

# Amaero International Ltd

## Better than expected Q4 result, projects progressing to plan

Amaero International Ltd (ASX:3DA) is a global specialist in metal additive manufacturing for the defence, aerospace and tooling sectors. The company has announced a better than forecast operating cash loss for Q4 FY21 of \$0.97m, bringing the total operating cash loss for the year to \$4.87m. Our forecast was for a \$5.14m operating cash loss for FY20. Amaero ended the quarter, and year, with net cash of \$11.5m. Amaero also highlighted the progress it had made in the quarter and subsequent, with a draft Heads of Agreement for the proposed 3D printing centre in the Middle East now submitted and signing and contract negotiations expected by the 1<sup>st</sup> half of FY22; with the delivery of evaluation parts to Boeing from the December 2020 purchase order; with the successful build of the production version of the tool for the Fletchers Glass agreement; and with the announcement post quarter end to build an \$8m, 120tpa customised and proprietary titanium alloy powder manufacturing plant in Victoria. Our base case valuation of \$0.93/share reflects the rollout of the 120tpa titanium alloy powder manufacturing facility and the initial tooling on the Fletcher Glass agreement but not the upside from a global rollout of the tool nor the development of the ME 3D printing centre or the expanded opportunity for a substantially larger titanium alloy powder manufacturing plant. As we have previously outlined in our 1 February initiation report, **Delivering efficiencies in 3D printing**, successful development of all these projects derives a collective valuation of \$5.72/share.

### 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.

### A busy quarter with good progress towards commercialisation

Amaero made substantial progress across its four flagship projects in Q4 FY21 with the successful build of a production version of the Fletcher Glass tool, together with a 30% performance improvement in the alloy used in its manufacture, positioning this project to progress rapidly towards commercialisation in FY22. This together with the draft HoA for the Middle East 3D printing centre and the board sign-off for the development of a 120tpa titanium alloy powder plant in Melbourne, put the company on track to generate early revenues from one or more of these projects in FY22 with more significant revenue generation expected in FY23. The titanium alloy powder facility will generate annual revenues of ~\$30m once fully operational and we have this in our forecasts from FY23, with small contributions from the plant in our FY22 forecasts as it is tested and commissioned. The company also highlighted it had 35+ projects in the pipeline, some of which could come to commercialisation in FY22.

### Base case DCF valuation is \$0.93/share (\$190m)

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. Successful commercialisation of these projects delivers considerable upside to our valuation. As we have previously highlighted this could take our valuation to \$1.15b.

#### 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)	47.5
06/22e	19.9	5.5	(2.0)	(2.9)	(1.4)	5.4
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

**28<sup>th</sup> July 2021**

### Share details

ASX Code	3DA
Share price (27 July)	\$0.575
Market Capitalisation	\$116.2M
Shares on issue	202.0M
Net cash 30 June '21	\$11.5M

