

Amaero International Ltd

Company update

Sign-off secured for 120tpa titanium alloy powder plant

Amaero International Ltd (ASX:3DA) is a specialist in metal additive manufacturing for the defence, aerospace and tooling sectors. The company announced yesterday that it will build a 120 tonne-per annum titanium alloy atomisation powder manufacturing facility in Victoria. The \$8m facility is expected to be the most advanced titanium alloy powder plant in the world, taking titanium alloy bar stock inputs and converting it to powder for 3-D printing at half the cost of the current global benchmark. This project is one of four major projects that the company has previously flagged to the market and once fully operational in December 2022, will produce around \$30m a year in annual revenues for the company. The company has secured letters of support from two of the 5 largest defence companies globally, indicating strong potential demand for Ti64 powder from a competitive Australian source for specific military and commercial applications. Amaero has also signed a memorandum of understanding with a global metal powder supply company for the sales and distribution of Amaero's powder. This project is reflected in our base-case valuation of \$0.93/share and underpins our earnings forecasts for FY23 and beyond.

Business model

Amaero generates revenue 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 & 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.

Progressing the first of four major projects previously flagged

Amaero has secured board sign-off for the development of a 120tpa titanium alloy powder plant, one of four projects outlined by the company as key to underpinning its commercial success. The facility, which will be built in Melbourne, will generate annual revenues of ~\$30m once fully operational. We have small contributions from the plant in our FY22 forecasts as it is tested and commissioned with it fully operational by December 2022. Development of this project is expected to set the groundwork for an expanded 1,200-1,400 tonne Ti powder plant which we have dimensioned but not included in our valuation. Successful commissioning of a larger facility adds considerable upside to our earnings forecasts and valuation. However, we caution that decisions on such a plant are some time away. Nearer term, the market awaits for decisions on the \$108m 3D printing centre in the Middle East and the global opportunity being presented by the Fletcher tooling contract. Again, neither of these are reflected in our current forecasts or valuation.

Base case DCF valuation is \$0.93/share

Our base case DCF valuation of \$0.93/share includes forecasts for the 120tpa titanium powder facility as well as existing contracts with Fletchers and a US defence & aerospace manufacturer. As we highlighted in our February 2 initiation report [Delivering efficiencies in 3D printing](#), we have identified considerable upside to our valuation on the range of opportunities Amaero has presently before it and this view is unchanged.

Historical earnings and RaaS forecasts

Y/E	Sales Revenue (A\$m)	Gross Profit (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)
06/20a	0.1	0.0	(4.2)	(4.8)	(3.4)	nm
06/21e	2.4	1.0	(4.9)	(6.2)	(3.2)	48.8
06/22e	19.9	5.5	(2.0)	(2.9)	(1.4)	5.5
06/23e	55.2	22.0	13.8	12.5	5.3	1.7

Source: Company data for historicals, RaaS estimates for FY21e, FY22e and FY23e

Additive Manufacturing

6th July 2021

Share details

ASX Code	3DA
Share price (5 July)	\$0.575
Market Capitalisation	\$116.0M
Shares on issue	201.8M
Net cash 31 Mar '21	\$12.6M

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 decisionmakers 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

- Fletcher tooling opportunity presents globally
- Patents over aluminium and titanium alloys granted
- 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 Fennin	Chief Executive Officer

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Exhibit 1: Financial Summary

