

10 July 2008

Change of target price

## Buy

**Important:** The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

### Mod-High Volatility

**Target price**  
A\$0.54 (from A\$0.63)

**Price**  
A\$0.39

**Short term (0-60 days)**  
n/a

CLQ80710

#### Price performance

	(1M)	(3M)	(12M)
Price (A\$)	0.32	0.37	n/a
Absolute %	21.9	5.4	n/a
Rel market %	36.0	16.1	n/a
Rel sector %	25.4	13.3	n/a



**Market capitalisation**  
A\$22.04m (US\$21.15m)

**Average (12 mnth) daily turnover**  
A\$0.03m (US\$0.03m)

RIC: CLQ.AX, CLQ AU  
Priced at close of business 9 Jul 2008.  
Source: Bloomberg

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# Clean TeQ

## First move into uranium market

**Construction of a pilot plant at PDN's Langer Heinrich operation marks CLQ's first move into the uranium market and bodes well for the further expansion of the Clean-iX technology. New resource recovery personnel also provide considerable industry expertise. Maintain Buy recommendation.**

#### Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA (A\$m)	0.00	3.18	4.38	5.46	6.65
Reported net profit (A\$m)	0.00	1.85	2.85 ▲	3.94	5.00
Normalised net profit (A\$m) <sup>1</sup>	0.00	3.09	2.85 ▲	3.94	5.00
Normalised EPS (c) <sup>1</sup>	0.00	7.02	5.04 ▲	6.97	8.69
Normalised EPS growth (%)	n/a	n/a	-28.2	38.1	24.7
Dividend per share (c)	0.00	0.00	0.00	3.48	4.34
Dividend yield (%)	0.00	0.00	0.00	8.93	11.1
Normalised PE (x)	n/a	5.55	7.73	5.60	4.49
EV/EBITDA (x)	n/a	6.80	2.90	1.87	1.20
Price/net oper. CF (x)	n/a	4.88	5.87 ▲	6.70 ▲	5.78 ▲
ROIC (%)	n/a	n/a	53.7	64.6	71.0

Use of ▲ ▼ indicates that the line item has changed by at least 5%.

<sup>1</sup> Pre non-recurring items and post preference dividends  
Accounting Standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

year to Jun, fully diluted

#### Pilot plant puts CLQ in leading position for Stage III expansion

CLQ has made its first foray into the uranium recovery market with its agreement to construct a pilot plant at Paladin Energy's Langer Heinrich uranium mine. The plant will utilise CLQ's patented Clean-iX® Resin-In-Pulp (cRIP) resource recovery technology. Project success will put CLQ in a prime position for the Stage III operation upgrade, expected to be announced in FY09. Positive results from the pilot plant should also assist CLQ's access into other mineral resource markets. We retain our positive view on the cRIP technology and its application in the mineral recovery market improving resource recovery rates, lowering costs and reducing environmental impacts. CLQ's other water and air divisions have continued to perform in line with prospectus guidance.

#### New management provides further uranium expertise

The addition of Bob Cleary and Werner Haymann to CLQ's resource recovery team provides significant uranium industry experience and contacts that will further assist CLQ in marketing its extraction technology to new customers. Bob Cleary has extensive senior executive experience with ERA, Crossland Uranium Mines and UMC Energy. Werner Haymann has considerable mining operations experience including positions with Rossing Uranium (in Namibia), MORAK Gold Mining Venture and the Blair Athol Coal Project in Central Queensland.

#### Maintain Buy recommendation

Management has reiterated its PDS FY08 earnings guidance and we have adjusted our FY08 forecasts accordingly. However, we have made some changes to our longer-term (post FY11) forecasts taking a more conservative view and also increased our risk-free rate to 6.5% (from 6.25%). This has resulted in our DCF valuation reducing to A\$0.54 (from A\$0.63) which also equates to our new target price. We retain our Buy recommendation but recognise that until we witness a rejuvenation in investor interest in small/micro caps the stock will likely trade sideways. New contract wins are the most likely short-term catalyst.

## First move into uranium resource recovery market

CLQ has entered into an agreement to construct a Clean-iX® Resin-In-Pulp Pilot Plant at the Langer Heinrich uranium mine in Namibia owned by Paladin Energy. The company expects to have the pilot plant installed and operational in 2-3 months. Construction capex for the plant will be sourced from the \$2.5m raised in the IPO that was planned to fund mining demonstration plants. While the pilot plant will not generate any immediate earnings for CLQ, it is a major development for the transition of the technology into the uranium market and positioning CLQ favourably to participate in the Stage III expansion at Langer Heinrich. Importantly, unlike the deal done with BHP and CVRD to sell the nickel and cobalt extraction process licence, CLQ has only agreed to the installation of the pilot plant and is free to install similar uranium plants with other customers.

