

1 March 2013

**ASX CODE: ANQ**

## Speculative Buy

### Capital Structure (post-money)

|                                      |            |
|--------------------------------------|------------|
| Sector                               | Cleantech  |
| Share Price (A\$)                    | \$0.017    |
| Target Price (A\$)                   | \$0.038    |
| Fully Paid Ordinary Shares (m)       | 2,481.0    |
| Market Capitalisation (undil) (A\$m) | \$42.2     |
| Share Price Year H-L (A\$)           | 0.015-0.06 |
| Approx Cash (A\$m)                   | n/a        |

### Directors

|                 |                         |
|-----------------|-------------------------|
| Shaun Scott     | Chairman, Non-Exec Dir. |
| Patrick Kedemos | CEO, Managing Dir.      |
| Les Capelli     | Non-Exec Dir.           |
| Dr Ian Campbell | Non-Exec Dir.           |
| David Lymburn   | CFO                     |

### Major Shareholders (pre-offer)

|                        |       |
|------------------------|-------|
| Dr Ian Campbell        | 24.6% |
| Monadelphous Group Ltd | 8.7%  |
| Les Capelli            | 7.7%  |
| Shaun Scott            | 2.8%  |

### Analyst

Anton Uvarov, PhD +61 8 9488 0800

### Share Price Performance



# AnaeCo Ltd

## Positive Start to 2013, Next Step - Commercialisation

### Significant Capital Raising

We believe the recent capital raising announcement by AnaeCo represents a new chapter for the company. In our view this equity raising makes sense as it clears the balance sheet and allows the company to focus on commercial execution. Year 2012 was fruitful on the business development side and brought a lot of attention to the company (see inside note for more details). With five memorandums of understanding (MoU) signed in the last 15 months and a showcase plant ready to accept its first tonne of municipal waste, we expect AnaeCo to start generating revenues as soon as second half of CY2013. We reiterate our Buy recommendation and adjust our price target to reflect changes in the capital structure.

### Company Update

Since **RM Research's** last report in November 2012, the Company has signed an MoU with Repindo Resources for a potential DiCOM™ facility in Basra, Iraq and an MoU with Brisanzia Technologies to consider building a DiCOM™ plant in India. We view both deals as having high probability of progressing toward contract execution given the pedigree and established relationships of the other parties in the respective regions as well as high need for waste management in both Iraq and India. In our conservative scenario we expect AnaeCo to sign at least one technology transfer selling regional license in the 1H FY2014 for a lump sum payment of A\$6,000,000 (RM estimate) as well as having high probability of achieving revenue from Design & Commissioning Fees associated with future projects. We expect the funds from the capital raising to be used to repay a loan facility from Monadelphous as well as cost overruns to complete WMRC Shenton Park facility (see inside note for more details).

In addition, this February AnaeCo confirmed that its R&D Tax Incentive of A\$4.9M for the FY2012 was successful. We assume a similar level of eligible R&D expenditures for FY2013.

### Valuation

Our target price of A\$0.038 is based on a blended valuation that uses 10-year DCF analysis based on 15% discounting rate and EV/EBITDA valuation multiple of 7.7. Our DCF based valuation is A\$103.4M or A\$0.048/share. Our EV/EBITDA multiple derived value for AnaeCo is A\$70M or A\$0.028/share. We view EV/EBITDA as rather conservative approach, as it does not carry any multiple premium to AnaeCo due to strong top-line growth, while there is a strong case for that.

### Action and Recommendation

- Speculative Buy. Price Target: 3.8 cents.

## INVESTMENT SUMMARY

### Who is AnaeCo?

Founded in 1998, Australia based AnaeCo has developed the DiCOM™ System, a breakthrough Municipal Solid Waste (MSW) treatment technology for processing waste into recyclables, renewable energy and organic fertiliser.

The company is not engaged in providing waste management solutions to municipal government and councils, but employs a technology transfer model. We believe this is the most appropriate model for a Cleantech company, as it provides lower risk and capital efficiency.

### Overview of the Technology



**FIGURE 1:** DiCOM™ Facility at Shenton Park.

Source: AnaeCo Presentation, 2013

At the core of a DiCOM™ System is the DiCOM bioconversion process, which is a patented, hybrid biological process that converts the organic content of municipal solid waste (MSW) into compost and biogas. Compared to other alternative waste technologies (AWTs) DiCOM™ provides more efficient use of energy, site and infrastructure. A key trade secret for DiCOM™ is the creation of specific biological conditions for microorganisms that accelerate natural bioconversion of organic material.

Processing of MSW at the DiCOM facility involves two steps.

**Resource Recovery (step 1)** – At this step MSW arrives and is deposited at the facility. This step also involves the recovery of organic material and inert recyclables such as metals, plastics, glass using simple homogenizing drums, trommel screens, water separation, electromagnets and eddy-currents. It is estimated that approximately 80%-90% of MSW could be diverted from landfill using this process.

