Buy up to 19 cents

The Intec share price has underperformed on the back of its corporate activity with Jervois Mining, with recent development involving Intec selling down its 15% stake in Jervois Mining for a profit. It now retains a 8.33% interest in JRV on a fully diluted basis at an entry cost of less than zero.

“Intec has distracted investors by corporate manoeuvrings with Jervois Mining. However, the main game is Hellyer which is likely to deliver increasing zinc production with an expansion of the dredge throughput and delivery of Que River ore. We also expect a material sentiment change after the company announces a go-ahead for construction of a 10ktpa zinc Intec plant, expected in April.”



Late last week the company announced that discussions with Jervois management had been terminated. Intec had presented Jervois with a merger proposal on its nickel assets under the belief that using Intec's demonstration plant in Burnie could accelerate Jervois' Young nickel project. This may have also incorporated the Intec process or Jervois' own chloride leach process, however, this aspect was not critical.

The market concerns were evident in that there was questionable value over the Young nickel project with Jervois' management commenting that the grade was a 'tad low', as well as confusion as to whether Intec was trying to thrust its Intec process on the project while Jervois' management believed a chloride leach process developed in Canada was a better process and would deliver more value to its shareholders.

Hence, on a prima facie case, it could be argued that Intec was spending its new cash flow acquiring an interest in a marginal nickel project in an attempt to commercialise the application of its Intec process to nickel. It is unsurprising that the Intec share price came under pressure!

Stock Resource has discussed the Jervois Mining investment with Intec management at length and comes to the conclusion that the intent of Intec was to add value to the project by 'fast tracking' the development work but the company remains highly disciplined in what it deems to be the real value of the project. Hence, while the company's average entry price is 1.16 cents per Jervois share, it obviously believes that they are overvalued at 2.73 cents per Jervois share given its recent sell down averaging this price.

We expect Intec to do nothing in the short to medium term unless the Jervois share price moves substantially higher where it may sell down further, or if the Jervois share price falls back to around its initial average entry price, it may buy more. We are not expecting Intec to launch a takeover for Jervois and we expect the market will lose interest in the corporate manoeuvring over coming months with a lack of further action.

Don't Forget the Main Game!

The main game with Intec is the Hellyer project which involves three production stages:

- First is the reprocessing of the tailings using a dredge and the existing Hellyer concentrator. This is a joint venture with Polymetals (operator) and commenced production earlier this year.
- Second is the production and delivery of ore from Bass Metals' Que River project to the Hellyer plant.
- And thirdly, Intec is developing its own plant to process EAF zinc dusts and other zinc bearing materials using the Intec process to produce a zinc sulphide. This can be blended with the zinc concentrate being produced from the processing of tailings and Bass Metals' ore in the Hellyer plant.

With regards to the Polymetals tailings joint venture, they reported in early March that ongoing improvements in the dredging and mill optimisation was leading to increased production rates. At the end of February the concentrate storage facility at the Port of Burnie held over 3,800 tonnes of in-spec bulk zinc concentrate product and the next shipment is currently being loaded.

Attributable payment of \$2.4m to Intec for the first shipment was received on 28 February. We have reproduced the table below from a company presentation in February 2007 that outlines Intec's attributable share of revenue and cash flow. With the current higher A\$/US\$ exchange rate at around 0.80 and a zinc price in the order of US\$1.40/lb, we expect attributable cash flows in the order of \$20m pa to Intec on the base case

scenario.

| | | | |
|-----------------------|------|------|------|
| Zinc Price US\$/lb | 0.90 | 1.50 | 1.90 |
| US\$/A\$ | 0.74 | 0.75 | 0.77 |
| | | | |
| Revenue* A\$m | 34.5 | 54.5 | 67.0 |
| Operating* Costs A\$m | 25.0 | 30.0 | 30.5 |
| EBITDA* A\$m | 9.5 | 24.5 | 36.5 |

* For a 12 month period operating at 100% capacity. Excludes INL corporate overheads and technology expenditure

Source: Company

With the robust cash flows, we expect Polymetals will opt for increasing the dredge throughput from 1.5mtpa to 2.0mtpa and which will compensate for the adverse movements in metal prices and the exchange rate.

With regards to Bass Metals' Que River project, Intec recently announced that it had increased its stake to 19.98% as Intec reassess the value of its project. Bass commenced trial mining of high grade zinc-lead-silver ore at Que River in February and the ore is now being trialled through the Hellyer Mill.

However, we expect the next material change to the share price will be the announcement of the development of an Intec process plant at Hellyer to treat waste zinc products such as Electric Arc Furnace (EAF) dusts from steel mills as well as the Zeehan slag dump. By producing a zinc sulphide rather than zinc metal, Intec have significant capital savings and the zinc sulphide can be blended into the bulk concentrate currently being produced.

