

Amaero International Ltd

Q2 FY22 Results Analysis

Making solid progress

Amaero International Ltd (ASX:3DA) is a global specialist in metal additive manufacturing for the defence, aerospace and tooling sectors. The company has reported Q2 FY22 cash receipts and revenues of \$0.134m, a 113% increase on the cash receipts generated in the previous corresponding period (pcp), and up 21% quarter-on-quarter. Monthly cash burn increased to \$0.64m from \$0.54m in the same quarter a year ago but was down on the \$0.85m cash burn reported in Q1 FY22. The company invested in additional research and development (R&D) and staff ahead of anticipated revenues but contained operating costs and product manufacturing costs in the quarter. Operating cash outflow for the quarter was \$1.93m, up from \$1.61m in Q2 FY21 but down on the \$2.55m operating cash loss reported in Q1 FY22. During the quarter, the company signed a Heads of Agreement with Gilmour Space Technologies which will lead to a long-term supply agreement expected to generate ~\$1.7m in revenues over the three-year term. Amaero also progressed its key projects with Fletcher Insulation and Rio Tinto, with positive test results recorded for the spinner tools for Fletcher and the first batch of Rio's alloy billets atomised into powder with testing now commenced. Its cash balance at quarter end was \$4.97m. Just after quarter-end, 3DA announced it had signed a 10-year lease for its 150tpa titanium powder plant with works commenced and commissioning slated for Q3 CY22. We have pushed out our forecasts for these projects by six months, resulting in earnings revisions to our FY22 and FY23 forecasts. Our base case valuation remains at \$0.91/share.

Business model

Amaero generates revenues from several sources including: the design and prototyping of additive manufacturing solutions on a cost-plus basis; from contract manufacturing and tooling on a price-per-unit basis; from the sale of proprietary metal 3D printers and equipment, and 3D printing metal powders on a cost-plus mark-up basis; from post-sales support and maintenance service fees; and from the rights to commercialise patented proprietary alloys developed by Monash University on a price-per-unit basis. Amaero has the North American commercialisation rights to a range of 3D printing machines, including the world's largest laser powder bed machine, as well as the powder preparation machines and powder handling and recovery devices. The company owns fully accredited manufacturing facilities in Melbourne, Adelaide and El Segundo, California.

Investment in R&D and progressing commercial agreements

Amaero has announced Q2 FY22 revenues and cash receipts of \$0.134m and operating cash outflows of \$1.93m. Revenues were below our expectations but the operating cash outflows were also lower than expected, reflecting the company's focus on cost containment until it builds revenues. Operating, staff and R&D costs were all lower than we had forecast due to delays in the Fletcher and Rio Tinto projects. These are progressing well but not as fast as we had anticipated. We have pushed back the commercial timing of these projects and the commissioning of the 150tpa titanium facility by six months and this has been reflected in our revised forecasts for FY22 and FY23.

Base-case DCF valuation is \$0.91/share

Our base-case DCF valuation of \$0.91/share includes forecasts for the 150tpa titanium powder facility as well as existing contracts with Fletcher (but not the global rollout), and a US defence and aerospace manufacturer. Successful commercialisation of these projects delivers considerable upside to our valuation. As we have previously highlighted, this could take our valuation to \$1.15b or \$5.69/share.

Historical earnings and RaaS forecasts (In \$A unless otherwise stated)

Y/E	Sales Revenue	Gross Profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)
06/20a	0.1	0.0	(4.3)	(4.9)	(3.5)	nm
06/21a	0.5	0.9	(4.8)	(6.2)	(3.3)	nm
06/22e	3.4	0.7	(7.4)	(8.0)	(3.7)	14.7
06/23e	38.2	12.1	3.1	2.0	0.8	1.4

Source: Company data for historicals; RaaS estimates for FY22e and FY23e

Additive Manufacturing

28th January 2022

Share details

ASX code	3DA
Share price (27-Jan)	\$0.265
Market capitalisation	\$53.8M
Shares on issue	202.9M
Net cash 31-Dec-2021	\$4.97M

Share Performance (12 months)



Upside Case

- Counts six of the top-10 defence companies as clients
- Partnered with the world's foremost additive manufacturing R&D team at Monash University
- Strong board and advisory board with links into the decision makers in US and EMEA defence

Downside Case

- Competing with multinational 3D printing manufacturers with big balance sheets
- Further capital raises likely, resulting in potential dilution
- Still early stage with no guarantee that strategy will translate into earnings success

Catalysts

- Australian titanium powder plant is commissioned
- Fletcher tooling opportunity presents globally
- Decision on 3D printing centre in Middle East

Board of Directors & Management

David Hanna	Non-Executive Chairman
Stuart Douglas	Executive Director
Kathryn Presser	Non-Executive Director
Barrie Finnin	Chief Executive Officer

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Key Points From Q2 FY22 Result

Amaero has reported Q2 FY22 revenues and cash receipts of \$0.134m and net cash outflows of \$1.93m. The company made solid progress with its key projects within Q2 having experienced delays in Q1.