**DiCOM Bioconversion (step 2, fully-automated)** – this is a four stage process for recycling of the solid organic fraction from municipal waste into compost and renewable energy. DiCOM™ uses a unique method of hyperbaric composting that utilises pressurised air to aerate organic material rather than the conventional air flow method used by existing composters. The main benefit of this hyperbaric pressure aeration is that it allows highly consolidated organic material with poor porosity to be evenly aerated thus ensuring optimum oxygen supply to microorganisms which are processing the waste. As a result, the DiCOM™ System can convert waste organic material to a stable compost end-product in 21 days, less than half the time of alternative technologies. It also allows the DiCOM™ process to operate in a tall vessel, thus significantly reducing the foot-print of a DiCOM™ facility.

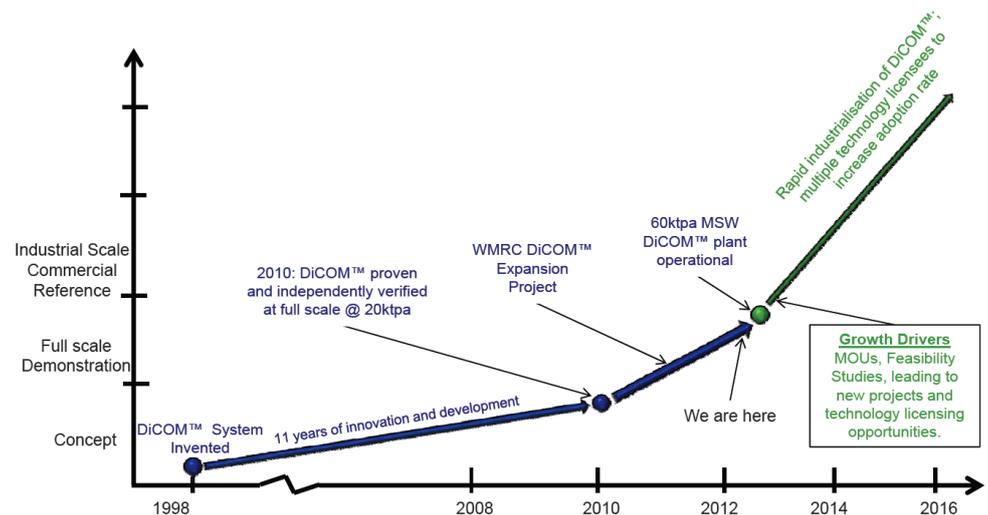
Among major innovations introduced in the DiCOM™ bioconversion process is the transition between phases: aerobic to anaerobic and anaerobic to aerobic.

**FIGURE 2: Opportunity to Invest in AnaeCo at a Pivotal Stage**

Source: AnaeCo Presentation, 2013

Compost produced using DiCOM technology is ready for retail sale without the need to store or “cure” on site, like in alternative technologies. Compost from DiCOM™ process is characterized and tested to AS4454 specifications, a key difference from compost processed using other AWT technologies.

### Time to Capitalize



Interest in the first plant and AnaeCo has been nothing short of spectacular, attracting the attention of national and international waste management companies, government authorities and infrastructure developers, as well as supportive members of the local public who are keen to see this innovative and sustainable solution in full scale operation.

We believe the company is at the stage where all the effort and capital (~ \$120M invested in the development of the DiCOM system over 14 years) spent will translate into continuous revenue streams from the detailed feasibility studies, design and commissioning fees, and further sale of technology licenses which provide high margin growth potential.

### Two Recently Signed MoUs Build Our Confidence

This January the company signed two memorandums of understanding with organizations that have a pedigree of commercializing innovative technologies in Middle East and India. Under the terms of these MoUs, both AnaeCo and third parties will consider the technical and commercial feasibility of deploying AnaeCo’s patented DiCOM™ solution, under license in Iraq and India. Given a strong government support for the sustainable waste management in these regions and partners experience in working with the local government we believe that both MoUs will progress towards contract execution and DiCOM™ technology transfer resulting in first commercial revenues as early as 1H FY2014. We estimate A\$23M in revenues in FY2014 (we estimate 1 full project and 1 territorial license).

### Shenton Park Facility is Almost Ready

The \$45 million Shenton Park plant is AnaeCo’s first full scale waste management facility. It was commissioned by the Western Metropolitan Regional Council, which is an alliance of the towns of Claremont, Cottesloe, Mosman Park, the Chire of Peppermint Grove and the City of Subiaco.

AnaeCo no longer has any equity in the WMRC DiCOM™ facility as the facility is 100% owned by Palisade Investment Partners. However, successful operation of that facility will be a prime showcase of the technology, opening doors for successful commercialisation of DiCOM™.

With commissioning of the Shenton Park facility (60,000 tonnes pa) in progress, management expects first waste to go into plant in 1Q 2013, full operational processing in 2Q 2013 and handover to client WMRC in 4Q 2013.

**FIGURE 3:** Use of Funds

Source: RM Research

### Capital Required

Securing A\$21M in new equity (please refer to company’s prospectus) will give AnaeCo significantly more breathing room and provides the company with enough liquidity to finish the DiCOM™ expansion project and focus on commercialisation of the technology. Risks associated with commissioning have largely been removed.

