

AML3D Ltd

Q2 FY22 Results Analysis

Stronger result with good momentum

AML3D Ltd (ASX:AL3) was established in 2014 to commercialise the patented WAM (Wire Additive Manufacturing), an additive manufacturing technology for the cost-effective production of large, high-performance metal components and structures. The company has reported a positive Q2 result with increasing interest in large-scale 3D printed parts from aerospace and energy companies. AL3 is supplying two machines to universities in FY22 and expects another sale in Singapore. Expenses are under control and the company has sufficient cash for six more quarters at current burn rates. Rising interest following the issue of the American Petroleum Institute's Additive Manufacturing Standard seems likely to continue. The company remains focused on expanding acceptance of the WAM process for fast, high-quality, on-demand manufacturing. AL3 continues to invest in R&D to increase machine capacity, speed and strength. Similarly, partnerships with Deakin University in advanced materials will likely allow lighter, stronger products to be manufactured using AL3's patented WAM process.

Business model

AML3D generates revenue from contract manufacturing of components using its WAM process, sales of the patented ARCEMY WAM modules and licencing revenue from these sales after the first year. The company has a manufacturing facility in Adelaide, additional capacity under development in Singapore, and a strong level of interest in machine purchases due to the large scale possible using the WAM technology. AL3 is developing three revenue streams: contract manufacturing in Adelaide, machine manufacturing and sales globally, and potentially supply of high-tech welding media for additive manufacturing and other uses.

Increasing industry interest drives cashflow

The quarterly result showed promising trends and highlighted the building interest in ALM3D's ARCEMY machines and WAM technology in different sectors of industry. The company is focused on moving through the exploratory phase with large companies in as many large sectors as possible. AL3 aims to move the patented process from an investigative stage to a core part of logistics and production planning in some of the biggest engineering sectors. We expect further positive news before fiscal year-end. At this stage we leave our full-year estimates unchanged with several machine deliveries expected in the second half of FY22.

Base-case DCF valuation of \$64.5m

We've used the discounted cashflow methodology to value AML3D due to the company's early stage of development. Valuation has decreased slightly due to a rise in risk-free rates from 1.13% to 1.93% since our initial valuation. We expect strong free-cash generation from FY23. Using a WACC of 11.7% (Beta 1.5 vs measured Beta of 0.21, terminal growth rate of 2.2%) we derive an equity value of \$64.6m or \$0.43/share on the current issued capital of 150.4m shares. As we highlighted in our 13 October initiation report [Additive manufacturing matures](#), our base case is premised on announced agreements and customer interest levels with a conservative conversion rate of customer enquiries to manufacturing and machine sales. We have additionally modelled a better and worse profile of future sales based on estimates of market penetration over time. We feel there is considerable upside possible in this valuation with our high valuation now at \$0.75/share.

Historical earnings and RaaS estimates (A\$m unless otherwise stated)

Year end	Sales Revenue	Gross Profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)
06/20a	0.3	0.2	(3.2)	(3.2)	n.a.	46.6
06/21a	0.6	0.3	(5.1)	(5.5)	(3.8)	23.6
06/22e	3.7	1.2	(3.2)	(2.8)	(1.7)	5.2
06/23e	7.7	3.1	(1.4)	(1.6)	(1.0)	3.0

Source: Company data; RaaS estimates for FY22e and FY23e

Additive Manufacturing

31st January 2022

Share Details

ASX code	AL3
Share price (28-Jan)	\$0.13
Market capitalisation	\$19.0M
Shares on issue	150.4M
Net cash 31-Dec-2021	\$4.5M
Free float	~54%

Share Performance (12 months)



Upside Case

- Strong customer interest leads to machine orders
- Current trial product deliveries convert to manufacturing contracts
- First-mover advantage is maintained through R&D

Downside Case

- Slow conversion of customers
- Further delays in expansion due to COVID
- Retention rate reverts to COVID levels

Catalysts

- Sales of ARCEMY modules
- Contract wins with Boeing and other clients
- Ongoing evidence of operational momentum
- Commercialisation of wire research

Board of Directors

Sean Ebert	Interim Chairman
Andrew Sales	Founder/MD/CEO
Leonard Piro	Non-Executive Director

