

23 August 2016

RECOMMENDATION

Speculative Buy

Average daily volume (3M)	409k
12 month share low	\$0.04
12 month share high	\$0.21

Market Risk	High
Liquidity Risk	Med
Infrastructure Risk	Med
Country Risk	Med

IRESS & DJC Research

ISSUED CAPITAL

ASX	ATC
Share price	\$0.14
Mkt cap	\$32.9m
Ordinary shares on issue	235.4m
Unlisted options & Rights	23.9m

Source: FactSet

DIRECTORS

Luke Atkins	Chairman
Iggy Tan	CEO
Daniel Tenardi	Non-Exec Director
Peter Bailey	Non-Exec Director
T. D Yaacob	Non-Exec Director
Shane Volk	Director / CFO

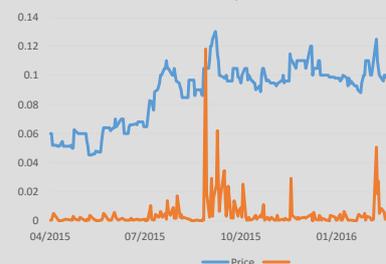
MAJOR SHAREHOLDERS

Lake McCleod Gypsum	10.7%
Melewar Int Inv & Associates	12.1%
D Tenardi	5.7%

As at August 2016

12 MONTH PERFORMANCE

12 month performance



Source: FactSet

Paul Adams

Head of Research
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Altech Chemicals Ltd (ATC)

ECA financing steps in final throws

ATC are making good progress on their project funding application to the Federal Republic of Germany's Export Credit Agency (ECA). ATC are now at stage 7 of a 9 stage process that, if successful, will result in the majority of the project debt being provided at an extremely low interest rate. In addition, ATC is seeking to increase the percentage of total project debt to be covered under export credit, thereby decreasing the repayments and increasing yearly project cash flows. The recent successful \$10m capital raise should see ATC funded through to first drawdown of the project funding Q1 CY17.

Key Points

- **ATC enter the final stages of German project financing:** ATC received positive pre-assessment from the German Government in early August and has rapidly progressed into the last three stages of the ECA finance application. We expect to see initial responses from the ECA cover application in Q4 should ATC be successful, with first drawdown on project financing during Q1CY17.
- **Increase in percentage cover sought:** ATC, via its ECP contractor, M+W Group, is seeking additional ECA cover due to the high amount of German and European equipment supplied to the project. If successful, this will see financing under the ECA arrangement increase from US\$40m to US\$60m and a decrease in the amount required from a senior debt facility from US\$20m to US\$10m.
- **Site visits and DD consultants appointed:** ATC and KfW IPEX-Bank have already appointed due diligence consultants to the project who will make their report on the legal, technical and market aspects of the project available to the German Government for final approval. Once submitted the German Government make a decision and preliminary approval of ECA cover is communicated to ATC. This is legally binding subject to conditions precedent such as all permits being in place and equity financing complete.
- **Recommendation and Valuation:** We maintain our **Speculative Buy** recommendation but decrease our valuation by 13% to take into account additional shares on issue after adjusting for increased cash. This moves our risked valuation to **\$0.355** from **\$0.41** per share.

Altech Chemicals Ltd

ATC-AU

Current Share Price	\$	0.13
Current Market Cap \$m	\$	31
Base Case Valuation (\$Mcap m)	\$	315.8
Base Case Valuation (\$/sh)	\$	0.71
Project Stage Risk Discount		50%

Target Price Current Stage (\$/sh) \$ 0.355

Financing steps in final phase

ATC has provided details on the progress of its project finance application for its high purity alumina project.

Several steps have already been conducted within the first of the three final stages of the application and approval process.

On 3 August, ATC received a positive pre-assessment by the German Government Inter-ministerial Committee (IMC) and Euler Hermes Aktiengesellschaft (Euler Hermes) on ATC's export credit project finance application. Following this positive response, the KfW IPEX-Bank, in conjunction with ATC, has appointed its due diligence consultants to provide assessment of the definitive technical, market and legal aspects of the project. The due diligence will culminate in an "expert opinion" report that will form the basis of the decision to offer ECA cover by the IMC and Hermes.

ATC has been engaged with Euler Hermes and the German KfW IPEX-Bank for almost 9 months already and are now in the final phases of the financing process. The diagram below summarises the steps required to gain ECA cover. ATC are at Step 7 of a 9-step process. We would expect initial responses to the ECA cover application in Q4 this year and draw down on the debt in Q1 if the application is successful.



Figure 1. Export credit approval process

Source: German Government/DJC

Post Step 9, conditions precedent must be fulfilled to obtain closure and drawdown. These could relate to final approvals in Malaysia, obtaining the necessary equity portion of the project finance and other regulatory approvals for project commencement.

ECA cover increases

ATC has announced a change to its proposed project financing structure. The export credit cover portion of the project finance has been increased from US\$40m to US\$60m and the proposed senior debt facility, at higher interest rates, has been reduced from US\$20m to US\$10m. The revised total project debt with therefore increase from US\$60m to US\$70m.

The proposal for the change in cover amount was put forward by M+W Group, the EPC contractor retained by ATC to design and construct the project in Malaysia, to Euler Hermes. The rationale for the proposed change relates to the significant German and European project content and overall benefit to German industry.