## Proposed Langer Heinrich Stage III Expansion

A further expansion (Stage III) is being planned which is intended to increase production to 6.0Mlb (from 3.7Mlb) U<sub>3</sub>O<sub>8</sub> per annum. The scheduling of the proposed Stage III is dependent on accessing additional water supply, and Langer Heinrich, in conjunction with Rössing Uranium Limited, is now in advanced discussions with the national water utility, Namibia Water Corporation Ltd (NamWater) for the provision of desalinated water to PDN's respective mines as early as mid-2010. NamWater has invited tenders for the design/build of the desalination plant and construction has been initiated for the ocean intake of the plant. Paladin is now confident that additional water supply will become available. The construction schedule for this proposed expansion will be triggered once NamWater has committed to a water supply delivery date. If this timing is confirmed for mid-2010, then construction of Stage III will commence in mid-2009, so that expanded production can be achieved as soon as the additional water supply becomes available. Conceptual design has already commenced. The company expects to make a more detailed statement on the proposed Stage III expansion once legal documentation is completed with NamWater. This is expected within the next few months. Current resource drilling is expected to fully complement the increased production requirements following the Stage III expansion.

## New appointments provide further uranium expertise

CLQ has strengthened its resource recovery management team with the appointment of Bob Cleary and Werner Haymann.

- Bob Cleary has extensive senior executive experience in the uranium industry where he rose to the position of CEO of ERA. Bob is currently Chairman of Crossland Uranium Mines Ltd, and UMC Energy plc and a director of Natasa Mining Ltd. He also provides consulting services to these companies.
- Werner Haymann's considerable mining operations experience includes past positions as Director and General Manager Operations at Rössing Uranium Limited in Namibia, the MORAK Gold Mining Venture in Mauritania and as General Manager Operations of the Blair Athol Coal Project in Central Queensland.

It is clear from Bob and Werner's resumes each have extensive knowledge and experience in uranium. With the knowledge comes a vast network of industry contacts which CLQ will leverage to get its Clean-ix technology in front of new producing and developing companies. Interestingly, Werner Haymann worked for Rössing Uranium which also operates in Namibia close to Paladin's Langer Heinrich operation.

## Forecast earnings

Discussions with CLQ management have reiterated prospectus earnings guidance for FY08. We have increased our FY08 earnings forecasts accordingly. Given the contract nature of CLQ's business, we remain confident about our FY09 numbers and believe that a large portion of revenues will be already contracted. We have left our FY09 and FY10 assumptions unchanged. However, we have reviewed our longer-term growth and margin expectations taking a more conservative view. Further details on divisional performances are expected with the FY08 result due to be announced on 21 August.

## Valuation

Our DCF valuation for CLQ has reduced to A\$0.54cps as a result of an increase to our risk-free rate assumptions to 6.50% (from 6.25%) and the minor adjustment to our long-term growth and margin expectations. Given the current market volatility and investor attitude towards smaller stocks, we note that CLQ may struggle to gain investor interest in the short term. However, we retain the view that CLQ has a unique exposure to the resources market that offers a solid growth profile which will over time be realised by the market. Based on a 12-month view, we retain our Buy recommendation and set our A\$0.54 target price equal to our DCF valuation.

On a FY09F PE of 5.6x, CLQ is trading in line with its micro-cap peers but well below the small-cap industrial average. We would expect with an improvement in market conditions that CLQ would trade more in line with the small-cap average.

**Table 1 : CLQ comparison companies**

Company	Code	Share price (A\$)	Mkt cap (A\$m)	PE (x) FY08	PE (x) FY09	EV/ EBITDA (x) FY08	EV/ EBITDA (x) FY09	Div yield FY09
Clean TeQ	CLQ	0.39	22.0	7.7	5.6	2.9	1.9	8.9%
Cardno	CDD	4.10	305.7	9.9	7.8	6.6	5.0	7.7%
Envirozel*	EVZ	0.24	48.8	6.5	5.4	4.1	3.4	8.5%
Mineral Resources*	MIN	5.48	667.3	14.4	10.9	7.7	5.9	4.8%
Norfolk Group	NFK	1.16	150.8	7.5	6.4	5.2	4.9	8.2%
Sedgman	SDM	2.42	435.7	18.8	15.4	9.0	7.8	3.6%
Tox Free Solutions*	TOX	1.60	109.0	15.1	9.8	8.8	4.7	2.8%
Wattyl	WYL	1.38	117.0	10.1	11.4	5.1	5.3	7.6%
Industrials Sector	-	-	-	12.4	11.6	7.7	7.2	6.2%
Small Ordinaries	-	-	-	14.7	12.1	9.4	7.9	5.5%
Small Industrials	-	-	-	12.3	11.7	9.2	8.3	6.7%
Small Resources	-	-	-	31.3	13.5	10.6	6.3	2.2%