Company Contacts

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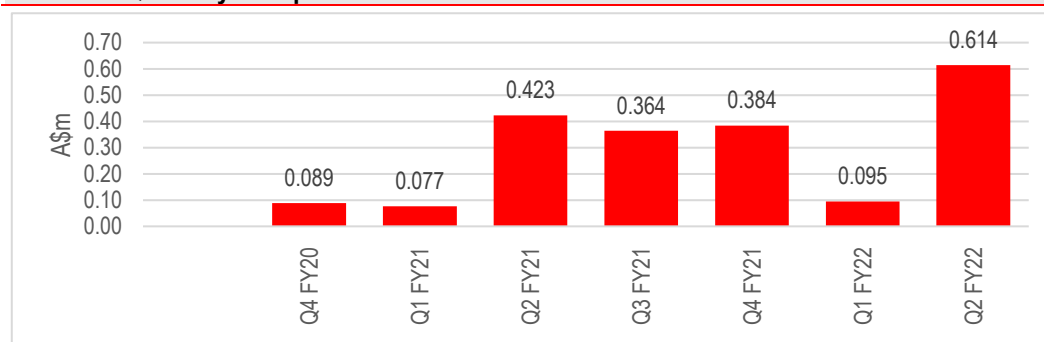
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Q1 FY22 Results Analysis

AML3D's second-quarter report shows rising receipts from customers, reduced expenses and sufficient cash on hand for further development of the company.

Exhibit 1: Quarterly receipts from customers



Source: Company reports

Cash receipts for the quarter were \$0.61m, the company's best result and up 45% on Q2 FY21. YTD cash receipts are up 42% on the PCP. The operating cash loss for the quarter was \$0.78m following a reduction in administration costs relative to the quarter post the IPO. R&D investment was maintained at \$0.54m and monthly cash burn was reduced with six quarters of cash on hand at current rates.

Exhibit 2: Q2 FY22 versus Q2 FY21 and Q1 FY22 (in A\$m unless otherwise stated)

	Q2 FY21	Q1 FY22	Q2 FY22
Cash receipts	0.423	0.095	0.614
Payments to suppliers	-1.276	-1.679	-0.793
R&D	-0.016	-0.523	-0.543
Other	-0.189	0.423	-0.061
Operating cashflow	-1.058	-1.684	-0.783
Free cashflow	-1.058	-1.684	-0.783
Net cash at the end of the period	11.161	5.382	4.517
Monthly cash burn	-0.353	-0.561	-0.261
Quarters of cash on hand	11	3	6

Source: Company data

Key Events In The Quarter

- Orders for two ARCEMY units from University of Queensland and Royal Melbourne Institute of Technology;
- Expected sale of rented machine in Singapore to lessee before year-end;
- Delivery of a prototype part for a North American aerospace entity;
- First-of-a-kind manufacture of a high-pressure, corrosion-resistant, titanium plunger for the energy sector;
- Nine-month project investigating scandium/aluminium welding nearing successful completion. Potential to develop a product for the broader welding media market;
- Investigation of the benefits of including Boron Nitride Nanotubes (BNNTs) in WAAM-deposited alloys commenced, with the potential to deliver higher-strength, lighter-weight printed products; and
- Validation by Lloyds of a 940kg demonstration part for the oil and gas sector.

Earnings Adjustments

We have left our full-year forecasts unchanged at this stage. With three machine deliveries likely in the second half and further revenue from contract manufacturing likely we feel our current base forecast is achievable.

Actual Vs Prospectus Plan

Exhibit 3: Q1 FY22 versus Q1 FY21 and Q4 FY21 (In A\$m unless otherwise stated)

Use of funds under Prospectus	Note	Funds allocated under the Prospectus \$	Funds expended to 30 September 2021 \$
Singapore Bureau establishment	1	4,270,000	865,947
Relocation and expansion of Adelaide facility	2	2,840,000	3,361,036
Development of integrated print/machining	3	400,000	53,923
IP protection	4	400,000	84,932
Unallocated working capital - Adelaide		950,000	950,000
Unallocated working capital - Singapore	1	1,100,000	-
Expenses of the offer		1,100,000	1,110,198
Total		11,060,000	6,426,034

Source: Company data

1. Singapore Bureau Establishment: Singapore revenue opportunities are increasing with the employment of an additional person to bolster business development. The company is also establishing its own facility in that market this financial year.
2. Relocation and expansion of Adelaide facility: The relocation and expansion of the Adelaide facility was completed during Q1 FY22 with a portion of funds under the Prospectus for the Singapore Bureau establishment reallocated to expand the Adelaide facility to provide greater local capacity.
3. Development of integrated print/machining: Whilst initial research, planning and concept design has been undertaken, current focus has been on improvements and enhancements to the existing ARCEMY unit.
4. IP protection: AML3D has secured an Australian Patent 2019251514 for its WAM process, along with patent in South Korea and New Zealand. Securing of patents in other key markets, including Europe, the UK and the USA is progressing.

