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Intec Limited 24 Jan, 2007

Share Overhang Creates Buying Opportunity

INL; Buy up to 25 cents

The Intec share price has been under pressure during the past month as Ivanhoe Mines exits the company's share register. This belies the good progress that is being achieved at the company's Hellyer tailings re-treatment operations, where the first shipment of zinc concentrate is about to be dispatched, as well as in commercialising its Intec process.

"Intec is making steady progress at its recently commissioned Hellyer zinc operation, although its share price has come under pressure as a major shareholder exits its register."

Recapping, Intec is a technology driven company that has a propriety chloride-bromide leach process for extracting metals such as zinc, lead and copper from metallurgically challenging material. It is yet to fully commercialise the process although it is looking to develop a commercial scale demonstration processing plant on the Hellyer mine site capable of producing 10ktpa of zinc (either as metal or as zinc oxide).

This plant is expected to cost in the \$30 – \$50m range and construction is expected over an 18 month period with first production late 2008. Members are referred to our initial report on the 6th December 2006 for further background on this project.

At the same time it has redeveloped the Hellyer operation in partnership with Polymetals. The joint venturer's have recently commenced re-treating the zinc rich Hellyer mine tailings, thus providing good cash flow and earnings for Intec.

Earlier this week the company announced that it will dispatch the first shipment of bulk zinc concentrate from Hellyer on the 27th January. The shipment will comprise an estimated total of over 5,000t of concentrate, with an average grade of 38% Zn, 8.7% Pb and 228g/t Ag. Payment for 90% of the contained zinc value will follow 10 days after the vessel's departure from Burnie port.

However, the commissioning phase has not been without challenges. The first shipment is around two weeks behind schedule due to the initial feedstock zinc grades being lower than expectation, thus slowing production output.

The main problem has been that lower grade zinc grades from the near surface portion of the Hellyer tailings dam became mixed with higher grade deeper material that was being targeted in the dredging operations.

The joint venturers have now concluded that it is more practical to take wider cuts from the surface to the bottom of the tailings dam during the dredging operation. The

average grades are expected to rise as the ratio of the cutting face width against the height of the tailings resource increases, and this trend is already apparent in ongoing operations. Importantly there doesn't appear to be any negative implication in relation to overall reserves.

Equally importantly, the initial operations have demonstrated that mill and flotation circuits are operating to expectation, with the average daily throughput now at 100% of the planned rate. Similarly recoveries are good despite the lower initial feedstock grade.

Ivanhoe Exits

Robert Friedland's Ivanhoe Mines has begun selling down its 11.12% holding (54.14m shares) in Intec, creating significant share price weakness during the past month. This is a direct consequence of the investment by Rio Tinto in Ivanhoe in order to gain an interest in the massive Oyu Tolgoi copper-gold project in Mongolia (also see this week's report on Rio Tinto).

As an integral part of the deal between Rio Tinto and Ivanhoe Mines, Ivanhoe has been restructuring the company to generate capital for the development of Oyu Tolgoi. This primarily relates to the sale of its interest in the Monywa copper project in Myanmar. However, it also involves the full or partial divesting of most of its share holdings in a range of companies.

Part of this process involves the sell down of its investment in Intec. The most recent disclosure by Ivanhoe was on the 3rd January, when the company disclosed that its holding had been reduced to 39.75m shares or 7.14%.

Stock Resource Recommendation

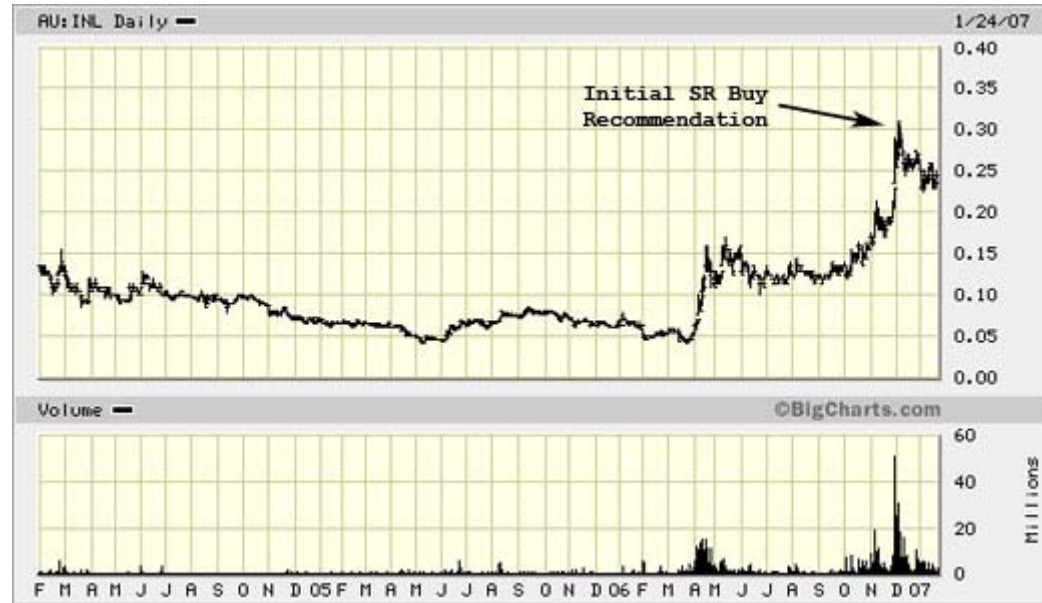
The Intec share price has come under significant pressure during the past month as it absorbs the sell down of a major shareholder. This contrasts with the positive progress the company is achieving as it commences commercial zinc production at the Hellyer tailings re-treatment operations. Simply, this is creating a good entry price level for new investors. Hence, **Stock Resource recommends Intec as a Buy up to 25 cents for Members with no current exposure.**

Capital Structure & Funding

At a 24.5 cent share price, we estimate that Intec's enterprise value is \$135m. This includes a value of \$3.7m for its 18.5% interest in Bass Metals (ASX code: BSM).

Market Valuation	Issued Shares (m)	Share Price (cents)	Market Cap (A\$m)
Fully paid shares	556.8	\$0.25	\$136.4
Options	50.4	\$0.25	\$12.4
Cash from options			\$5.6
Diluted Market Cap			\$143.1
Listed investments			\$3.7
Cash			\$1.0
Enterprise value			\$138.4

Share Price Chart



Disclosure: The author owns shares in Intec.

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