

# Amaero International Ltd

Company update

## On track to deliver meaningful revenues by end CY21

Amaero International Ltd (ASX:3DA) creates large format, complex components in metal with laser-based additive manufacturing for the defence, aerospace and automotive sectors. The company, works with several of the world's leading manufacturers of aerospace and defence products, delivering both design & prototype and manufacturing capability. Amaero has provided an update to investors noting that the several opportunities it has before it puts the company on track to deliver meaningful revenues by the end of CY21. The near term revenue opportunities include building a Centre for Additive Manufacturing Excellence in the Middle East, building and commissioning of a 120t/annum titanium powder facility in Australia, and expanding on the purchase order already received from Nissan. The company has also entered an agreement with Rio Tinto (ASX:RIO) to collaborate on the development of the supply chain for Amaero's high performance, high operating temperature aluminium alloy, "Amaero Hot Al". Amaero recently reported a better than forecast H1 FY21 loss of \$3.01m, compared with our forecast for a net loss of \$3.14m. The operating loss (EBITDA) for the half year was \$1.91m (excluding non-cash share based payments), a 12% increase in H1 FY20 but below our forecast for a loss of \$2.79m, with cost containment the feature. We have made some minor adjustments to our forecasts after incorporating the H1 FY21 result. Our base case valuation has lifted to \$0.92/share (previously \$0.90/share) as a result.

### 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.

### Near term revenue opportunities defined

Amaero has provided an update on its CY2021 growth strategy which includes the commissioning of a yet to be contracted Australian titanium powder manufacturing facility to support US defence prime contractors, a yet to be contracted but rapidly progressing Middle Eastern Metal 3D printing Centre of Excellence, a potential satellite project and an expansion of the Nissan agreement based on the Purchase Order received for a die casting auto component for the Nissan Leaf electric vehicle for other component parts.

### Base case DCF valuation is \$0.92/share

We use the discounted cashflow methodology to value Amaero using a WACC of 13.9% (beta 1.9, terminal growth rate of 2.2%) and this derives an equity value of \$0.92/share (previously \$0.90/share) on the current share count. As we highlighted in our recent initiation report [Delivering efficiencies in 3D printing](#), we have modelled but not included the potential for expansion of the Fletcher Insulation tooling agreement to its global network, the proposed US\$77m (A\$108m) Middle East 3D printing facility and an expanded case (1,200t) Australian titanium powder manufacturing facility, which combined could take our base case valuation to \$1.17b which equates to \$5.82/share on the current share count.

#### 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	3.1	1.1	(4.8)	(6.1)	(3.1)	45.7
06/22e	20.0	5.7	(1.8)	(2.8)	(1.3)	7.0
06/23e	55.3	22.1	13.9	12.5	5.3	2.4

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

## Additive Manufacturing

19<sup>th</sup> March 2021

### Share details

ASX Code	3DA
Share price (18 March)	\$0.685
Market Capitalisation	\$138.2M
Shares on issue	201.8M
Net cash 31 Dec 2020	\$9.16M

### 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

- Australian titanium powder plant proceeds
- Patents over aluminium and titanium alloys granted
- Decision on 3D printing centre in Middle East

### Board of Directors

David Hanna	Non-Executive Chairman
Stuart Douglas	Executive Director
Kathryn Presser	Non-Executive Director

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## Key points from Update Presentation

Amaero highlighted its CY2021 growth strategy and reaffirmed its business model focus in a recent presentation to shareholders. Key points from the presentation:

- The Middle Eastern 3D printing Centre of Excellence is progressing rapidly with expectations for a decision to proceed by early May;
- The yet to be contracted new powder facility (initial phase of 120t per annum) will generate around A\$30m revenue a year for the company;
- US Defence Primes are supporting a facility 10x that size (1,200t per annum) to secure supply outside China and Russia and this would generate revenues of A\$300m a year;
- Amaero is in discussions with Nissan to expand the purchase order received for one component of the Nissan Leaf to other components;
- The company's advisory board comprising Hon Christopher Pyne (former Australian Minister for Defence), Patrick Shanahan (the former Acting Secretary of Defense for the US) and David Wolf (a member of the board of the Global Offsets & Countertrade Association (GOCA)) was opening doors for Amaero on a global scale;
- The company's new team members have brought significant expertise across powder manufacturing technology, metal 3D printing and tooling;
- The company is considering the merits of listing in the US via a Special Purpose Acquisition Company (SPAC) structure given the valuations being given in the US markets for metal 3D printing companies such as Desktop Metal (NYSE:DM) and soon to be listed Markforged (NYSE:MKFG).