Exhibit 4: Financial Summary

AML3D Ltd (ASX:AL3)						Share price (Date)		28/01/2022		A\$				0.13
Profit and Loss (A\$m)						Interim (A\$m)		1H20 A	2H20 A	1H21 A	2H21 A	1H22 E	2H22 E	
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Revenue		0.1	0.2	0.1	0.5	0.8	1.5	
						EBITDA		(1.8)	(1.3)	(2.1)	(3.3)	(2.0)	(1.7)	
						EBIT		(1.8)	(1.3)	(2.3)	(3.5)	(2.4)	(2.1)	
Sales Revenue	0.2	0.3	0.6	2.3	4.3	NPAT (normalised)		(1.8)	(1.3)	(2.2)	(3.5)	(1.7)	(1.5)	
Gross Profit	0.2	0.2	0.3	0.8	1.7	Minorities		-	-	-	-	-	-	
EBITDA	(0.6)	(3.2)	(5.5)	(3.6)	(2.8)	NPAT (reported)		(1.8)	(1.1)	(2.1)	(3.5)	(1.7)	(1.5)	
Depn	(0.1)	(0.1)	(0.4)	(0.8)	(0.7)	EPS (normalised)		(1.24)	(1.10)	(1.47)	(2.17)	(1.00)	(0.88)	
Amort	0.0	0.0	0.0	(0.0)	(0.1)	EPS (reported)		(1.39)	(0.85)	(1.43)	(2.30)	(1.10)	(0.97)	
EBIT	(0.7)	(3.2)	(5.9)	(4.5)	(3.6)	Dividend (cps)		-	-	-	-	-	-	
Interest	0.0	0.0	0.0	0.0	(0.0)	Imputation		30.0	30.0	30.0	30.0	30.0	30.0	
Tax	0.0	0.0	0.0	1.3	1.1	Operating cash flow		(0.8)	(1.8)	(1.9)	(4.4)	(0.5)	(1.9)	
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow		(0.7)	(1.1)	0.4	(4.1)	0.2	(1.2)	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Divisions		1H20 A	2H20 A	1H21 A	2H21 A	1H22 E	2H22 E	
NPAT pre significant item	(0.7)	(3.2)	(5.8)	(3.1)	(2.6)	Contract Manufacturing		0.0	0.0	0.0	0.0	0.5	0.5	
Significant items	0.0	0.1	0.2	0.0	0.0	Machine Sales		0.0	0.0	0.0	0.0	0.0	0.7	
NPAT (reported)	(0.7)	(3.1)	(5.7)	(3.1)	(2.6)	Licence Income		0.0	0.0	0.0	0.0	0.2	0.2	
Cash flow (A\$m)						COGS		0.0	0.0	0.0	0.0	(0.6)	(1.0)	
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Employment		0.0	0.0	0.0	0.0	(1.6)	(1.6)	
EBITDA	(0.6)	(3.2)	(5.5)	(3.6)	(2.8)	Technology , licence fees		0.0	0.0	0.0	0.0	0.0	0.0	
Interest	0.0	0.0	0.0	0.0	(0.0)	Other costs		0.0	0.0	(2.4)	(4.0)	(0.6)	(0.6)	
Tax	0.0	0.0	0.0	0.0	0.0	EBITDA		(1.8)	(1.3)	(2.1)	(3.3)	(2.0)	(1.7)	
Working capital changes	(0.3)	0.6	(0.9)	1.2	(0.3)	Margins, Leverage, Returns		FY19A	FY20A	FY21A	FY22F	FY23F		
Operating cash flow	(0.9)	(2.6)	(6.3)	(2.4)	(3.2)	EBITDA		n.a.	n.a.	n.a.	n.a.	n.a.		
Mtce capex	(0.2)	(0.8)	(0.3)	(0.4)	(0.4)	EBIT		n.a.	n.a.	n.a.	n.a.	n.a.		
Free cash flow	(1.1)	(3.4)	(6.6)	(2.8)	(3.6)	NPAT pre significant items		n.a.	n.a.	n.a.	n.a.	n.a.		
Growth capex	(0.0)	(0.0)	(2.3)	(1.0)	(1.0)	Net Debt (Cash)		(0.6)	7.8	6.7	2.9	(1.7)		
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)		(x)	n/a	n/a	n/a	n/a		
Other	0.0	(0.0)	0.0	0.0	0.0	ND/ND+Equity (%)		(%)	125%	(411%)	(140%)	(53%)	22.4%	
Cash flow pre financing	(1.2)	(3.5)	(8.9)	(3.8)	(4.6)	EBIT interest cover (x)		(x)	n/a	n/a	n/a	n/a	n/a	