Amaero International Ltd						Share price (5th July 2021)						A\$	0.58
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	H120A	H220A	H121F	H221F	H122F	H222F		
Sales Revenue	0.0	0.1	2.4	19.9	55.2	0.0	0.1	0.1	2.3	7.6	12.3		
Total Revenue	0.0	0.4	3.0	20.6	55.2	(1.7)	(2.4)	(1.9)	(3.0)	(1.8)	(0.2)		
Gross Profit	0.0	0.3	1.0	5.5	22.0	(1.9)	(2.8)	(2.5)	(3.3)	(2.2)	(0.8)		
EBITDA Adj	(0.1)	(4.2)	(4.9)	(2.0)	13.8	(1.9)	(2.9)	(3.0)	(3.2)	(2.2)	(0.8)		
Depn	0.0	(0.5)	(0.9)	(1.1)	(1.6)	-	-	-	-	-	-		
Amort	0.0	0.0	0.0	0.0	0.0	(2.8)	(3.0)	(3.2)	(3.2)	(2.2)	(0.8)		
EBIT Adj	(0.1)	(4.7)	(5.8)	(3.1)	12.2	(1.72)	(2.03)	(1.59)	(1.61)	(1.03)	(0.35)		
Interest	0.0	(0.2)	(0.1)	0.1	0.3	(2.50)	(1.69)	(1.59)	(1.60)	(1.00)	(0.33)		
Tax	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-		
Minorities	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-		
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	(1.5)	(2.8)	(2.8)	(2.4)	1.0	2.3		
NPAT pre significant items	(0.1)	(4.8)	(6.2)	(2.9)	12.5	0.7	(1.1)	(2.4)	0.9	4.2	5.6		
Significant items	0.0	(1.0)	0.0	0.0	0.0	Divisions							
NPAT (reported)	(0.1)	(5.8)	(6.2)	(2.9)	12.5	H120A	H220A	H121F	H221F	H122F	H222F		
Cash flow (A\$m)	FY19A	FY20A	FY21F	FY22F	FY23F	Sales and service revenue	0.0	0.1	0.1	2.3	7.6	12.3	
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	R&D grants	0.2	0.1	0.6	0.0	0.7	0.0	
EBITDA	(0.1)	(4.2)	(4.9)	(2.0)	13.8	Total Revenue	0.2	0.2	0.7	2.3	8.3	12.3	
Interest	0.0	(0.2)	(0.1)	0.1	0.3	COGS	0.0	0.1	0.1	1.9	6.3	8.7	
Tax	0.0	0.0	0.0	0.0	0.0	Gross Profit	0.2	0.1	0.6	0.4	2.0	3.6	
Working capital changes	(0.1)	0.1	(0.1)	5.2	8.1	R&D costs	(0.3)	(0.6)	(0.8)	(0.7)	(0.8)	(0.7)	
Operating cash flow	(0.1)	(4.2)	(5.0)	3.3	22.1	Employment	(0.3)	(0.6)	(0.6)	(1.5)	(1.7)	(1.9)	
Mtce capex	0.0	0.0	0.0	0.0	0.0	General & Admin costs	(0.8)	(0.8)	(0.7)	(0.8)	(0.8)	(0.8)	
Free cash flow	(0.1)	(4.2)	(5.0)	3.3	22.1	Other costs	(0.5)	(0.6)	(0.4)	(0.4)	(0.4)	(0.4)	
Growth capex	0.0	(3.9)	(3.6)	(6.5)	(6.5)	EBITDA	(1.7)	(2.4)	(1.9)	(3.0)	(1.8)	(0.2)	
Acquisitions/Disposals	0.1	0.0	0.0	0.0	0.0	Margins, Leverage, Returns							
Other	(0.2)	0.0	(0.1)	0.0	0.0	FY19A	FY20A	FY21F	FY22F	FY23F			
Cash flow pre financing	(0.2)	(8.1)	(8.7)	(3.2)	15.6	EBITDA	nm	nm	nm	(10.1%)	25.0%		
Equity	0.4	13.5	13.8	20.0	0.0	EBIT	nm	nm	nm	(15.4%)	22.1%		
Debt	0.0	(0.2)	0.0	0.0	0.0	NPAT pre significant items	nm	nm	nm	(14.8%)	22.6%		
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		0.1	4.0	8.4	24.2	39.8	
Net cash flow for year	0.2	5.2	5.1	16.8	15.6	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	2.9	
Balance sheet (A\$m)	FY19A	FY20A	FY21F	FY22F	FY23F	ND/ND+Equity (%)	(%)	(41.3%)	(96.3%)	(114.0%)	(322.9%)	(901.0%)	
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-	0.0
Cash	0.2	4.0	8.4	24.2	39.8	ROA	nm	(70.2%)	(35.2%)	(8.9%)	19.1%		
Accounts receivable	0.1	0.1	1.8	3.7	9.6	ROE	nm	(134.5%)	(52.3%)	(12.4%)	32.9%		
Inventory	0.1	0.5	0.5	4.9	9.6	ROIC	nm	(222.3%)	(135.5%)	(144.4%)	(832.0%)		
Other current assets	0.1	0.1	0.2	0.5	1.0	NTA (per share)		0.01	0.05	0.07	0.14	0.19	
Total current assets	0.4	4.8	10.8	33.2	60.0	Working capital		(0.2)	(0.1)	1.1	(0.2)	(0.1)	
PPE	0.5	7.4	9.2	14.7	19.6	WC/Sales (%)	nm	(121.6%)	45.3%	(0.8%)	(0.1%)		
Intangibles and Goodwill	0.0	0.0	0.0	0.0	0.0	Revenue growth	nm	nm	1960.0%	727.1%	178.0%		
Investments	0.0	0.0	0.1	0.1	0.1	EBIT growth pa	n/a	n/a	n/a	n/a	(498.5%)		
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Pricing	FY19A	FY20A	FY21F	FY22F	FY23F		
Other non current assets	0.0	0.2	0.2	0.2	0.2	No of shares (y/e)	(m)	75	175	218	233	233	
Total non current assets	0.5	7.6	9.5	15.0	19.9	Weighted Av Dil Shares	(m)	25	143	145	223	233	
Total Assets	0.9	12.4	20.4	48.2	79.8	EPS Reported	cps	(0.3)	(4.1)	(3.2)	(1.4)	5.3	
Accounts payable	0.4	0.8	1.2	8.7	19.2	EPS Normalised/Diluted	cps	(0.3)	(3.4)	(3.2)	(1.4)	5.3	
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	(487.6%)	
Tax payable	0.0	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-	-	
Deferred revenue	0.0	0.4	1.0	5.2	13.8	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Total current liabilities	0.5	1.2	2.1	14.0	33.1	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 liab	0.0	2.9	2.5	2.5	2.5	PE (x)		-	-	-	-	10.8	
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	4.7	16.5	35.6	Premium/(discount)		nm	nm	nm	nm	nm	
Net Assets	0.5	8.2	15.7	31.6	44.2	EV/EBITDA		nm	nm	nm	nm	nm	
Share capital	0.6	14.0	27.3	47.3	47.3	FCF/Share	cps	(0.2)	(2.4)	(2.3)	1	9	
Accumulated profits/losses	(0.1)	(5.9)	(11.9)	(15.9)	(3.4)	Price/FCF share		(318.5)	(23.8)	(24.9)	40.6	6.1	
Reserves	0.0	0.0	0.3	0.2	0.3	Free Cash flow Yield		(0.3%)	(4.2%)	(4.0%)	2.5%	16.5%	
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	0.5	8.2	15.7	31.6	44.2								

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
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 - Securities

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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