### 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 Finnin	Chief Executive Officer

### Company contact

Barrie Finnin (CEO)/  
Stuart Douglas (ED) +61 3 9905 9847  
info@amaero.com.au

### RaaS Advisory contacts

Finola Burke\* +61 414 354 712  
finola.burke@raasgroup.com

\*The analyst holds shares

## Exhibit 1: Financial Summary

Amaero International Ltd						Share price (27th July 2021)					
						A\$ 0.58					
Profit and Loss (A\$m)						Interim (A\$m)					
Y/E 30 June						H120A	H220A	H121F	H221F	H122F	H222F
FY19A	FY20A	FY21F	FY22F	FY23F							
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)	(2.1)	(0.7)
EBITDA Adj	(0.1)	(4.2)	(4.9)	(2.0)	13.8	(1.9)	(2.9)	(3.0)	(3.2)	(2.0)	(0.6)
Deprn	0.0	(0.5)	(0.9)	(0.8)	(1.3)	-	-	-	-	-	-
Amort	0.0	0.0	0.0	0.0	0.0	(2.8)	(3.0)	(3.2)	(3.2)	(2.0)	(0.6)
EBIT Adj	(0.1)	(4.7)	(5.8)	(2.8)	12.5	(1.72)	(2.03)	(1.59)	(1.61)	(0.96)	(0.28)
Interest	0.0	(0.2)	(0.1)	0.2	0.3	(2.50)	(1.69)	(1.59)	(1.60)	(0.92)	(0.27)
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)	(6.2)	(2.6)	12.8	(1.5)	(2.8)	(2.8)	(2.1)	1.0	2.3
NPAT (reported)	(0.1)	(5.8)	(6.2)	(2.6)	12.8	0.7	(1.1)	(2.4)	(1.7)	4.2	5.6
Cash flow (A\$m)											
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F						
EBITDA	(0.1)	(4.2)	(4.9)	(2.0)	13.8	<b>Divisions</b>	<b>H120A</b>	<b>H220A</b>	<b>H121F</b>	<b>H221F</b>	<b>H122F</b>
Interest	0.0	(0.2)	0.0	0.2	0.3	Sales and service revenue	0.0	0.1	0.1	2.3	7.6
Tax	0.0	0.0	0.0	0.0	0.0	R&D grants	0.2	0.1	0.6	0.0	0.7
Working capital changes	(0.1)	0.1	0.0	5.2	8.1	<b>Total Revenue</b>	<b>0.2</b>	<b>0.2</b>	<b>0.7</b>	<b>2.3</b>	<b>8.3</b>
Operating cash flow	(0.1)	(4.2)	(4.9)	3.3	22.2	COGS	0.0	0.1	0.1	1.9	6.3
Mtbe capex	0.0	0.0	0.0	0.0	0.0	<b>Gross Profit</b>	<b>0.2</b>	<b>0.1</b>	<b>0.6</b>	<b>0.4</b>	<b>2.0</b>
Free cash flow	(0.1)	(4.2)	(4.9)	3.3	22.2	R&D costs	(0.3)	(0.6)	(0.8)	(0.7)	(0.8)
Growth capex	0.0	(3.9)	(0.8)	(6.5)	(6.5)	Employment	(0.3)	(0.6)	(0.6)	(1.5)	(1.7)
Acquisitions/Disposals	0.1	0.0	0.0	0.0	0.0	General & Admin costs	(0.8)	(0.8)	(0.7)	(0.8)	(0.8)
Other	(0.2)	0.0	0.0	0.0	0.0	Other costs	(0.5)	(0.6)	(0.4)	(0.4)	(0.4)
Cash flow pre financing	(0.2)	(8.1)	(5.6)	(3.2)	15.7	EBITDA	(1.7)	(2.4)	(1.9)	(3.0)	(1.8)
Equity	0.4	13.5	13.8	20.0	0.0	Margins, Leverage, Returns					
Debt	0.0	(0.2)	0.0	0.0	0.0	EBITDA		nm	nm	nm	(10.1%)
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT		nm	nm	nm	(14.0%)
Net cash flow for year	0.2	5.2	8.2	16.8	15.7	NPAT pre significant items		nm	nm	nm	(13.3%)
Balance sheet (A\$m)						Net Debt (Cash)		0.1	4.0	11.5	27.3
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a
Cash	0.2	4.0	11.5	27.3	43.0	ND/ND+Equity (%)	(%)	(41.3%)	(96.3%)	(254.2%)	(541.7%)
Accounts receivable	0.1	0.1	1.8	3.7	9.6	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a
Inventory	0.1	0.5	0.5	4.9	9.6	ROA			(70.2%)	(34.9%)	(8.0%)
Other current assets	0.1	0.1	0.2	0.5	1.0	ROE			(134.5%)	(51.7%)	(10.9%)
Total current assets	0.4	4.8	14.0	36.4	63.1	ROIC			(222.3%)	(202.4%)	(315.6%)
PPE	0.5	7.4	6.4	12.1	17.3	NTA (per share)		0.01	0.05	0.07	0.14
Intangibles and Goodwill	0.0	0.0	0.0	0.0	0.0	Working capital		(0.2)	(0.1)	1.1	(0.2)
Investments	0.0	0.0	0.1	0.1	0.1	WC/Sales (%)			(121.6%)	45.3%	(0.8%)
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Revenue growth		nm	nm	1960.0%	727.1%
Other non current assets	0.0	0.2	0.2	0.2	0.2	EBIT growth pa		n/a	n/a	n/a	n/a
Total non current assets	0.5	7.6	6.7	12.4	17.6	Pricing					
Total Assets	0.9	12.4	20.7	48.8	80.7	No of shares (y/e)	(m)	75	175	219	234
Accounts payable	0.4	0.8	1.2	8.7	19.2	Weighted Av Dil Shares	(m)	25	143	145	224
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(0.3)	(4.1)	(3.2)	(1.2)
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(0.3)	(3.4)	(3.2)	(1.2)
Deferred revenue	0.0	0.4	1.0	5.2	13.8	EPS growth (norm/dil)		n/a	n/a	n/a	n/a
Total current liabilities	0.5	1.2	2.1	14.0	33.1	DPS	cps	-	-	-	-
Long term debt	0.0	0.0	0.0	0.0	0.0	DPS Growth		n/a	n/a	n/a	n/a
Other non current liab	0.0	2.9	2.5	2.5	2.5	Dividend yield		0.0%	0.0%	0.0%	0.0%
Total long term liabilities	0.0	2.9	2.5	2.5	2.5	Dividend imputation		0	0	0	0
Total Liabilities	0.5	4.1	4.7	16.5	35.6	PE (x)		-	-	-	-
Net Assets	0.5	8.2	16.0	32.3	45.1	PE market		18.6	18.6	18.6	18.6
Share capital	0.6	14.0	27.7	47.7	47.7	Premium/(discount)		nm	nm	nm	nm
Accumulated profits/losses	(0.1)	(5.9)	(12.0)	(15.5)	(2.9)	EV/EBITDA		nm	nm	nm	nm
Reserves	0.0	0.0	0.3	0.2	0.3	FCF/Share	cps	(0.2)	(2.4)	(2.2)	1
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(318.5)	(23.8)	(25.8)	40.3
Total Shareholder funds	0.5	8.2	16.0	32.3	45.1	Free Cash flow Yield		(0.3%)	(4.2%)	(3.9%)	2.5%

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: 6<sup>th</sup> May 2021**



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

Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: [finola.burke@raasgroup.com](mailto:finola.burke@raasgroup.com)

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  - Securities
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  - Securities

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

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