Equity	0.1	10.2	7.3	0.0	0.0	ROA		n.a.	n.a.	n.a.	n.a.	n.a.		
Debt	1.6	(0.1)	(0.1)	0.0	0.0	ROE		n.a.	n.a.	n.a.	n.a.	n.a.		
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROIC		n.a.	n.a.	n.a.	n.a.	n.a.		
Net cash flow for year	0.5	6.7	(1.7)	(3.8)	(4.6)	NTA (per share)		n/a	0.07	0.08	0.05	0.03		
Balance sheet (A\$m)						Working capital		0.2	0.0	1.7	0.4	0.8		
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	WC/Sales (%)		105%	17%	259%	20%	18%		
Cash	1.2	8.2	7.3	3.4	(1.1)	Revenue growth		(35%)	45%	121%	257%	88%		
Accounts receivable	0.3	0.7	0.5	0.2	0.4	EBIT growth pa		n/a	n/a	n/a	n/a	n/a		
Inventory	0.0	0.1	2.0	0.4	0.7	Pricing		FY19A	FY20A	FY21A	FY22F	FY23F		
Other current assets	0.0	0.2	0.2	0.2	0.2	No of shares (y/e)		(m)	132	148	150	150	150	
Total current assets	1.5	9.3	10.0	4.2	0.1	Weighted Av Dil Shares		(m)	132	148	148	165	165	
PPE	0.3	1.5	3.3	2.9	2.6	EPS Reported		cps	0.0	0.0	(3.4)	(1.9)	(1.6)	
Intangibles and Goodwill	0.0	0.0	0.1	1.0	1.9	EPS Normalised/Diluted		cps	0.0	0.0	(3.6)	(1.9)	(1.6)	
Investments	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n.a.	n.a.	n.a.	-48%	-18%		
Deferred tax asset	0.0	0.0	0.0	1.3	2.4	DPS		cps	-	-	-	-	-	
Other non current assets	0.0	0.0	0.0	0.1	0.1	DPS Growth		n.a.	n.a.	n.a.	n.a.	n.a.		
Total non current assets	0.4	1.6	3.4	5.3	7.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%		
Total Assets	1.8	10.9	13.4	9.5	7.1	Dividend imputation		30	30	30	30	30		
Accounts payable	0.1	0.8	0.9	0.1	0.2	PE (x)		n.a.	n.a.	-3.8	-6.9	-8.4		
Short term debt	1.8	0.1	0.2	0.2	0.2	PE market		17.8	17.8	17.8	17.8	17.8		
Tax payable	0.0	0.0	0.0	0.0	0.0	Premium/(discount)		n.a.	n.a.	(121%)	(139%)	(147%)		
Other current liabilities	0.1	0.0	0.5	0.5	0.5	EV/EBITDA		-26.7	-3.6	-2.4	-4.6	-7.6		
Total current liabilities	1.9	0.9	1.5	0.8	0.8	FCF/Share		cps	-0.6	-1.2	-4.0	-1.3	-1.8	
Long term debt	0.0	0.3	0.4	0.4	0.4	Price/FCF share		-23.3	-11.1	-3.3	-9.8	-7.1		
Other non current liabs	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield		(4.3%)	(9.0%)	(30.6%)	(10.2%)	(14.1%)		
Total long term liabilities	0.0	0.3	0.4	0.4	0.4									
Total Liabilities	1.9	1.2	1.9	1.1	1.2									
Net Assets	(0.1)	9.7	11.5	8.4	5.8									
Share capital	1.1	14.0	21.3	21.3	21.3									
Accumulated profits/losse	0.0	(4.3)	(9.8)	(12.9)	(15.5)									
Reserv es	(1.2)	0.0	0.0	0.0	0.0									
Minorities	0.0	0.0	0.0	0.0	0.0									
Total Shareholder func	(0.1)	9.7	11.5	8.4	5.8									

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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