Amaero noted that during the quarter it had recorded positive test results for its spinner tools for the Fletcher Insulation project, with the spinner tools performing well within Fletcher's required performance standards. Additionally, one of Amaero's SP400 3D printing machines was built for the project and would be commissioned this month.

The company also noted that the collaboration agreement with Rio Tinto (ASX:RIO) for "Amaero HOT AI" was progressing well, following freight delays causing project timing slippage in Q1. The first batch of Rio's alloy billets have now been atomised into powder and testing has commenced. A second shipment of Amaero's HOT AI was dispatched from Rio Tinto during the quarter.

Amaero noted it was making progress via virtual meetings on the project agreement for the Middle East 3D printing facility and Centre for Excellence, with in-person meetings expected in March, subject to travel restrictions.

Also during Q2, Amaero secured a Heads of Agreement with Gilmour Space Technologies for the long-term supply and manufacture of rocket components. The three-year agreement is expected to deliver total revenues of ~\$1.7m to Amaero. During the quarter Amaero received five purchase orders from Gilmour for the manufacture of rocket components under the supply agreement.

Exhibit 1: Q2 FY22 vs Q2 FY21 (In A\$m unless otherwise stated)			
Quarter ending September 30	Q1 FY21	Q1 FY22	% chg
Cash receipts	0.06	0.13	113%
Payments to suppliers	(1.25)	(1.53)	23%
R&D	(0.50)	(0.62)	26%
Other	0.08	0.09	22%
Operating cashflow	(1.61)	(1.93)	20%
Free cashflow	(1.61)	(1.93)	20%
Monthly cash burn	(0.54)	(0.64)	20%
Source: Company data; RaaS estimates			

Post Quarter Developments

Post quarter-end, Amaero announced it had secured a 10-year lease on a 3,857sqm facility in the Monash Precinct in Melbourne for its 150tpa titanium powder facility. Works have commenced at the site for the installation of the facility, including a 600sqm high-bay warehouse extension to house Amaero's first gas atomiser for the plant. The company is forecasting it will finalise construction and commence commissioning in Q3 CY22, with five-fold ramp up of additional gas atomisers (and additional revenues) expected by 2025.

Amaero has forecast that at 150tpa, the facility will generate annualised revenues of ~\$40.8m. The expanded, five-fold ramp up will add additional revenues, currently not included in our forecasts or base-case valuation.

Amaero also noted that in January it had secured a purchase order of ~US\$100k from subsea engineering and applied technology company Oceaneering International Inc (NYSE:OII) for space applications involving aluminium 3D printed components.

Earnings Adjustments

We have adjusted our FY22 and FY23 forecasts to reflect the delays the company experienced in H1 FY22. Note that our forecasts reflect timing changes to when projects commence rather than downgrades. Our

forecasts for FY22 previously included an expectation for an early (Q4 FY22) commissioning of the 150tpa titanium powder facility. This may still occur but for prudence, we have shifted the commissioning into our Q1 FY23 forecasts with the expectation that the facility will be fully operational by Q3 FY23. We have also pushed the full commercialisation of the Rio and Fletcher projects into FY23.

Exhibit 2: FY22 and FY23 earnings adjustments (In A\$m unless otherwise stated)				
Year ending June 30	FY22 old	FY22 new	FY23 old	FY23 new
Sales revenue	14.8	3.4	57.0	38.2
Total revenue	15.6	4.3	57.0	38.2
Gross profit	4.3	0.7	22.9	12.1
EBITDA	(5.1)	(7.4)	12.5	3.1
NPAT	(5.8)	(8.1)	11.3	1.9
EPS	(2.7)	(3.7)	4.84	0.82
Source: RaaS estimates				

DCF Valuation

In our view, given the early-stage nature of Amaero's business, the discounted cashflow methodology is the most appropriate method for valuing the company. We derive a weighted average cost of capital (WACC) of 13.9% (beta 1.8, terminal growth rate 2.2%) and this gives us a base-case valuation of \$185m or \$0.91/share on the current share count of 202.8m. We use an equity risk premium of 6.5% and risk-free rate of 2.0%. Note that we do anticipate further raisings (an additional \$10m on the current cash in hand) and this will likely result in additional shares on issue.