### Use of Funds

We expect that most of the new capital will be used repay the outstanding liabilities (i.e. cost over-runs, loan obligations and business development).

|  | Amount, A\$M | Due        |
|--|--------------|------------|
| <b>Complete WMRC Shenton Park facility<sup>1</sup></b>                         | 9.5          | 2Q-4Q 2013 |
| <b>Repayment of loan(s) to Monadelphous (cost over-runs, MDCs)<sup>2</sup></b> | 5.5          | 1Q 2013    |
| <b>Working capital</b>   | 5.4          | 2013       |
| <b>Total</b>   | 20.4         |            |

- 1 - This provision is for the estimated costs to complete the development and commissioning of the DiCOM technology, which is being installed at full operational scale for the first time at the WMRC DiCOM Expansion Project.
- 2 - Expected losses on the engineering services contract that have been recognized in 2013, as it is considered probable that the total contract cost will exceed the total contract revenue.

### What’s Next - Turning MoUs into DFSs, Design, Commissioning and Licensing Fees

#### AnaeCo’s Business Model

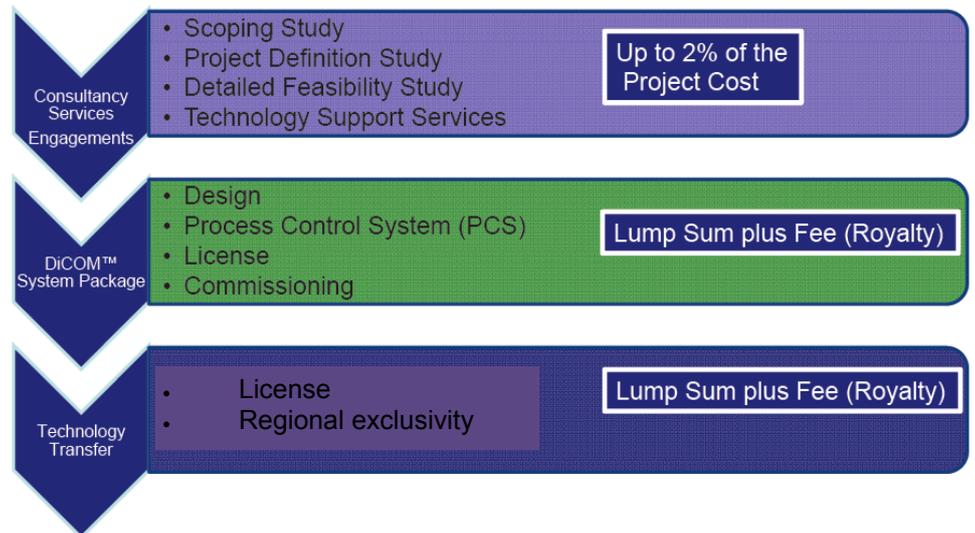
AnaeCo’s business strategy is not to become a waste management company providing a one stop solution to municipalities and councils. Instead the company positions itself as technology solution provider to global waste management companies like China Everbright (HK: 0257), Transpacific Industries Group (ASX: TPI), Waste Management (NYSE: WM), as well as municipal and provincial governments.

AnaeCo’s main product is licensing and technology transfer of the DiCOM™ System. In our model we assume that for a typical project AnaeCo will receive a one-time payment of A\$16M (company provides a range of A\$15M – A\$20M) in aggregate for Design & Commissioning fees, supply of the Process Control System and DiCOM™ Licensing fees (Fig.4). However, we believe first revenues could also come from execution of detailed feasibility studies (DFSs) as the company progresses its business development activities (i.e. MoUs, etc).

We also include recurring profits in our model which AnaeCo will receive as royalties and technology support fees (we estimate A\$5/tonne per annum).

**FIGURE 4:** AnaeCo's Business Model and Fee Estimates

Source: AnaeCo Presentation, 2013



**FIGURE 5:** List of Recently Signed MoUs

Source: AnaeCo, RM Research

**Increased Number of MOUs in 2012 / early 2013 - Revenues Are Nearby**

| Potential Partner                               | Type | Region                | Date         |
|---|------|-----------------------|--------------|
| <b>Transpacific Cleanaway Pty Ltd</b>           | MoU  | East Coast, Australia | Dec 1, 2011  |
| <b>Dynagreen Environmental Protection, BSAM</b> | MoU  | China                 | May 16, 2012 |
| <b>Bioverse Energy</b>                          | MoU  | Western Australia     | Sep 27, 2012 |
| <b>Repindo Resources Pty Ltd</b>                | MoU  | Basra, Iraq           | Jan 11, 2013 |
| <b>Brisanzia Technologies Pvt Ltd</b>           | MoU  | India                 | Jan 22, 2013 |

In our view there is a high probability that the increased number of MoUs in the past 15 months (Fig.5) will translate into near term DFSs and technology transfer deals with early adopters, providing AnaeCo with important international reference sites. This will significantly improve AnaeCo's global brand recognition and in turn facilitate rapid uptake of the DiCOM™ Systems.

