

Amaero International Ltd

Q4 FY23 Results Analysis

Q4 cashflow summary confirms strong costs stewardship

Amaero International Ltd (ASX:3DA) is a global specialist in titanium and specialty alloy powder production and advanced manufacturing for the defence, aerospace, and other industrial sectors. The company has reported Q4 operating cash outflow of \$0.855m, well down on that reported in the previous three quarters of FY24 and the lowest quarterly cash outflow since Q4 FY20. The result was driven by a tight rein on cash operating costs and \$1.32m in government grants and tax incentives which offset \$0.026m in restructuring costs and the cost of Project Falcon in the United Arab Emirates. The company pursued efforts to advance its flagship 827-tonne a year titanium powder manufacturing facility in the UAE for nine months before receiving last minute advances for alternative locations in Tennessee in the USA. On July 14, Amaero announced it had greenlighted the facility to commence at a nearing completion industrial facility in Cleveland Tennessee, with commitments for economic incentives from government and business organisations that were more advantageous when compared with what was being offered in the UAE. The Tennessee facility will also allow Amaero to accelerate the installation of the titanium powder manufacturing plant, delivering first production more than 12-months ahead of the slated UAE start. This will deliver break-even 12 months' sooner and reduce working capital requirements by an estimated \$22m. We have incorporated the earlier start to the project (see our [July 20 report](#)) which resulted in our base case valuation being revised to \$684.5m or \$1.63/share on the current share count and \$0.85/share fully diluted.

Business model

Amaero is focused on developing an 827-tonne-a-year titanium powder facility in Tennessee, USA, of which 414 tonnes a year will be aerospace-grade titanium powder. Amaero has previously announced it will also seek to immediately develop advanced manufacturing alternatives to forgings and castings and longer-term would explore integration of midstream titanium supply chain (melt, forge and mill).

Q4 confirms tight rein on costs

Amaero has reported its lowest quarterly cash outflow since Q4 FY20 as it kept a tight rein on costs while it negotiated the location for its 827-tonne a year titanium powder facility. The company ended Q4 with \$8.834m in net cash and no debt. Included in the quarterly result was \$0.206m in restructuring costs and costs associated with Project Falcon in the UAE. Offsetting this and the \$1.97m in operating cash outflow was \$1.32m in government tax incentives and grants. We now anticipate a number of announcements to come from the company in the coming months, including project finance, key hires with expertise in powder metallurgy, operations and finance, research collaboration, a strategy equity commitment, offtake agreements, feedstock supply agreements, the purchase and install of the EIGA gas atomisers and announcements pertaining to the purpose-built extension at the new Cleveland facility. We expect first production at the facility to commence early in FY25 with forecasts for Amaero to post its maiden EBITDA profit in FY26, 12 months earlier than the UAE option.

Base-case DCF valuation is \$685m or \$0.85/share fully diluted

Our base-case DCF valuation is \$0.85/share, fully diluted for anticipated strategic raisings, or A\$684.5m. On the current share count of 419m shares the valuation is \$1.63/share. There is increased risk in the long lead times to profitability and this is embedded in our forecasts and valuation. Our forecasts now reflect our expectation that the value now lies in the Tennessee titanium powder project with earnings estimates from FY25, operational profitability from FY26, and "at capacity" earnings achieved in CY27. Our forecasts only include the initial titanium powder facility without additional downstream production or projects. Earlier approvals for the delivery of powder and/or non-equity-participating funding to build the facility could have a positive impact on valuation.

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

Y/E	Sales revenue	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)
06/22a	0.6	0.8	(7.2)	(8.6)	(4.1)	nm
06/23f	0.5	1.4	(11.2)	(15.3)	(3.1)	nm
06/24f	0.0	0.0	(20.6)	(22.0)	(4.6)	nm
06/25f	22.3	9.1	(23.4)	(29.3)	(5.2)	6.46

Source: Company data for historicals; RaaS estimates for FY23f, FY24f and FY25f

Critical Metals Production

31 July 2023

Share Details

ASX code	3DA
Share price (28-Jul)	\$0.135
Market capitalisation	\$56.3M
Shares on issue	419.0M
Net cash 30-June	\$8.8M
Free Float	33.0%

Share Performance (12 months)



Upside Case

- Amaero's US operation develops a significant presence in the global titanium supply chain
- Strong tailwinds in US and global demand for US metal powder production
- Strong Chairman/CEO with experience and connectivity to key stakeholders in the US