Initial expectations are that a 10ktpa zinc plant could be constructed for capex in the order of \$10m and be in operation early 2008. With the EAF dusts provided for 'free', this 10ktpa of zinc in concentrate would generate significant additional revenue, say around \$25m pa and a high operating margin. We are anticipating a go-ahead announcement on this project during April 2007 and the capex to be debt and cash flow funded.

Capital Structure & Funding

At the current share price we estimate the enterprise value of Intec at \$95m. Listed investments are the company's interests in Bass Metals and Jervois Mining.

| Market Valuation | Issued Shares (m) | Share Price (cents) | Market Cap (A\$m) |
|---------------------------|-------------------|---------------------|-------------------|
| Fully paid shares | 558.1 | \$0.18 | \$100.5 |
| Options | 47.8 | \$0.18 | \$8.6 |
| Cash from options | | | \$5.6 |
| Diluted Market Cap | | | \$103.5 |
| Listed investments | | | \$7.2 |
| Cash | | | \$1.0 |
| Enterprise value | | | \$95.3 |

Option details are outlined below.

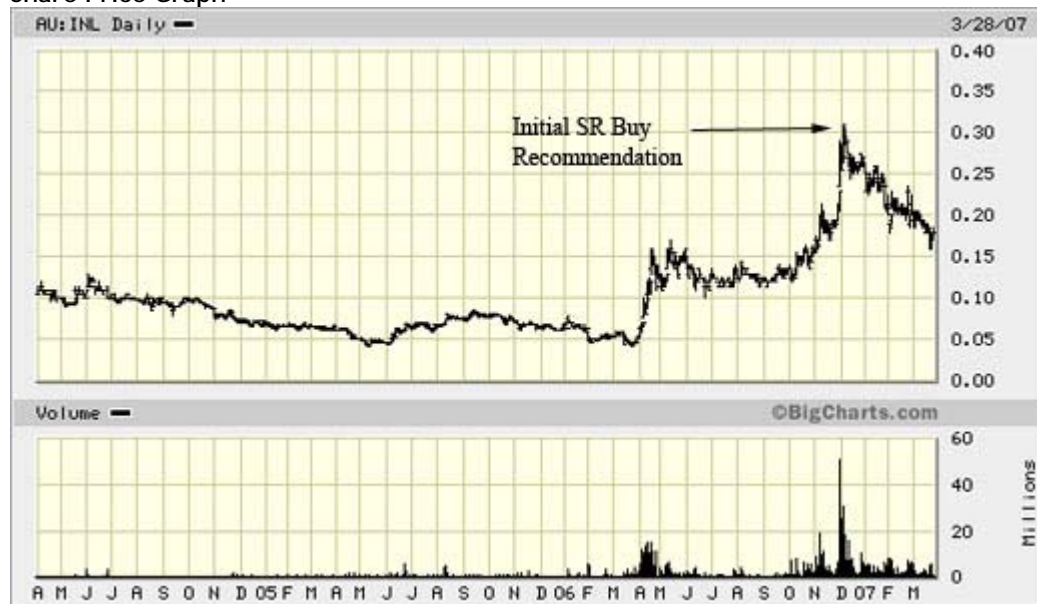
| Options | Options Issued (m) | Exercise Price (A\$) | Amount Raised (A\$m) |
|-----------|--------------------|----------------------|----------------------|
| 16-Jul-07 | 6.6 | 0.25 | 1.64 |
| 26-Nov-08 | 3.9 | 0.10 | 0.39 |
| 30-Jun-08 | 25.0 | 0.08 | 2.00 |
| 30-Jun-09 | 1.3 | 0.50 | 0.63 |
| 24-Feb-10 | 6.4 | 0.07 | 0.44 |
| 31-Aug-11 | 4.6 | 0.11 | 0.51 |
| Total | 47.8 | | 5.60 |

Recommendation

The confusion emerging over Intec's foray onto the Jervois Mining register and frustration in failing to secure an agreement over Jervois' Young nickel project has led to weakness in the Intec share price. Nevertheless, the market is likely to refocus back on the company's core business when it announces a go-ahead for the construction of a 10ktpa zinc Intec processing plant at Hellyer (expected in April). This additional production will make a significant difference to the company's cash flows within a 12 month period.

Hence, Stock Resource recommends Intec as a Buy up to 19 cents for all Members.

Share Price Graph



Related Articles

- [Intec Limited 28 Feb 2007](#)
- [Intec Limited 24 Jan 2007](#)
- [Intec Limited 06 Dec 2006](#)

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