Down the road, management is also aiming to sell regional licenses for the DiCOM™ technology, thus building the local ecosystem in these regions required to develop local projects and thereby providing the necessary scale to increase the overall momentum of DiCOM adoption.

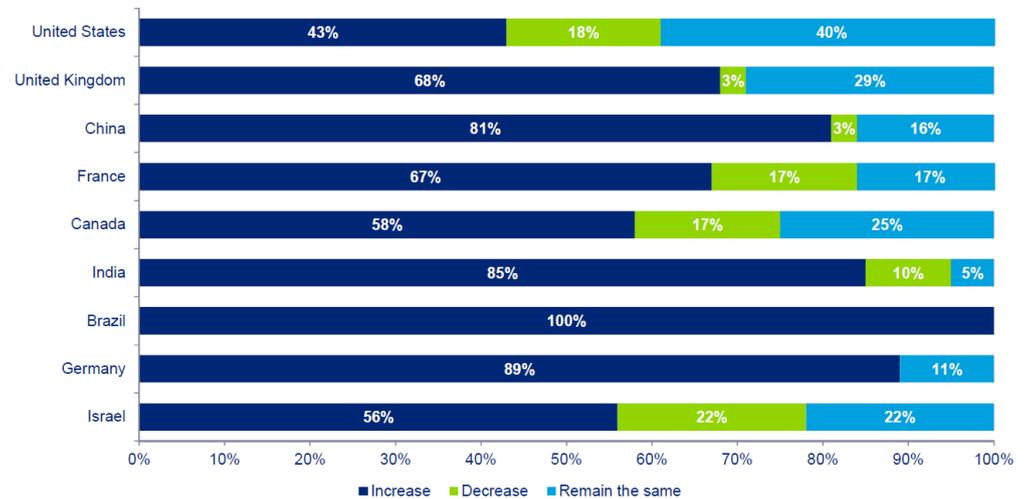
**A Closer Look at India, Iraq MoUs - The First Contract Could Come From Here**

This January AnaeCo signed an MoU with Brisanzia Technologies Pvt Ltd to consider the technical and commercial feasibility of deploying AnaeCo's patented DiCOM™ solution, under license in India.

**FIGURE 6:** Favourable Conditions - India Will Increase Investments In Cleantech

Source: Deloitte Report, 2010

A recent study by Deloitte demonstrates a growing appetite for Cleantech investment, in developing nations such as Brazil, China, and particularly India. It is expected that investment in Cleantech and particularly waste management over next five years will increase 85% in India (Fig. 6).



#### Great Need in India for Sustainable Waste Management - AnaeCo Has a Solution

Rapid industrialization and population explosion in India has led to the migration of people from villages to cities, generating thousands of tons of municipal solid waste daily and is rapidly growing. Thus, the amount of MSW generated per capita is estimated to increase at a rate of 1%–1.33% annually. Improper management of municipal solid waste (MSW) causes hazards to inhabitants.

This tremendous increase in the amount of MSW generated is due to changing lifestyles, food habits and living standards of the urban population.

It has been reported that Indian cities dispose of their waste in open dumps located in the outskirts of the city without any concern for environmental degradation or impact on human health. The economical and infrastructural constraints, including unavailability of land for safe waste disposal, and lack of awareness and fear at all levels restrain progress resulting in inefficient, unsafe urban solid waste management. The MSW collection efficiency ranges between 70 and 90% in the major metro cities in India, whereas in several smaller cities it is below 50%.

Due to its simplicity and low capital requirements uncontrolled composting and landfilling processes accounts for approximately 60% of the market. The breakdown of the market in terms of technologies for MSW treatment and disposal is shown in Figure 7.

**FIGURE 7:** Market Share of Different MSW Management Technologies in India

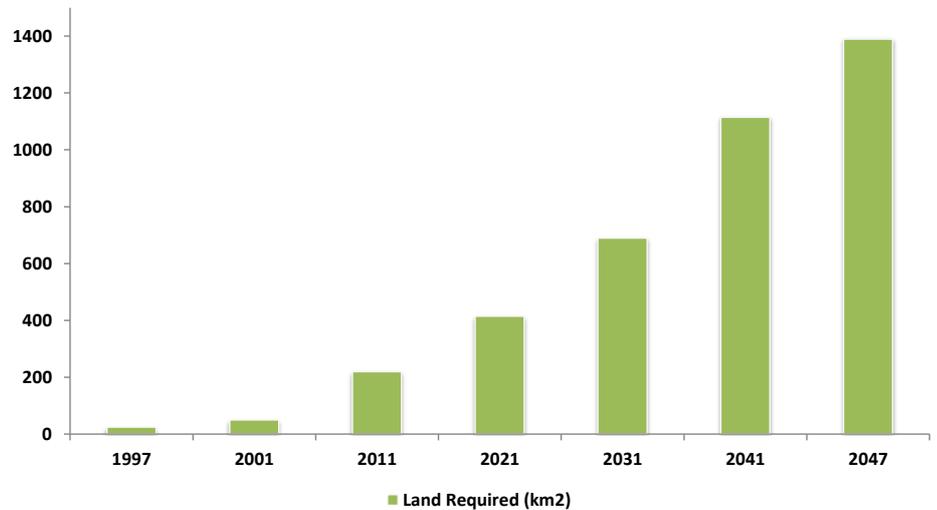
Source: Renewable and Sustainable Energy Reviews, 2011

| Technology          | Present Market Share |
|---------------------|----------------------|
| Composting          | 50%                  |
| Anaerobic Digestion | 30%                  |
| Pelletization       | 10%                  |
| Sanitary landfill   | 10%                  |