Downside Case

- Further strategic equity raises may result in dilution
- Still very early stage with no guarantee that strategy will translate into earnings success
- Cashflow profit still at least two years away

Catalysts

- Project finance secured for Tennessee operation
- Strategic equity commitment secured
- Completion of extension at Tennessee facility
- Finalisation of certification and offtake agreements
- Purchase/installation of the EIGA gas atomisers

Company Interview

[Amaero International RaaS Chairman & CEO Interview](#)

Board of Directors & Management

Hank J. Holland	Chairman and CEO
David Hanna	Non-Executive Director
Lucy Robb Vujcic	Non-Executive Director
Omar Granit	Non-Executive Director
Erik Levy	Non-Executive Director

Company Contacts

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RaaS Contact

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*The analyst holds shares

Exhibit 1: Financial Summary

Amaero International Ltd						Share price (28 July 2023)						A\$	0.14
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY22A	FY23F	FY24F	FY25F	FY26F	H122A	H222A	H123A	H223F	H124F	H224F		
Sales Revenue	0.6	0.5	0.0	22.3	88.3	0.2	0.4	0.5	0.0	0.0	0.0		
Total Revenue	1.5	1.9	0.0	22.3	88.3	(3.0)	(4.2)	(3.1)	(8.1)	(8.5)	(12.1)		
Gross Profit	0.8	1.4	0.0	9.1	42.0	(3.5)	(4.7)	(3.7)	(8.6)	(9.0)	(12.8)		
EBITDA Adj	(7.2)	(11.2)	(20.6)	(23.4)	1.4	(3.6)	(4.8)	(3.8)	(8.6)	(9.0)	(12.4)		
Depn	(1.1)	(1.1)	(1.2)	(5.7)	(8.8)	-	-	-	-	-	-		
Amort	0.0	0.0	0.0	0.0	0.0	(3.5)	(5.1)	(6.6)	(8.6)	(9.0)	(12.4)		
EBIT Adj	(8.2)	(12.3)	(21.8)	(29.1)	(7.4)	(1.76)	(2.31)	(1.05)	(2.05)	(1.99)	(2.47)		
Interest	(0.2)	(0.0)	0.5	0.4	0.2	(1.73)	(2.45)	(2.39)	(2.00)	(1.90)	(2.35)		
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	Operating cash flow	(4.4)	(3.5)	(6.2)	(4.2)	(12.2)		
NPAT pre significant items	(8.4)	(12.4)	(21.4)	(28.7)	(7.2)	Free Cash flow	(4.4)	(3.6)	(6.2)	(4.2)	(12.2)		
Significant items	(0.2)	(2.9)	0.0	0.0	0.0	Divisions							
NPAT (reported)	(8.6)	(15.3)	(21.4)	(28.7)	(7.2)	H122A	H222A	H123A	H223F	H124F	H224F		
Cash flow (A\$m)						Sales and service revenue	0.2	0.4	0.5	0.0	0.0		
Y/E 30 June	FY22A	FY23F	FY24F	FY25F	FY26F	R&D grants	0.8	0.2	1.4	0.0	0.0		
EBITDA	(7.2)	(11.2)	(20.6)	(23.4)	1.4	Total Revenue	1.0	0.5	1.9	0.0	0.0		
Interest	(0.2)	(0.1)	0.5	0.4	0.2	COGS	0.4	0.3	0.5	0.0	0.0		
Tax	0.0	0.0	0.0	0.0	0.0	Gross Profit	0.6	0.2	1.4	0.0	0.0		
Working capital changes	(0.6)	0.9	(8.1)	(30.3)	(20.1)	R&D costs	(1.2)	(1.8)	(1.6)	0.0	0.0		
Operating cash flow	(8.0)	(10.4)	(28.2)	(53.3)	(18.5)	Employment	(0.8)	(0.8)	(1.2)	(2.4)	(2.6)		
Mtce capex	0.0	(0.1)	0.0	0.0	0.0	General & Admin costs	(1.0)	(1.2)	(1.2)	(4.8)	(4.9)		
Free cash flow	(8.0)	(10.5)	(28.2)	(53.3)	(18.5)	Other costs	(0.6)	(0.5)	(0.5)	(0.9)	(0.9)		
Growth capex	(3.2)	(1.5)	(34.5)	(32.1)	(8.3)	EBITDA	(3.0)	(4.2)	(3.1)	(8.1)	(8.5)		
Acquisitions/Disposals	0.0	(0.0)	0.0	0.0	0.0	Margins, Leverage, Returns							