## Collaboration with Rio Tinto

Amaero has also entered into a collaboration agreement with Rio Tinto on the development of the supply chain for Amaero's high performance, high operating temperature aluminium alloy, "Amaero Hot Al", which will see Rio providing Amaero with the feedstock to atomise into powder and it turn Rio will have the opportunity to sell billet to other parties. We do not expect any immediate revenues to emerge from this collaboration but see it as strategically important for Amaero's relationship with Boeing and Raytheon by delivering another credible source of aluminium alloy. Longer term, revenues are likely to be derived as a royalty on a percentage of sales with an expected take up rate of 10t per year within two years and 60t a year thereafter. We have not yet included this in our forecasts given it is two to three years away from generating meaningful income for the company.

## Key points from H1 FY21 result

Amaero has reported a better than forecast net loss of \$03.01m, compared with our forecast for a net loss of \$3.14m. The result was a 58% increase on the previous corresponding period's net loss of \$1.91m. Revenue for the period was \$0.12m, up 331% on the pcp although below our forecast for \$0.36m, chiefly due to timing differences on revenue recognition from contracts signed in the half. Total revenue for the period was \$0.73m underpinned by government grants including a \$0.52m R&D grant. Non-employee and R&D costs were kept tightly under control in the half with the \$1.14m reported, declining 6% on the pcp. Employee costs rose 84% to \$0.62m while R&D costs increased 131% to \$0.77m. Both however were below our forecasts for the period. We have made minor adjustments to our FY21 forecasts, effectively as a result of incorporating the reported H1 FY21 numbers.

### Exhibit 1: H1 FY21 vs H1 FY20 and RaaS forecast

	H1 FY20	H1 FY21	% chg	RaaS Fct
Sales revenue	0.03	0.12	331.1%	0.36
Total Revenue	0.19	0.73	284.1%	0.84
EBITDA	(1.71)	(1.91)	11.5%	(2.79)
NPAT	(1.91)	(3.01)	57.7%	(3.14)
EPS	(1.72)	(1.59)	(7.6%)	(1.77)

Source: Company data, RaaS estimates

## Earnings adjustment

We have made some small adjustments to our forecasts for FY21, chiefly flowing from incorporating the first half result. The changes are set out in the following table.

### Exhibit 2: Earnings adjustments

Year ending June 30	FY21 old	FY21 new	% chg	FY22 old	FY22 new	% chg
Sales Revenue	3.35	3.13	(6.5%)	20.03	20.05	0.1%
Total Revenue	3.83	3.74	(2.2%)	20.68	20.76	0.4%
Gross Profit	1.11	1.09	(1.6%)	5.61	5.69	1.4%
EBITDA	(5.92)	(4.78)	(19.3%)	(2.27)	(1.82)	(19.7%)
NPAT	(6.60)	(6.15)	(6.8%)	(3.36)	(2.79)	(16.9%)
EPS	(3.51)	(3.15)	(10.3%)	(1.58)	(1.31)	(17.3%)

Source: RaaS estimates

## DCF valuation

In our view, given the early-stage nature of Amaero's business, the discounted cashflow methodology to be 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 \$185.3m or \$0.92/share on the current share count of 201.8m. We use an equity risk premium of 6.5% and risk free rate of 2.0% (we have recently adjusted these from 7.0% and 1.0% to reflect the rising 10-year Treasury bond rate). Note that we do anticipate further raisings (an additional \$17.3m on the current cash in hand) and this will likely result in additional shares on issue.

### Exhibit 3: DCF valuation

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%
<b>CAGR in FCF FY22-30</b>	<b>13.91%</b>
Sum of PV (A\$m)	68.6
PV of terminal Value (A\$m)	90.3
PV of Enterprise	158.9
Net Cash raised in capital raisings	(26.4)
Net Value - Shareholder	185.3
No of shares on issue	201.8
<b>NPV in A\$</b>	<b>\$0.92</b>

Source: RaaS Analysis

## Scenario Analysis

Our initiation report contemplated the valuation impact of several opportunities for Amaero including the projects the company outlined in its update. We have modelled but not included the potential for expansion of the Fletcher Insulation tooling agreement to its global network (**project 1**), the proposed US\$77m (A\$108m) Middle East 3D printing facility (**project 2**) and an expanded case (1,200t) for the not-yet-contracted proposed Australian titanium powder manufacturing facility (**project 3**), which combined could take our base case valuation to \$1.17b which equates to \$5.84/share on the current share count. Note that our forecasts include a 120t per annum Australian titanium powder facility. Again our forecasts incorporate an expectation that additional capital will be required resulting in additional shares being issued. This is all

very subjective and dependent on the projects getting underway, timing, funding and final detail but the exercise demonstrates that there is potential upside from Amaero's current business.

