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Telco stocks answer the call

Contents

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Aeris Technologies Ltd (AEI)



Sector	Industry Group	Industry	Sub Industry
Industrials	Capital Goods	Construction & Engineering	Construction & Engineering

Company Overview

AEI is founded on over a decade of R&D and is focused on the global markets for the control of biological contamination in buildings, food processing and refrigeration systems. AEI's unique chemical technologies have now been registered and launched in key international markets. The market opportunity is driven by a growing demand for energy conservation, improved environmental hygiene and increased concerns about the health risks associated with microbial contamination.

Strategy

The AEI technologies have been successfully applied at a broad number of international reference sites. This has been supported by the recent signing of a two-year distribution agreement with Sumitomo 3M in Japan and the expansion of Trane's distribution throughout Asia. AIE has now developed a powerful direct-to-market strategy, which is being implemented in key markets in Australia and the US. The company is focusing on energy reduction, refrigeration hygiene and water treatment.

Aegis Comments

Outlook: We see AEI refining its activities to focus on a high, value-add direct service model with long-term recurring contracted revenue. This will be driven by the high-profile commitment of several multi-national corporations to lowering energy consumption, improving air-quality and optimising productivity. Indications are that the uptake of AEI's technology in the food sector is increasing while recent energy reduction trials in the USA are encouraging.

Catalysts: There are several catalysts investors should monitor: increasing sales from Sumitomo 3M in Japan; growing sales from Trane as it takes AEI's full suite of products into the rest of Asia; increasing OEM corrosion protection orders; uptake by multi-nationals based on energy reduction following a successful 18-month trial; increasing sales of AEI's water treatment products to the mining and groundwater treatment markets; and growth of its Aeris Hygiene Services food hygiene direct service business.

Risks: AEI is in the early stages of commercialisation in that product sales still do not cover all its cash operating expenses. Expansion into new application verticals and countries might face lower than hoped product take-up rates. Its R&D investment into biofilm resistant polymers with the CSIRO might take longer than planned to commercialise. However, with \$4.4M in cash (as at Dec-06) and a monthly cash burn of about \$280,000, AEI should be able to execute its business plan without interruption.

Earnings Summary

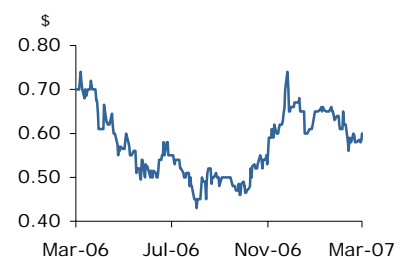
Yr to Jun	NPAT Rep \$M	NPAT ¹ Adj \$M	EPS ¹ c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2005A	(3.3)	(3.3)	0.0	n/a	0.0	0.0	0.0	0.0	0.0	0	(147.2)
2006A	(3.5)	(3.5)	0.0	n/a	0.0	0.0	0.0	0.0	0.0	0	(90.5)

¹ NPAT and EPS are adjusted by removing non-recurring items and goodwill. All the above statistics are derived from normalised earnings.

Key investment information

Price:	\$0.60
Price as at:	23-Mar-07
Market Cap (\$M):	53.6
Equiv. Shares (M):	89.36
% Market:	0.00
12Mth Range (\$):	0.41 - 0.77
Shares Traded (\$M pa):	6.6
Listed since:	July 2002
Index:	n/a

Share price performance



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Financial Stability

Balance Sheet (Y/E Jun)	05A	06A
Net debt (cash) (\$M)	(8.2)	(5.9)
Total assets (\$M)	9.4	7.1
Net debt/equity (%)	(91.0)	(89.0)
Net interest cover (x)	n/a	n/a
NTA per share (\$)	0.00	0.08
Current ratio (x)	23.9	13.1

As at 30-Jun-06

Net debt (cash) (\$M)	(5.9)
Net debt (cash) / shr (\$)	(0.07)
Net debt (cash) / MktCap (%)	(11.0)

Substantial Shareholders

M Stang	19.9%
B Stang	15.5%
S Kritzler	15.4%

Board

M Stang (Chairman)
H Jones (Executive Director, Chief Executive Officer)
S Kritzler (Director)
B Stang (Director)

Industries Of Operation

AEI operates in the large markets of water treatment, energy reduction and indoor air quality with a total estimated opportunity value of over \$5B. There is a growing appreciation that the current methods of dealing with biological contamination in the air-conditioning and refrigeration systems in buildings, the food industry and bulk water systems are deficient, resulting in system inefficiencies, energy wastage and an unhealthy indoor environment.

Differentiating Factors

AEI enjoys broad international patent protection on its technologies and a complete suite of products to address the customer's specialist biological contamination issues. Importantly, AEI's technologies are focused on "prevention" rather than "cure" and provide ongoing protection of the customers' capital assets and staff, thereby optimising the hygiene, energy and productivity benefits.

Recent Announcements

26 February 2007: AEI entered into an agreement with Food Science Australia (a joint venture of CSIRO and the Victorian Government) to conduct a 2-month study to document the energy saving benefits of the company's unique AerisGuard™ Cool Room Performance Solutions in cold storage environments.

26 February 2007: AEI announced that it had established new operations in Philadelphia to support the company's future growth in the USA. The US is the largest air-conditioning and refrigeration market in the world and has the greatest awareness of the broad range of environmental and energy savings benefits offered by AEI's patented technologies. The new US entity, Aeris Technologies LLC, offers the company the ability to capitalise on opportunities in the significant and growing US market.

23 November 2006: AEI provided broad milestones that investors should be looking for over the next 12 to 18 months. Specifically, strong revenue growth from the Sumitomo 3M relationship; growing sales from Trane Asia; material revenue contributions from the USA air conditioning business; the signing of a Master Service Agreement with a multi-national corporation in 1H07; and the release of Aeris Hygiene Services in selected overseas markets.

31 October 2006: Sumitomo 3M (3M) has replaced its MOU with AEI with a 2-year distribution agreement. This follows 3M's launch of AerisGuard products into the commercial air-conditioning market in Japan earlier in 2006. The contract includes defined purchase targets to be met by 3M. Specific financial details were not disclosed but AEI expects material revenues from the Japanese market over the next two years.

Capital Structure

AEI's capital structure is composed of common shares. AEI has issued options in the past and operates an Employee Share Option Plan. Total options outstanding represent less than 2.0% of the total shares and have exercise prices ranging from 47¢ to 68¢.



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