Source: \*Reuters consensus, ABN AMRO Morgans estimates, company data

## Risks:

The primary risks to our forecasts and valuation include:

- CleanTeQ is unsuccessful in rolling out its Clean-iX resource recovery technology into new minerals.
- Development of new extraction technology supersedes the Clean-iX technology.
- Market volatility continues and investor interest in small/micro-caps remains low.

CLQ – financial summary

Year to 30 Jun (A\$m)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price (A\$)	0.39	Price target (A\$)	0.54	
<b>Income statement</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	<b>Valuation metrics</b>				
Divisional sales		7.0	15.5	22.2	29.0	Preferred methodology	DCF	Val'n (A\$)	\$ 0.54	
Total revenue	0.0	7.0	15.5	22.2	29.0	<b>DCF valuation inputs</b>				
EBITDA	0.0	3.2	4.4	5.5	6.7	Rf	6.50%	10-year rate	6.50%	
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	6.00%	Margin	2.0%	
Depreciation	0.0	0.0	0.0	0.0	0.0	Beta	1.90	Kd	8.50%	
EBITA	0.0	3.2	4.4	5.4	6.6	CAPM (Rf+Beta(Rm-Rf))	17.9%	Ke	17.9%	
Amortisation/impairment	0.0	-1.2	-1.0	-1.0	-1.0	E/EV*Ke+D/EV*Kd(1-t)		NPV cash flow (A\$m)	21.2	
EBIT	0.0	1.9	3.3	4.4	5.6	Equity (E/EV)	75.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	0.0	1.9	3.3	4.4	5.6	Debt (D/EV)	25.0%	Net debt (A\$m)	-9.3	
Net interest expense	0.0	-0.1	0.1	0.8	1.1	Interest rate	8.50%	Investments (A\$m)	0.0	
Pre-tax profit	0.0	1.9	3.4	5.2	6.7	Tax rate (t)	30.0%	Equity market value (A\$m)	30.5	
Income tax expense	0.0	0.0	-0.6	-1.3	-1.7	<b>WACC</b>	14.9%	Diluted no. of shares (m)	56.5	
After-tax profit	0.0	1.9	2.9	3.9	5.0			<b>DCF valuation (A\$)</b>	<b>0.54</b>	
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT	0.0	1.9	2.9	3.9	5.0	<b>Multiples</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Significant items	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	21.6	12.7	10.2	8.0
NPAT post abnormals	0.0	1.9	2.9	3.9	5.0	EV/Sales (x)	3.1	0.8	0.5	0.3
						EV/EBITDA (x)	6.8	2.9	1.9	1.2
						EV/EBIT (x)	6.9	3.8	2.3	1.4
						PE (pre-goodwill) (x)	9.3	7.7	5.6	4.5
<b>Cash flow statement</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>					
EBITDA	0.0	3.2	4.4	5.5	6.7	<b>At target price</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Change in working capital	0.0	0.4	0.0	0.0	0.0	EV/EBITDA (x)	9.5	4.8	3.4	2.5
Net interest (pd)/rec	0.0	0.0	-0.1	-0.8	-1.1	PE (pre-goodwill) (x)	12.9	10.7	7.8	6.2
Taxes paid	0.0	0.0	-0.6	-1.3	-1.7					
Cash flow from ops (1)	0.0	3.5	3.8	3.3	3.9	<b>Comparable company data (x)</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	
Capex (2)	0.0	0.0	0.0	0.0	0.0	Sedgman	EV/EBITDA	9.0	7.8	6.9
Disposals/(acquisitions)	0.0	-1.8	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	10.6	8.9	7.9
Other investing cash flow	0.0	0.0	0.0	0.0	0.0		PE	18.8	15.4	14.3
Cash flow from invest (3)	0.0	-1.8	0.0	0.0	0.0		PEG			
Incr/(decr) in equity	0.0	0.0	6.3	0.0	0.5	Norfolk Group	EV/EBITDA	5.2	4.9	4.4
Incr/(decr) in debt	0.0	0.0	0.0	-0.8	-2.2	Year to 31 Mar	EV/EBIT	6.0	5.4	4.9
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0		PE	7.5	6.4	5.8
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0		PEG	1.5	1.3	1.2
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	<b>Per share data</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Cash flow from fin (5)	0.0	0.0	6.3	-0.8	-1.7	No. shares	44.0	56.5	56.5	57.5
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	4.2	5.0	7.0	8.7
Incr/(decr) cash (1+3+5+6)	0.0	1.8	10.0	2.5	2.2	EPS (normalised) (c)	4.2	5.0	7.0	8.7
Equity FCF (1+2+4)	0.0	3.5	3.8	3.3	3.9	Dividend per share (c)	0.0	0.0	3.5	4.3
						Dividend payout ratio (%)	0.0	0.0	50.0	50.0
						Dividend yield (%)	0.0	0.0	8.9	11.1
<b>Balance sheet</b>	<b>2006A</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	<b>Growth ratios</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Cash & deposits	0.0	1.1	9.3	11.8	14.1	Sales growth	n/a	121.6%	42.9%	30.8%
Trade debtors	0.0	1.0	2.2	3.2	4.2	Operating cost growth	n/a	191.0%	50.1%	33.8%
Inventory	0.0	0.5	1.0	1.5	1.9	EBITDA growth	n/a	38.0%	24.7%	21.7%
Investments	0.0	0.0	0.0	0.0	0.0	EBITA growth	n/a	38.5%	24.9%	21.9%
Goodwill	0.0	5.6	6.3	5.3	4.2	<b>Operating performance</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Asset turnover (%)	42.1	28.4	26.7	29.4
Fixed assets	0.0	0.1	0.1	0.1	0.0	EBITDA margin (%)	45.4	28.3	24.7	22.9
Other assets	0.0	0.0	0.0	0.7	2.4	EBIT margin (%)	27.3	21.4	19.9	19.3
Total assets	0.0	8.3	19.0	22.6	26.8	Net profit margin (%)	26.4	18.4	17.8	17.2
Short-term borrowings	0.0	0.7	0.0	0.0	0.0	Return on net assets (%)	31.2	21.8	24.0	26.4
Trade payables	0.0	0.9	2.8	4.1	5.5	Net debt (A\$m)	-0.4	-9.3	-11.8	-14.0
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-7.2	-61.2	-64.4	-66.3
Provisions	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	31.3	-43.4	-5.3	-5.3
Other liabilities	0.0	0.5	1.0	0.0	0.0	ROIC (%)	n/a	53.7	64.6	71.0
Total liabilities	0.0	2.2	3.8	4.2	5.6	<b>Internal liquidity</b>	<b>2007A</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
Share capital	0.0	2.1	11.2	14.4	17.2	Current ratio (x)	1.2	4.6	4.0	3.6
Other reserves	0.0	0.0	0.0	0.0	0.0	Receivables turnover (x)	13.8	9.5	8.1	7.8
Retained earnings	0.0	4.0	4.0	4.0	4.0	Payables turnover (x)	8.1	6.0	4.8	4.6
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	0.0	6.1	15.2	18.4	21.2					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	0.0	6.1	15.2	18.4	21.2					
Total liabilities & SE	0.0	8.3	19.0	22.6	26.8					