We set out the impact of these projects on the valuation in the following table.

**Exhibit 4: Base case valuation with scenario impact of proposed projects on valuation**

	Base	Base with Project 1	Base with Project 2	Base with Project 3	Base with Projects 1, 2 & 3
DCF Valuation \$m	185	271	275	998	1,174
DCF valuation on <b>current share count of 201.8M shares*</b>	\$0.92	\$1.35	\$1.36	\$4.94	\$5.82

Source: RaaS estimates \*note that additional capital will be required for projects, potentially resulting in additional shares being issued

### Exhibit 5: Financial Summary

Amaero International Ltd						Share price (18 March 2021)						A\$	0.69
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	3.1	20.0	55.3	0.0	0.1	0.1	3.0	7.7	12.3		
Total Revenue	0.0	0.4	3.7	20.8	55.3	(1.7)	(2.4)	(1.9)	(2.9)	(1.6)	(0.2)		
Gross Profit	0.0	0.3	1.1	5.7	22.1	(1.9)	(2.8)	(2.5)	(3.2)	(2.1)	(0.8)		
EBITDA Adj	(0.1)	(4.2)	(4.8)	(1.8)	13.9	(1.9)	(2.9)	(3.0)	(3.1)	(2.1)	(0.7)		
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)	(3.1)	(2.1)	(0.7)		
EBIT Adj	(0.1)	(4.7)	(5.7)	(2.9)	12.3	(1.7)	(2.03)	(1.59)	(1.56)	(0.98)	(0.33)		
Interest	0.0	(0.2)	(0.1)	0.1	0.2	(2.50)	(1.69)	(1.59)	(1.55)	(0.94)	(0.31)		
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	-	-	-	-	-	-		
NPAT pre significant items	(0.1)	(4.8)	(6.1)	(2.8)	12.5	(2.8)	(3.0)	(3.2)	(3.1)	(2.1)	(0.7)		
Significant items	0.0	(1.0)	0.0	0.0	0.0	(1.72)	(2.03)	(1.59)	(1.56)	(0.98)	(0.33)		
NPAT (reported)	(0.1)	(5.8)	(6.1)	(2.8)	12.5	(2.8)	(3.0)	(3.2)	(3.1)	(2.1)	(0.7)		
Cash flow (A\$m)						Divisions							
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	H120A	H220A	H121F	H221F	H122F	H222F		
EBITDA	(0.1)	(4.2)	(4.8)	(1.8)	13.9	0.0	0.1	0.1	3.0	7.7	12.3		
Interest	0.0	(0.2)	(0.1)	0.1	0.2	0.2	0.1	0.6	0.0	0.7	0.0		
Tax	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Working capital changes	(0.1)	0.1	0.1	1.9	1.8	0.2	0.1	0.6	0.0	0.7	0.0		
Operating cash flow	(0.1)	(4.2)	(4.7)	0.2	15.8	0.2	0.1	0.6	0.0	0.7	0.0		
Mtce capex	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Free cash flow	(0.1)	(4.2)	(4.7)	0.2	15.8	0.2	0.1	0.6	0.0	0.7	0.0		
Growth capex	0.0	(3.9)	(3.6)	(6.5)	(6.5)	0.2	0.1	0.6	0.0	0.7	0.0		
Acquisitions/Disposals	0.1	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Other	(0.2)	0.0	(0.1)	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Cash flow pre financing	(0.2)	(8.1)	(8.4)	(6.3)	9.3	0.2	0.1	0.6	0.0	0.7	0.0		
Equity	0.4	13.5	13.8	20.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Debt	0.0	(0.2)	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Net cash flow for year	0.2	5.2	5.5	13.7	9.3	0.2	0.1	0.6	0.0	0.7	0.0		
Balance sheet (A\$m)						Total Revenue							
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	0.2	0.2	0.7	3.0	8.4	12.3		
Cash	0.2	4.0	6.4	19.1	28.4	0.2	0.1	0.6	0.0	0.7	0.0		
Accounts receivable	0.1	0.1	0.8	3.6	9.6	0.2	0.1	0.6	0.0	0.7	0.0		
Inventory	0.1	0.5	4.1	10.3	21.2	0.2	0.1	0.6	0.0	0.7	0.0		
Other current assets	0.1	0.1	0.2	0.5	1.0	0.2	0.1	0.6	0.0	0.7	0.0		
Total current assets	0.4	4.8	11.6	33.5	60.2	0.2	0.1	0.6	0.0	0.7	0.0		
PPE	0.5	7.4	9.2	14.7	19.6	0.2	0.1	0.6	0.0	0.7	0.0		