The net effect is to reduce the financing costs of the project finance as the overall interest rate under the new structure will be lower. ECA covered debt is likely to have an interest rate of circa LIBOR plus 2-3%.

	Current	Previous
Export Credit Covered Debt	US\$60m	US\$40m
Uncovered Debt	US\$10m	US\$20m
Total Senior Debt	US\$70m	US\$60m
Lender/s	<i>Single (KfW IPEX-Bank)</i>	<i>Various</i>

Table 1. Current vs previous project finance debt structure

Source: ATC

KfW IPEX-Bank has also proposed a simplified, more cost effective “sole lender” model for project debt financing, whereby the entire proposed US\$70m project debt is to be provided exclusively by KfW IPEX-Bank, subject to ongoing due diligence.

Capital raise completed to fund due diligence

ATC completed a capital raise in July 2016 essentially to fund the due diligence period of the financing approval process. We expect the due diligence to run to the end of the year and we believe the \$10m raised will provide enough working capital to fund the company’s activities through this phase and to first draw down.

The placement was completed at 14 cents per share (83% of the 15-day VWAP) for an additional 71.4 million new shares priced at a 14% discount to the closing share price at 21 July, 2016.

Appointment of Due Diligence consultants completed

Following the positive pre-assessment by the German Government inter-ministerial committee (IMC), ATC in conjunction with KfW IPEX-Bank, has appointed a number of due diligence consultants covering technical, market and legal aspects of the high purity alumina project. The final report will represent an “expert opinion” on the viability of the project and the key project risks.

Technical

M.Plan International Ltd

Technical, environmental and social, to include geology, resources, metallurgy, infrastructure, permitting, budgeting and scheduling.

M.Plan International is based in Toronto, Canada and was formed by Dorfner Anzaplan GmbH and Micon International Ltd to provide a unique and fully integrated consulting service specifically to the Speciality Commodity Sector, metals and minerals used in high value strategic, industrial and consumer applications. They specialise where markets are opaque, high value and where quality of product is paramount to the success of the project.

Market

Persistence Market Research (PMR)

Assessment and confirmation of HPA target market, product production, consumption, demand, trade and validation of prices used in project financial model.

PMR is a specialist supplier of market intelligence reports and consulting services, with specialist experience in industrial automation, electronics, chemicals and nonmaterial amongst others. PMR has 500 clients, 200 consultants and work on 5 continents.

Legal

Freshfields Bruckhaus Deringer

Assessment and confirmation of legal documents including permits, licences contracts, structuring and financial transactions. Adnan Sundra & Low is engaged as Malaysian Counsel and Minter Ellison as Australian counsel. Freshfields acts as legal counsel for KfW.

Expert Opinion

For Euler Hermes, TBA

Required for the grant of export credit cover for the project finance transaction and issued to the federal Republic of Germany represented by the German Export Credit Agency, Euler Hermes.

We would expect this to be a major international auditing firm.

A due diligence meeting has been convened in Stuttgart with all parties involved and site visits have already been made to the Meckering kaolin deposit, the Industrial park and port facilities in Johor and to the Stimulus Engineering Laboratory pilot plant in Perth.

Valuation and Recommendation

We have adjusted our valuation to reflect the increased number of shares from the recently completed capital raise.

ATC currently has 235.4m shares on issue plus an additional 23.9m in unlisted options and performance rights. Tranche 2 of the \$10m raise, or 30.68m shares remain outstanding. We maintain our assumption of an additional 155m shares for the project equity part of the project financing to raise circa \$46.5m for a fully diluted total shares on issue of 445m.

Although ATC are making very good progress with respect to the project debt financing through the German ECA cover and KfW IPEX-Bank, we maintain our risked valuation metrics for the project, preferring at this time to wait until confirmation of the grant of ECA cover before changing the risk profile and therefore the discounting.

Calculation of Implied Share Price				
Enterprise Value				304,274
Less: Total Debt				-
Less: Preferred Securities				
Less: Non Controlling Interest				
Plus: Cash and Cash Equivalents				11,500
Implied Equity Value				315,774
Options/Warrants/Rights				
	No of Shares	Excise Price	In the money Shares	Proceeds
Unlisted Options	3,600,000			
Unlisted Pef Rights	20,300,000			
Other				
Total	23,900,000			
Basic Shares Outstanding				259,337,129
Plus share from in the money options				
Net new share from options				
Plus: shares from Convertible securites				
New Issue				
Tranche	No of Shares	Issue Price	Capital Raise	
Second Tranche	30,679,282	0.14	4,295,099	30,679,282
Third Tranche	155,000,000	0.30	46,500,000	155,000,000
Fully Diluted Shares Outstanding				445,016,411
Implied un-risked Share Price				0.71

Table 2. Capital structure and implied un-risked valuation

We adjust for an increase in cash and additional shares on issue over and above our previous assumptions decreasing our risked valuation by 13% to \$0.355 from \$0.41 per share.

We maintain our Speculative Buy recommendation and look towards the successful conclusion of the project debt financing as a major positive price catalyst.

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The Author of this report made contact with the **Altech Chemicals Ltd** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released on **Altech Chemicals Ltd**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

Recommendation Definitions

SPECULATIVE BUY – 10% or more outperformance, high risk

BUY – 10% or more outperformance

HOLD – 10% underperformance to 10% over performance

SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

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