However, due to rapid increase in MSW, these methods of waste management are unsustainable due to significant land requirements. It is estimated that at this level of land filling, the cumulative requirement of land, for disposal of MSW, would amount to around 1400 km<sup>2</sup> over next three decades which is twice as large as area occupied by Singapore (Fig. 8). Thus, facilities like the DiCOM™ plant that has a very small footprint could gain rapid adoption in this country.

**FIGURE 8:** Cumulative Land Requirement for Disposal of Municipal Solid Waste (km<sup>2</sup>)

Source: Renewable and Sustainable Energy Reviews, 2011



*Summary: there is an urgent need to work towards a sustainable solid waste management system in India, which is environmentally, economically and socially sustainable. We believe AnaeCo's technology could be successful in tackling this problem. We believe that a regional license for India could be among the first contracts signed by AnaeCo, making India an early adopter of DiCOM™ technology.*

#### Iraq Could Be Another Early Adopter of DiCOM

This January Anaeco signed an MoU with Repindo Resources to explore the possibility of building a DiCOM™ facility in Basrah, Iraq.

The Solid Waste Management (SWM) system in Basrah has deteriorated recently to the point that only limited waste collection is undertaken in certain urban areas and waste is mostly disposed to uncontrolled dump sites, while the amount of waste generated per annum is growing at a fast pace. The current estimate of solid waste generation rates for Basrah city was estimated to be 0.85 kg/capita/ day. Future waste generation rates for Basrah in the short, medium, and long terms are provided in Figure 9.

**FIGURE 9:** Waste generation rates for short, medium, long term in Basrah, Iraq

Source: Journal of Environmental Protection, 2011

| Waste Generation Rate (Kg/capita/day)     | Short Term    | Medium term   | Long term     |
|---|---------------|---------------|---------------|
|   | (2009 - 2014) | (2015 - 2019) | (2020 - 2029) |
| Basrah City                               | 0.85 - 1.02   | 1.02 - 1.18   | 1.18 - 1.58   |
| Considered Figure                         | avg. 0.90     | avg. 1.10     | avg. 1.30     |
| Average Annual Generation Rate (ton/year) | 280,176       | 405,600       | 589,680       |

As we mentioned, the problem of waste management is already acute in cities and towns like Basrah, as disposal facilities have not been able to keep pace with the quantity of wastes generated. Integrated MSW disposal systems are not yet implemented in Iraq.

The most common disposal methods (more than 90%) currently are land fill, open dumping and burning in open spaces even in big cities, such as Basrah (the city has 15 landfills that largely operate as dumping sites). Generally, the low-lying areas and outskirts of the towns and cities are used for this purpose. These practices obviously have negative impacts on the environment and are socially unacceptable.

### **Favourable Conditions for Adoption of DiCOM™ in Iraq**

Interestingly, the percentage of Basrah city municipal solid waste stream consisting of materials which are considered to be recyclable or compostable is significant and are estimated to be about 84%. *This large percentage of recyclable/compostable material in the waste stream provides optimism that large-scale recycling and composting facility like DiCOM will be feasible and will help to significantly reduce the volume of solid waste transferred to landfill.*

In addition, a recent study by UNICEF investigated the technical, economical, and environmental aspects of a few SWM (solid waste management) methodologies including landfilling and a methodology that included sorting, recycling and composting. The goal of the study was to compare the scenarios and select the most appropriate one for implementation

The final recommendations by UNICEF were in favour of scenario that considered waste sorting, recycling and composting which fits well with DiCOM technology.

*In summary, we believe there is a high probability that Iraq will be among the early adopters of DiCOM technology.*

### **AnaeCo is Going Global - Additional MoUs Build Our Confidence**

#### **MoU with Bioverse Energy, Western Australia**

In September 2012 AnaeCo and Bioverse Energy have signed a MoU to cooperatively explore the implementation of AnaeCo's DiCOM™ technology at a suitable site in Western Australia. To date Bioverse has proposed the AnaeCo DiCOM™ technology as the core part of their offering for City of Rockingham EOI, submitted on 26 September 2012. While Bioverse was not successful with this EOI (announced in December 2012), the company is still considering other opportunities.

#### **MoU with Dynagreen**

In May 2012 signed MoU with Dynagreen Environmental Protection Group a subsidiary of Beijing State-Owned Assets Management Co., LTD (BSAM) to explore commercial opportunities for AnaeCo's DiCOM™ technology in China and overseas. BSAM is authorized by Chinese government to engage in capital operations and has assets totalling RMB 55.2B (\$8.8B USD). We believe that BSAM capabilities and resources make them an ideal partner for the commercial roll-out of DiCOM™ in China.

