

Strategy shift set to swell revenue

AnaeCo overhauls its business model and prepares for growth here and offshore.

Profile by MARK STORY



As well as boosting its economic value, successful trialling of its patented DiCOM solid waste processing bioconversion technology during 2009 has helped reposition Perth-based AnaeCo Ltd (ASX: ANQ) from a project technology company into waste management solutions provider.

The last of the six operating trials at its showcase DiCOM waste treatment facility – constructed for Perth’s Western Metropolitan Regional Council (WMRC) – has successfully validated company claims that the DiCOM process can perform better than specification in terms of processing organic waste and producing compost and biogas.

According to Michael Gordon, of Gordon Capital Research, management’s plan to commercialise its systems, processes and technologies on a discrete basis will make it less hamstrung by funding constraints experienced under its previous project-based model.

He expects an acceleration of a market-focused business model to provide opportunities to generate a wide range of revenue streams globally, while ramping-up scale relatively quickly.

While it’s still too early to undertake a meaningful valuation, Gordon expects the repositioning of the company to result in significantly higher revenue, with sustained profitability being achieved earlier than expected – within two to three years.

AnaeCo also has a new joint venture agreement with mid-sized engineering and construction company **Monadelphous Ltd (ASX: MND)**.

Designed for local government authorities and waste service companies, AnaeCo’s JV with Monadelphous will target projects specifically looking for AWT solutions to replace landfill disposals. While Monadelphous will supply construction services under the JV, AnaeCo will provide design services, together with its DiCOM technology.

The DiCOM process integrates bio-processing techniques and advanced waste segregation methodologies to solve the challenge of sustainable solid waste management. Once broken down using DiCOM, organic components form compost and biogas that can be used to power the process. The surplus can be exported to the grid as renewable energy.

Subject to securing project finance from funding partner, Palisade Regional Infrastructure Fund (PRIF), plus council and works approvals, the first JV project – a stage II expansion of its WMRC plant - is expected to be worth around \$35 million. Another contract, in the pipeline, is a \$50 million deal with Barwon Regional Council in Victoria.

Proceeds from a recently announced \$4 million capital raising will be used to further consolidate DiCOM product development and lay the groundwork for opportunities in the Australian, US, UK, European and Asian markets.

AnaeCo’s chairman, Professor Michael Dureau, says the company is beginning to receive global recognition as a forerunner in the conversion of municipal and industrial solid waste to high-value resources.

However, successful trialling of DiCOM did little to ignite local stock market sentiment.

Nevertheless, Gordon expects pending confirmation of PRIF funding for stage II at the WMRC facility, plus greater evidence of major revenue flow, to help nudge the 22 cents share price past its early 2008 25 cents issue price.

What the market also wants, says David Shield of small-cap investor Atom Funds Management, is further evidence of DiCOM’s ‘defendability’ from replication by competitors.

Given that AnaeCo’s (\$35 million) market capitalisation places it outside the investment gaze of anything other than microcap funds, Shield says it’s important the company explains its growth story well to attract retail investors.

“Recent developments are encouraging, but the share price will remain a ‘slow-burner’ until more sizable contracts are added to its project pipeline.” **ci**

AnaeCo Ltd (ASX: ANQ)

Year to June 2009

Revenue \$387,374

Pre-tax loss \$7.15m

Share price \$0.15

High \$0.29

Low \$0.15