Exhibit 3: DCF valuation (In A\$m unless otherwise stated)	
DCF valuation	Parameters
Discount rate / WACC	13.9%
Beta	1.8
Equity risk premium	6.5%
Risk-free rate	2.0%
Terminal growth rate	2.2%
Sum of PV (A\$m)	78.1
PV of terminal value (A\$m)	102.2
PV of enterprise	180.3
Net cash raised in capital raisings	(5.0)
Net value - shareholder	185.3
No. of shares on issue	202.9
NPV in A\$	\$0.91
Source: RaaS analysis	

Exhibit 4: Financial Summary

Amaero International Ltd						Share price (27 January 2022)						A\$	0.27				
Profit and Loss (A\$m)						Interim (A\$m)						H120A	H220A	H121A	H221A	H122F	H222F
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F												
Sales Revenue	0.0	0.1	0.5	3.4	38.2	Sales Revenue	0.0	0.1	0.1	0.4	0.2	3.1					
Total Revenue	0.0	0.3	1.3	4.3	38.2	EBITDA Adj	(1.7)	(2.5)	(1.9)	(2.9)	(3.7)	(3.7)					
Gross Profit	0.0	0.2	0.9	0.7	12.1	EBIT Adj	(1.9)	(2.9)	(2.5)	(3.5)	(4.0)	(4.1)					
EBITDA Adj	(0.1)	(4.3)	(4.8)	(7.4)	3.1	NPAT (Adj)	(1.9)	(2.9)	(3.0)	(3.2)	(4.0)	(4.0)					
Depn	0.0	(0.5)	(1.1)	(0.7)	(1.2)	Minorities	-	-	-	-	-	-					
Amort	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(2.8)	(2.8)	(3.2)	(3.8)	(4.0)	(4.0)					
EBIT Adj	(0.1)	(4.8)	(6.0)	(8.1)	1.9	EPS (Adj)	(1.72)	(2.06)	(1.59)	(1.69)	(1.97)	(1.88)					
Interest	0.0	(0.2)	(0.2)	0.1	0.1	EPS (reported)	(2.50)	(1.63)	(1.59)	(2.11)	(1.96)	(1.70)					
Tax	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	-	-	-	-	-	-					
Minorities	0.0	0.0	0.0	0.0	0.0	Imputation	-	-	-	-	-	-					
Equity accounted assoc	0.0	0.0	(0.0)	0.0	0.0	Operating cash flow	(1.5)	(2.8)	(2.8)	(2.1)	0.8	(3.3)					
NPAT pre significant items	(0.1)	(4.9)	(6.2)	(8.0)	2.0	Free Cash flow	0.7	(1.1)	(2.4)	(1.8)	2.8	(0.0)					
Significant items	0.0	(0.8)	(0.8)	0.0	0.0	Divisions	H120A	H220A	H121A	H221A	H122F	H222F					
NPAT (reported)	(0.1)	(5.8)	(7.0)	(8.0)	2.0	Sales and service revenue	0.0	0.1	0.1	0.4	0.2	3.1					
Cash flow (A\$m)						R&D grants	0.2	0.0	0.6	0.2	0.9	0.0					
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Total Revenue	0.2	0.1	0.7	0.6	1.1	3.1					
EBITDA	(0.1)	(4.3)	(4.8)	(7.4)	3.1	COGS	0.0	0.1	0.1	0.3	0.9	2.6					
Interest	0.0	(0.2)	(0.2)	0.1	0.1	Gross Profit	0.2	0.0	0.6	0.3	0.2	0.5					
Tax	0.0	0.0	0.0	0.0	0.0	R&D costs	(0.3)	(0.6)	(0.8)	(1.0)	(1.3)	(1.2)					
Working capital changes	(0.1)	0.2	0.2	4.9	(1.8)	Employment	(0.3)	(0.6)	(0.6)	(0.7)	(1.0)	(1.2)					
Operating cash flow	(0.1)	(4.2)	(4.9)	(2.5)	1.3	General & Admin costs	(0.8)	(1.0)	(0.7)	(1.4)	(1.6)	(1.7)					
Mtce capex	0.0	0.0	0.0	0.0	0.0	Other costs	(0.5)	(0.4)	(0.4)	(0.2)	(0.1)	(0.1)					
Free cash flow	(0.1)	(4.2)	(4.9)	(2.5)	1.3	EBITDA	(1.7)	(2.5)	(1.9)	(2.9)	(3.7)	(3.7)					
Growth capex	0.0	(3.9)	(0.7)	(5.3)	(6.5)												
Acquisitions/Disposals	0.1	0.0	0.0	0.0	0.0	Margins, Leverage, Returns		FY19A	FY20A	FY21A	FY22F	FY23F					
Other	(0.2)	0.0	0.0	(0.0)	0.0	EBITDA		nm	nm	nm	(220.1%)	8.1%					