#### **MoU with Transpacific Industries Group**

In December 2011 AnaeCo signed a MoU with Transpacific Industries Group (ASX: TPI) to undertake a joint feasibility study with a view to deploying AnaeCo's patented DiCOM™ system at a Transpacific facility on the east coast of Australia. We believe that any proposed facility would be designed to handle significantly larger volumes of waste than the 55,000 *tpa* plant at Shenton Park, and would use a large scalable model.

Given the scope and scale of current and planned Transpacific's business initiatives we view them as a perfect partner to roll-out DiCOM™ on the East coast of Australia, with Sydney as the most possible destination. We expect this MoU to move forward once the results of commissioning at Shenton Park facility become available.

**In summary**, we believe that these MoUs signed with local, domestic, and Chinese partners that have capabilities to roll-out not only one, but potentially several DiCOM™ projects is a great indication that the DiCOM™ technology is becoming more visible in alternative waste management sector. It supports the potential and our investment thesis for the company.

### **Company Valuation**

Our target price of 3.8 cents is based on a blended valuation that uses 10-year DCF analysis based on 15% discounting rate and EV/EBITDA valuation multiple of 7.7. Our industry average EV/EBITDA multiple is calculated based on a group of publically traded national and international waste management companies. We use 50% - 50% weighting for each method and estimate approximately 2.5B of shares outstanding post-money.

**FIGURE 10:** AnaeCo's Financial Model, FY2010 – FY2022 and Valuation Analysis

Source: RM Research

Our DCF based valuation is A\$103.5M or A\$0.048/share. Our EV/EBITDA multiple derived value for AnaeCo is A\$70M or A\$0.028/share. We view EV/EBITDA as rather conservative approach, as it does not carry any multiple premium to AnaeCo due to strong top-line growth, while there is a strong case for that.

**Income Statement**

(\$ in thousands, except per-share amounts)

For years ending December 31:

|   | FY2010A          | FY2011A           | FY2012A           | FY2013E           | FY2014E           | FY2015E           | FY2016E           | FY2017E           | FY2018E           | FY2019E           | FY2020E           | FY2021E           | FY2022E           |
|---|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Revenues:</b>                                |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Number of Licences sold                         |                  |                   |                   | -                 | 1                 | 1                 | 2                 | 2                 | 3                 | 3                 | 4                 | 4                 | 4                 |
| Number of Complete Tech Packages sold           | -                | -                 | -                 | -                 | 1                 | 2                 | 2                 | 3                 | 3                 | 4                 | 4                 | 4                 | 4                 |
| <i>Design &amp; Commission Fees per project</i> | \$9,000          | \$9,000           | \$9,000           | \$9,000           | \$9,225           | \$9,456           | \$9,692           | \$9,934           | \$10,183          | \$10,437          | \$10,698          | \$10,966          | \$11,240          |
| Design & Commissioning Fees, total              | -                | -                 | -                 | -                 | \$9,225           | \$18,911          | \$19,384          | \$29,803          | \$30,548          | \$41,749          | \$42,793          | \$43,863          | \$44,959          |
| <i>Process Control System fee per project</i>   | \$1,000          | \$1,000           | \$1,000           | \$1,000           | \$1,000           | \$1,500           | \$1,500           | \$1,500           | \$1,000           | \$1,000           | \$1,000           | \$1,000           | \$1,000           |
| Process Control System fee, total               | -                | -                 | -                 | -                 | \$1,000           | \$3,000           | \$3,000           | \$4,500           | \$3,000           | \$4,000           | \$4,000           | \$4,000           | \$4,000           |
| <i>Dicom Licensing Fee per project</i>          | \$6,000          | \$6,000           | \$6,000           | \$6,000           | \$6,000           | \$6,000           | \$6,000           | \$6,000           | \$6,000           | \$6,000           | \$6,000           | \$6,000           | \$6,000           |
| Dicom Licensing Fee, total                      | -                | -                 | -                 | -                 | \$12,000          | \$18,000          | \$24,000          | \$30,000          | \$36,000          | \$42,000          | \$48,000          | \$48,000          | \$48,000          |
| Royalty & Technology Support Fee                | -                | -                 | -                 | -                 | \$1,000           | \$3,000           | \$5,000           | \$8,000           | \$11,000          | \$15,000          | \$19,000          | \$23,000          | \$27,000          |
| Other   | \$75             | \$191             | \$1,239           | \$100             | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |
| <b>Total revenues</b>                           | <b>\$75</b>      | <b>\$191</b>      | <b>\$1,239</b>    | <b>\$100</b>      | <b>\$23,225</b>   | <b>\$42,911</b>   | <b>\$51,384</b>   | <b>\$72,303</b>   | <b>\$80,548</b>   | <b>\$102,749</b>  | <b>\$113,793</b>  | <b>\$118,863</b>  | <b>\$123,959</b>  |
| <b>Costs and expenses:</b>                      |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Project delivery costs                          | (\$1,963)        | (\$6,043)         | (\$9,459)         | (\$14,313)        | (\$8,129)         | (\$15,019)        | (\$17,984)        | (\$25,306)        | (\$28,192)        | (\$30,825)        | (\$34,138)        | (\$35,659)        | (\$37,188)        |
| % revenues                                      |                  |                   |                   |                   | 35%               | 35%               | 35%               | 35%               | 35%               | 30%               | 30%               | 30%               | 30%               |
| Provision for commissioning DiCOM technology    | -                | -                 | (\$6,500)         | (\$6,500)         |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Technology development expense                  | (\$1,111)        | (\$1,312)         | (\$657)           | (\$1,129)         | (\$1,136)         | (\$1,072)         | (\$1,224)         | (\$1,258)         | (\$1,303)         | (\$1,388)         | (\$1,448)         | (\$1,517)         | (\$1,596)         |
| Depreciation & amortization                     | (\$234)          | (\$486)           | (\$612)           | (\$673)           | (\$741)           | (\$815)           | (\$896)           | (\$986)           | (\$1,084)         | (\$1,193)         | (\$1,312)         | (\$1,443)         | (\$1,587)         |
| Finance costs                                   | (\$329)          | (\$789)           | (\$923)           | (\$1,000)         | (\$1,000)         | (\$1,000)         | (\$1,000)         | (\$1,000)         | (\$1,000)         | (\$1,000)         | (\$1,000)         | (\$1,000)         | (\$1,000)         |
| Employee benefits expense                       | (\$1,499)        | (\$1,157)         | (\$1,533)         | (\$1,686)         | (\$1,855)         | (\$2,040)         | (\$2,244)         | (\$2,469)         | (\$2,716)         | (\$2,987)         | (\$3,286)         | (\$3,614)         | (\$3,976)         |
| Other expenses                                  | (\$1,739)        | (\$1,590)         | (\$1,618)         | (\$1,780)         | (\$1,958)         | (\$2,154)         | (\$2,370)         | (\$2,607)         | (\$2,867)         | (\$3,154)         | (\$3,469)         | (\$3,816)         | (\$4,198)         |
| Loss on disposal of investments                 | (\$15)           | (\$638)           | -                 |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Total expense</b>                            | <b>(\$6,891)</b> | <b>(\$12,015)</b> | <b>(\$21,302)</b> | <b>(\$27,082)</b> | <b>(\$14,818)</b> | <b>(\$22,099)</b> | <b>(\$25,718)</b> | <b>(\$33,625)</b> | <b>(\$37,162)</b> | <b>(\$40,546)</b> | <b>(\$44,653)</b> | <b>(\$47,050)</b> | <b>(\$49,545)</b> |
| EBIT  | (\$6,816)        | (\$11,824)        | (\$20,063)        | (\$26,982)        | \$8,407           | \$20,812          | \$25,666          | \$38,678          | \$43,386          | \$62,203          | \$69,140          | \$71,813          | \$74,414          |
| Income taxes                                    | (\$281)          | -                 | -                 | \$4,900           | \$4,000           | (\$2,081)         | (\$7,700)         | (\$11,603)        | (\$13,016)        | (\$18,661)        | (\$20,742)        | (\$21,544)        | (\$22,324)        |
| Income tax rate                                 | -                | -                 | -                 | -                 | 0%                | 10%               | 30%               | 30%               | 30%               | 30%               | 30%               | 30%               | 30%               |
| Other Adjustments                               |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Net income (loss)</b>                        | <b>(\$7,097)</b> | <b>(\$11,824)</b> | <b>(\$20,063)</b> | <b>(\$22,082)</b> | <b>\$12,407</b>   | <b>\$18,731</b>   | <b>\$17,966</b>   | <b>\$27,075</b>   | <b>\$30,371</b>   | <b>\$43,542</b>   | <b>\$48,398</b>   | <b>\$50,269</b>   | <b>\$52,090</b>   |
| <b>FCF</b>                                      | <b>(\$6,864)</b> | <b>(\$11,338)</b> | <b>(\$19,451)</b> | <b>(\$21,409)</b> | <b>\$13,147</b>   | <b>\$19,545</b>   | <b>\$18,862</b>   | <b>\$28,060</b>   | <b>\$31,455</b>   | <b>\$44,735</b>   | <b>\$49,710</b>   | <b>\$51,712</b>   | <b>\$53,677</b>   |
| <b>PV</b>                                       |                  |                   |                   |                   | 0                 | 1                 | 2                 | 3                 | 4                 | 5                 | 6                 | 7                 | 8                 |
|   |                  |                   |                   | <b>(\$21,409)</b> | <b>\$11,432</b>   | <b>\$14,779</b>   | <b>\$12,402</b>   | <b>\$16,044</b>   | <b>\$15,639</b>   | <b>\$19,340</b>   | <b>\$18,688</b>   | <b>\$16,905</b>   | <b>\$15,258</b>   |
| <b>Valuation:</b>                               |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| EV (based of 7.7x EV/EBITDA Industry Average)   |                  |                   |                   |                   | <b>\$70,006</b>   | \$165,513         | \$203,289         | \$303,557         | \$340,347         | \$485,186         | \$539,190         | \$560,648         | \$581,663         |
| Total PV (10 years)                             |                  |                   |                   |                   | <b>\$119,078</b>  |                   |                   |                   |                   |                   |                   |                   |                   |
| Number of shares                                |                  |                   |                   |                   | <b>2,481,000</b>  |                   |                   |                   |                   |                   |                   |                   |                   |
| Blended per share value                         |                  |                   |                   |                   | <b>\$ 0.038</b>   |                   |                   |                   |                   |                   |                   |                   |                   |