Other	(0.0)	0.0	0.0	0.0	0.0	FY22A	FY23F	FY24F	FY25F	FY26F			
Cash flow pre financing	(11.1)	(12.0)	(62.8)	(85.4)	(26.8)	EBITDA	nm	nm	nm	nm	nm		
Equity	8.1	10.5	23.4	72.6	45.2	EBIT	nm	nm	nm	nm	nm		
Debt	2.6	(0.1)	79.7	0.0	(2.8)	NPAT pre significant items	nm	nm	nm	nm	nm		
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)	8.3	8.8	(31.7)	(48.1)	(32.0)		
Net cash flow for year	(0.4)	(1.6)	40.3	(12.8)	15.6	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a		
Balance sheet (A\$m)						ND/ND+Equity (%)	(%)	(132.8%)	(390.9%)	72.4%	47.9%		
Y/E 30 June	FY22A	FY23F	FY24F	FY25F	FY26F	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a		
Cash	11.1	8.8	48.0	31.6	44.9	ROA		(40.1%)	(58.2%)	(35.1%)	(22.4%)		
Accounts receivable	0.4	0.1	0.0	3.0	11.8	ROE		(58.0%)	(119.1%)	(184.2%)	(89.1%)		
Inventory	1.1	1.0	1.0	8.2	26.2	ROIC		(637.1%)	381.6%	(131.0%)	(33.7%)		
Other current assets	0.1	0.2	0.2	0.2	0.2	NTA (per share)		0.06	0.02	0.02	0.07		
Total current assets	12.7	10.2	49.2	43.0	83.1	Working capital		0.0	(3.9)	(6.8)	(8.8)		
PPE	8.6	9.1	42.5	68.9	68.4	WC/Sales (%)		1.9%	(804.7%)	nm	(39.4%)		
Intangibles and Goodwill	0.0	0.0	0.0	0.0	0.0	Revenue growth		13.0%	(14.9%)	(100.0%)	nm		
Investments	0.4	1.0	12.0	44.2	50.8	EBIT growth pa		n/a	n/a	n/a	n/a		
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Pricing		FY22A	FY23F	FY24F	FY25F		
Other non current assets	0.2	0.2	0.2	0.2	0.2	No of shares (y/e)	(m)	241	474	581	764		
Total non current assets	9.1	10.3	54.7	113.3	119.4	Weighted Av Dil Shares	(m)	207	419	500	581		
Total Assets	21.9	20.5	103.9	156.3	202.5	EPS Reported	cps	(4.2)	(4.4)	(4.5)	(5.1)		
Accounts payable	1.4	5.0	7.9	20.0	33.2	EPS Normalised/Diluted	cps	(4.1)	(3.1)	(4.5)	(5.1)		
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		
Tax payable	0.0	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-		
Other current liabilities	0.6	2.2	2.2	2.2	2.2	DPS Growth		n/a	n/a	n/a	n/a		
Total current liabilities	2.1	7.2	10.1	22.2	35.4	Dividend yield		0.0%	0.0%	0.0%	0.0%		
Long term debt	2.8	0.0	79.7	79.7	76.8	Dividend imputation		0	0	0	0		
Other non current liabs	2.4	2.2	2.2	2.2	2.2	PE (x)		-	-	-	-		
Total long term liabilities	5.2	2.2	81.9	81.9	79.0	PE market		15.0	15.0	15.0	15.0		
Total Liabilities	7.2	9.4	91.9	104.1	114.4	Premium/(discount)		nm	nm	nm	nm		
Net Assets	14.6	11.2	12.1	52.3	88.0	EV/EBITDA		nm	nm	nm	nm		
Share capital	35.3	48.2	71.6	144.2	189.5	FCF/Share	cps	(3.30)	(2.17)	(4.85)	(6.98)		
Accumulated profits/losses	(21.5)	(37.2)	(59.6)	(92.1)	(101.5)	Price/FCF share		(4.1)	(6.2)	(2.78)	(1.94)		
Reserves	0.8	0.1	0.1	0.2	0.0	Free Cash flow Yield		(24.4%)	(16.1%)	(36.0%)	(51.7%)		
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	14.6	11.1	12.1	52.4	88.0								

Source: Company data for historicals, RaaS estimates

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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

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