Cash flow pre financing	(0.2)	(8.1)	(5.6)	(7.8)	(5.2)	EBIT		nm	nm	nm	(240.7%)	4.9%					
Equity	0.4	13.5	13.8	10.0	0.0	NPAT pre significant items		nm	nm	nm	(237.5%)	5.2%					
Debt	0.0	(0.2)	(0.2)	0.0	0.0	Net Debt (Cash)			0.1	11.5	13.2	8.0					
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	2.6					
Net cash flow for year	0.2	5.2	8.1	2.2	(5.2)	ND/ND+Equity (%)	(%)	(41.3%)	(96.3%)	(303.3%)	(399.1%)	(76.1%)					
Balance sheet (A\$m)						EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-	0.1				
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	ROA		nm	(71.7%)	(37.9%)	(34.7%)	5.1%					
Cash	0.2	4.0	11.5	13.2	8.0	ROE		nm	(133.2%)	(59.6%)	(50.6%)	11.3%					
Accounts receivable	0.1	0.1	0.2	2.0	18.8	ROIC		nm	(227.0%)	(240.4%)	#####	(850.5%)					
Inventory	0.1	0.5	0.8	1.2	2.9	NTA (per share)		0.01	0.05	0.08	0.07	0.08					
Other current assets	0.1	0.1	0.1	0.1	0.1	Working capital		(0.2)	(0.1)	(0.1)	(5.1)	(3.2)					
Total current assets	0.4	4.8	12.5	16.5	29.8	WC/Sales (%)		nm	(121.6%)	(23.3%)	(150.0%)	(8.4%)					
PPE	0.5	7.4	6.1	10.7	16.0	Revenue growth		nm	nm	332.4%	570.2%	1029.2%					
Intangibles and Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		n/a	n/a	n/a	n/a	(123.0%)					
Investments	0.0	0.0	0.3	0.3	0.3	Pricing		FY19A	FY20A	FY21A	FY22F	FY23F					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	No of shares (y/e)	(m)	75	175	203	237	237					
Other non current assets	0.0	0.2	0.2	0.2	0.2	Weighted Av Dil Shares	(m)	25	143	145	214	237					
Total non current assets	0.5	7.6	6.6	11.2	16.5												
Total Assets	0.9	12.4	19.1	27.7	46.3	EPS Reported	cps	(0.3)	(4.0)	(3.7)	(3.9)	0.8					
Accounts payable	0.4	0.8	1.1	8.3	24.9	EPS Normalised/Diluted	cps	(0.3)	(3.5)	(3.3)	(3.9)	0.8					
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	(121.6%)					
Tax payable	0.0	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-	-					
Other current liabilities	0.0	0.4	0.4	0.5	0.4	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total current liabilities	0.5	1.2	1.5	8.8	25.3	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Long term debt	0.0	0.0	0.0	0.0	0.0	Dividend imputation		0	0	0	0	0					
Other non current liabs	0.0	2.9	2.5	2.5	2.5	PE (x)		-	-	-	-	31.8					
Total long term liabilities	0.0	2.9	2.5	2.5	2.5	PE market		18.6	18.6	18.6	18.6	18.6					
Total Liabilities	0.5	4.1	3.9	11.3	27.7	Premium/(discount)		nm	nm	nm	nm	nm					
Net Assets	0.5	8.2	15.2	16.5	18.6	EV/EBITDA		nm	nm	nm	nm	nm					
						FCF/Share	cps	(0.2)	(2.4)	(2.4)	(1)	1					
Share capital	0.6	14.0	27.2	37.2	37.2	Price/FCF share		(146.8)	(11.0)	(11.0)	-	25.1	47.2				
Accumulated profits/losses	(0.1)	(5.9)	(12.9)	(21.5)	(19.5)	Free Cash flow Yield		(0.7%)	(9.1%)	(9.1%)	(4.0%)	2.1%					
Reserves	0.0	0.0	0.9	0.8	0.9												
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	0.5	8.2	15.2	16.5	18.6												

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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