**Risks**

We see the biggest downside risks that could prevent the AnaeCo stock from reaching our target price as being: 1) delayed execution or a slowdown in commissioning the DiCOM™ facility at Shenton Park, as we view it as a turning point for the company; 2) changes in direction of domestic and international government legislations and environmental regulations, which has been a major driver for the adoption of alternative waste management technologies globally in the last decade, and currently viewed as a major catalyst for adoption going forward; 3) higher CapEx requirements and higher waste processing costs for DiCOM™ plants.

**Intellectual Property**

We view AnaeCo's patent portfolio around DiCOM™ technology as a core asset to the company's present and future business. Strong IP rights on the technology are crucial for future partnerships. AnaeCo's current patent portfolio includes 11 patent families (see list below).

Patent Family 001 Entitled: Aerobic-anaerobic-aerobic treatment process (4 patents granted Exp 2020)  
Patent Family 002 Entitled: Aeration during aerobic treatment (4 patents granted Exp 2020)  
Patent Family 010 Entitled: Method and Apparatus for the introduction of fluids (Filed)  
Patent Family 011 Entitled: Inerting method in digestion (Filed)  
Patent Family 012 Entitled: Screen (Filed)  
Patent Family 013 Entitled: Method for solid waste separation and processing (Filed)  
Patent Family 0014 Entitled: Separation method and apparatus (Filed)  
Patent Family 015 Entitled: Pressurised recirculation of organic material (Filed)  
Patent Family 016 Entitled: Dewatering method and apparatus (Filed)  
Patent Family 017 Entitled: Process Control Method (Filed)  
Patent Family 018 Entitled: Apparatus for the passage and conveying of compressible material (Filed)

## **DIRECTORS & MANAGEMENT**

### ***Shaun Scott – Chairman***

B Bus (Accountancy), BA (Rec Admin), ACA

Mr Scott is a chartered accountant with over 25 years of upstream and downstream experience in the oil and gas and energy sector in Australia, Asia and the United States. He previously held the roles of Chief Executive Officer, Chief Commercial Officer and Chief Financial Officer with Arrow Energy Ltd. Prior to joining Arrow in 2004, his career spanned appointments as Group Finance Manager at Energy Developments Limited, Project Finance Director at NRG, and Manager of ARCO's international oil and gas M&A team.

### ***Patrick Kedemos – Managing Director & CEO***

MBA INSEAD, MSc (Management)

Mr Kedemos has almost 20 years of managerial and professional experience, including 16 years in increasingly senior roles within the international industrial, medical and environmental gases industry. He joined AnaeCo in August 2011 from the Air Liquide Group, a Fortune 500 company within which he gained a wealth of experience in business and management roles in positions as General Manager, Sales and Marketing Manager, Strategy Manager in Healthcare and Financial Controller for a major efficiency program. Most recently, Mr Kedemos was the General Manager of the industrial and medical gases joint venture companies between Air Liquide and Wesfarmers. Mr Kedemos is the Honorary Consul for France, in Western Australia.

### ***David Lyburn, CFO and Company Secretary***

B.Acc, ACA

David Lyburn has been the company secretary of AnaeCo Limited since January 2004. He is a Chartered Accountant with over twenty years of experience in accounting and corporate management roles, both in the accounting profession and in the commercial sector. He has served as company secretary and CFO of a number of small to medium sized public listed companies.

### ***Gianmario Alessio Capelli – Non-executive Director***

Mr Capelli is the owner and Managing Director of Vector Lifting a business involved in the design and supply of specialized and sophisticated lifting and railway maintenance equipment, which operates in Australia, Asia and the Middle East. His skills and experience are in the fields of engineering design, manufacture, project management and customer service delivery.

### ***Dr Ian Lindsay Campbell – Non-executive Director***

BSc, B Eng(Hons), PhD (Electrical engineering)

Dr Campbell was a co-founder of the CPS group of companies, a business primarily engaged in 'build, own and operate' software based services, typically processing high transaction volumes and forging enduring relationships with large corporates.

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## **RM Research Recommendation Categories**

Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

|                        |  |
|------------------------|--|
| <b>Buy</b>             | Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.           |
| <b>Speculative Buy</b> | We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk. |
| <b>Hold</b>            | A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.                   |
| <b>Sell</b>            | Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.                       |

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