Source: Company data, ABN AMRO Morgans forecasts

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Absolute performance, long-term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. The target price is the level the stock should currently trade at if the market accepted the analyst's view of the stock, provided the necessary catalysts are in place to effect the change in perception. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value the target price will differ from 'fair' value. Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

For listed property trusts (LPTs) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more; a Hold 5-10%; and a Sell less than 5%.

Absolute performance, short-term (trading) recommendation: The Trading Buy/Sell recommendation implies upside/downside of 3% or more. The trading recommendation time horizon is 0-60 days.

Each stock has been assigned a Volatility Rating to assist in assessing the risk of the security. The rating measures the volatility of the security's daily closing price data over the previous year relative to other stocks included in either the S&P/ASX200 Index (large caps) or the Small Ordinaries Index (small caps) of which it is a member. This rating is a quantitative (objective) measure provided as an additional resource and is independent of the qualitative research process undertaken by our research analysts.

A rating of Low indicates very little movement in price over the previous year (Coefficient of Variation < 4 for small caps or < 5 for large caps). A Moderate rating implies average price movement over the previous year (Coefficient of Variation of 9 - 21 for small caps or 7.25 - 15 for large caps). A High rating implies significant price movement over the past year (Coefficient of Variation greater than 25 for small caps or 35 for large caps).

REGULATORY DISCLOSURES

Subject companies: CLQ.AX

ABN AMRO Morgans Limited was the Lead Manager and Underwriter to the initial public offer of shares by Clean Teq Limited in September 2007 and received fees in this regard.: CLQ.AX.

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