




# Intec Limited 13 Jun, 2007

## No quantification, no value INL; Buy reaffirmed up to 17 cents

Unfortunately, the Intec share price continues to be volatile, afflicted with day traders and losing its relationship with the zinc price - a relationship that should reflect its leverage to zinc production out of the Hellyer Zinc Concentrate Project (tailings dredging project) ('HZCP').

*"The market is waiting for Intec to quantify and commit to its Intec Hellyer Residues Project before it assigns value to the project in the share price. This quantification should occur over the next few months."*

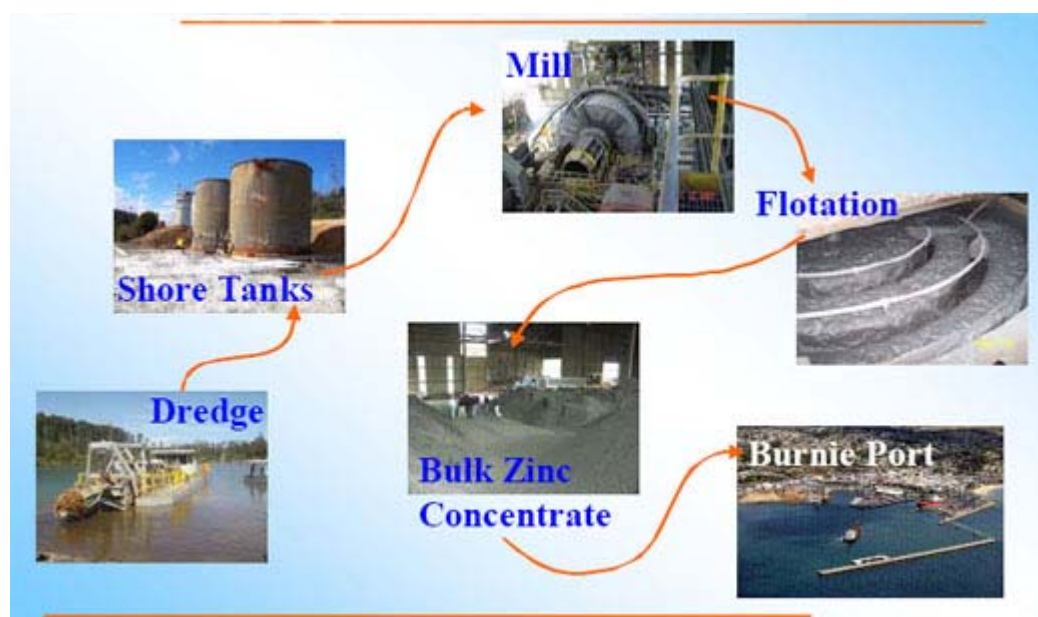
INL

MARKET CAP  
\$92m

This has been highlighted with a declining share price performance while the company has announced a strong production performance in May 2007 at the Hellyer tailings project (the 'HZCP', a 50/50 joint venture with Polymetals (Hellyer) Pty Ltd) achieved a record 5,707 tonnes of bulk zinc concentrate grading ~40% Zn, 8% Pb and 115g/t Ag. The company also notes that it is currently fully unhedged, offering exposure to current strong metals prices.

Recapping, the following diagram from a company European roadshow last week outlines the tailings project which uses the conventional Hellyer flotation plant.



Source: Company

With recent zinc price and exchange rate movements, the company has provided a sensitivity chart to its expected cash flows from the project.

Zinc Price US\$/lb	1.75	1.50	1.25
US\$/A\$	0.82	0.82	0.82
Net JV Sales Revenue <sup>1</sup> A\$m	67.9	59.6	50.1
JV Operating Costs A\$m	24.8	24.7	24.7
EBITDA A\$m – JV Total	43.1	34.8	25.4
EBITDA <sup>2</sup> A\$m – Intec 50% Share	21.6	17.4	12.7

Source: Company

<sup>1</sup> Net sales revenue after smelter charges.