Intangibles and Goodwill	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Investments	0.0	0.0	0.1	0.1	0.1	0.2	0.1	0.6	0.0	0.7	0.0		
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Other non current assets	0.0	0.2	0.2	0.2	0.2	0.2	0.1	0.6	0.0	0.7	0.0		
Total non current assets	0.5	7.6	9.5	15.0	19.9	0.2	0.1	0.6	0.0	0.7	0.0		
Total Assets	0.9	12.4	21.1	48.5	80.1	0.2	0.1	0.6	0.0	0.7	0.0		
Accounts payable	0.4	0.8	1.5	8.7	19.2	0.2	0.1	0.6	0.0	0.7	0.0		
Short term debt	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Tax payable	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Deferred revenue	0.0	0.4	1.2	5.3	13.8	0.2	0.1	0.6	0.0	0.7	0.0		
Total current liabilities	0.5	1.2	2.7	14.0	33.1	0.2	0.1	0.6	0.0	0.7	0.0		
Long term debt	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Other non current liabs	0.0	2.9	2.5	2.5	2.5	0.2	0.1	0.6	0.0	0.7	0.0		
Total long term liabilities	0.0	2.9	2.5	2.5	2.5	0.2	0.1	0.6	0.0	0.7	0.0		
Total Liabilities	0.5	4.1	5.3	16.6	35.6	0.2	0.1	0.6	0.0	0.7	0.0		
Net Assets	0.5	8.2	15.8	31.9	44.5	0.2	0.1	0.6	0.0	0.7	0.0		
Share capital	0.6	14.0	27.3	47.3	47.3	0.2	0.1	0.6	0.0	0.7	0.0		
Accumulated profits/losses	(0.1)	(5.9)	(11.8)	(15.6)	(3.1)	0.2	0.1	0.6	0.0	0.7	0.0		
Reserves	0.0	0.0	0.2	0.2	0.4	0.2	0.1	0.6	0.0	0.7	0.0		
Minorities	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.6	0.0	0.7	0.0		
Total Shareholder funds	0.5	8.2	15.7	31.9	44.5	0.2	0.1	0.6	0.0	0.7	0.0		
						Margins, Leverage, Returns							
						FY19A	FY20A	FY21F	FY22F	FY23F			
						nm	nm	nm	(9.1%)	25.1%			
						nm	nm	nm	(14.4%)	22.2%			
						nm	nm	nm	(13.9%)	22.5%			
						0.1	4.0	6.4	19.1	28.4			
						(x)	n/a	n/a	n/a	2.1			
						(%)	(41.3%)	(96.3%)	(69.2%)	(149.2%)	(176.5%)		
						(x)	n/a	n/a	n/a	-	0.0		
						nm	(70.2%)	(33.9%)	(8.3%)	19.1%			
						nm	(134.5%)	(51.5%)	(11.7%)	32.6%			
						nm	(222.3%)	(108.5%)	(48.7%)	229.2%			
						0.01	0.05	0.07	0.14	0.19			
						(0.2)	(0.1)	3.4	5.2	11.6			
						nm	(121.6%)	107.5%	26.0%	20.9%			
						nm	nm	2586.5%	540.1%	175.7%			
						n/a	n/a	n/a	n/a	(525.3%)			
						FY19A	FY20A	FY21F	FY22F	FY23F			
						(m)	75	175	218	233	233		
						(m)	25	143	145	223	233		
						cps	(0.3)	(4.1)	(3.1)	(1.3)	5.3		
						cps	(0.3)	(3.4)	(3.1)	(1.3)	5.3		
						n/a	n/a	n/a	n/a	(508.2%)			
						cps	-	-	-	-	-		
						n/a	n/a	n/a	n/a	n/a			
						0.0%	0.0%	0.0%	0.0%	0.0%			
						0	0	0	0	0			
						-	-	-	-	-	12.8		
						18.6	18.6	18.6	18.6	18.6			
						nm	nm	nm	nm	nm			
						nm	nm	nm	nm	nm			
						cps	(0.2)	(2.4)	(2.2)	0	7		
						(379.4)	(28.3)	(31.8)	909.0	10.1			
						(0.3%)	(3.5%)	(3.1%)	0.1%	9.9%			

Source: RaaS Advisory



# FINANCIAL SERVICES GUIDE

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**Corporate Authorised Representative, number 1248415**

**of**

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BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

## Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

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

## Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

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