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

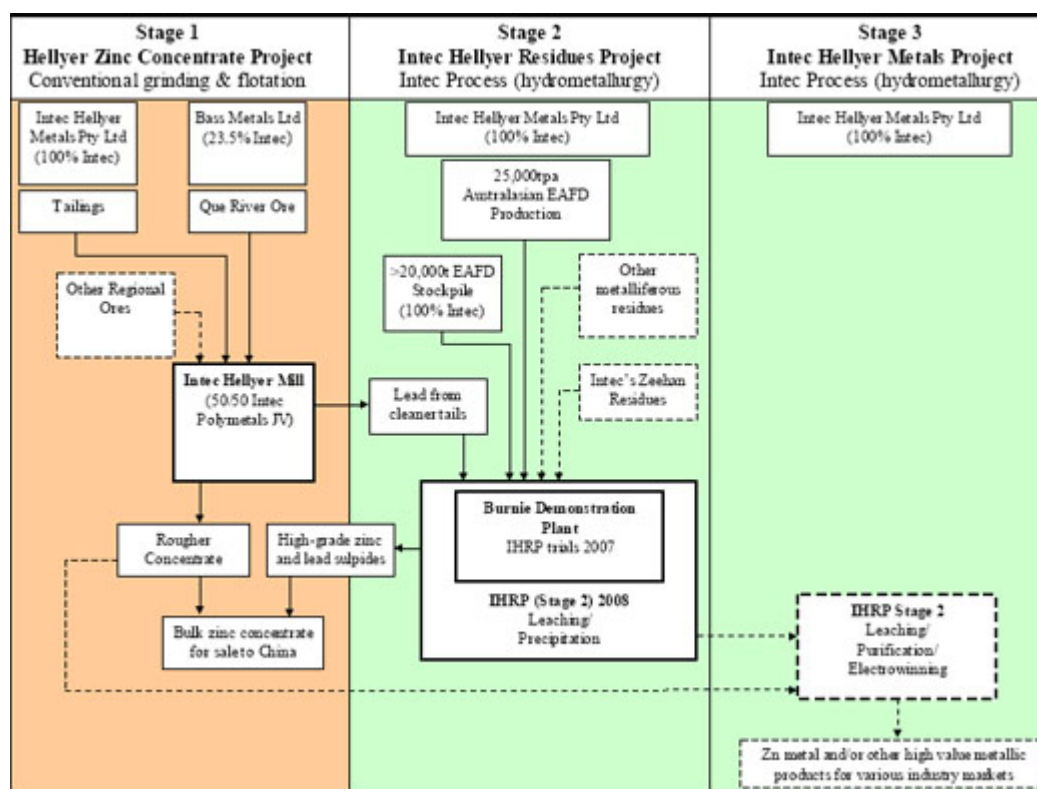
With the strong production and zinc prices around US\$1.70/lb and a higher exchange rate, we estimate that the company is generating around A\$18m pa cash. This level of cash provides an underlying support for the current share price while enhancements to the project are probably offsetting periods of softer zinc prices.

Therefore the company needs to demonstrate a stronger financial outlook and this is expected to emerge as the company releases details on its long awaited Intec Hellyer Residues Project. There has been a market expectation that the company would have already announced a go-ahead for this 10,000tpa zinc sulphide project but we understand that modifications to the project will now allow it to process the tailings from the Hellyer tailings project (HZCP) to add lead production to the planned zinc production. Hence, the company claims that this first commercial application of the Intec Process will involve:

- Feedstock 1: 25,000tpa Electric Arc Furnaces Dusts (EAF) and: 56,000tpa lead sulphide extract from the cleaner tails of the Intec Hellyer Mill
- Product: 10,000tpa high-grade ZnS (6,500t zinc metal) and 13,000tpa PbS (10,600t lead metal)

Therefore the company has the opportunity to increase its revenues through the addition of 10,600t of lead metal and which could contribute an additional A\$25m pa in revenue. The company is planning further testing at the Burnie demonstration plant later this year.

Overall the company believes that a staged development, whereby the products are blended into the bulk zinc concentrate, provides the opportunity for early cash flow using this approach. In the following diagram, Stage 1 is the Hellyer tailings project which is in operation while Stage 2 is the first part of the Intec Hellyer Residues Project described above. Stage 3 is further down the track and not necessary at this stage.



Source: Company

The company believes that the Stage 2 project offers:

- Low capital cost
- Low operating cost
- Low project risk

Of course the market will not assign value to this project until the company announces the quantification of these parameters, particularly given it is the first commercialisation of the Intec technology. We expect the

company will announce these parameters over the next few months while the project remains on track to meet the following timetable:

- Construction and commissioning in CY 2008
- First production early CY 2009

#### Technical Collaboration with Outotec

Earlier this month, Intec and Outotec Oyj of Finland (old Outokumpu) announced that they had entered a Heads Of Agreement to collaborate closely in the field of chloride hydrometallurgy. According to the agreement, Intec makes available to Outotec its internationally patented mixed halide leaching technology, which enhances the recovery of gold and other precious metals from mineral ores and concentrates. Similarly, Outotec makes available to Intec its OKTOP reactor technology developed for a variety of applications such as the efficient transfer of oxygen into mineral slurries, which will enhance kinetics in the leach section of the Intec Process.

This is a positive step given the credibility of Outotec and the ability to apply the technology to gold ores (and other deposits) which are refractory and where cyanide is not palatable.

However, the market will again assign value when the partners turn up with a project that can generate tangible earnings and cash flows.

#### Stock Resource Recommendation

Intec continues to add value but without quantification of parameters or specific project applications, it is not appreciated by the market. This particularly relevant to hybrid technology-mining companies like Intec with complicated projects with confusing names. However, Intec is likely to release a series of announcements over coming months which should highlight the value of the Intec Hellyer Residues Project in conventional economic terms. We expect Intec is currently bouncing along the bottom and hence, has significant upside on a 6 month view.

Therefore, Stock Resource recommends Intec as a Buy up to 17 cents for Members without current exposure.

#### Share Price Graph



Disclosure: The author holds shares in Intec.

#### Related Articles

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