

5 November 2021

AML3D LTD

RMIT ARCEMY® purchase and aerospace part sale

AML3D Ltd (ASX:AL3) was established in 2014 to commercialise WAM® (Wire Additive Manufacturing), an additive manufacturing technology for the cost-effective production of large, high-performance metal components and structures. AL3 listed on the ASX in April 2020 at \$0.20/share, raising \$9m, and raised an additional \$7m in October 2020 to hasten the commercialisation programme. The company has established a contract manufacturing facility in Adelaide, is establishing a similar facility in Singapore and is making progress with customers for the proprietary ARCEMY® WAM® modules which are capable of manufacturing items up to 6m long – a significant increase in scale relative to most competing technologies. The company recently announced another sale of an ARCEMY® module to an academic institution – further evidence of the soundness of the WAM® process. RMIT has purchased a machine for approximately \$400,000. AL3 also announced production of a high-strength part for a North American aerospace company – another step on the path toward general industrial acceptance of the process.

Business model

AML3D generates revenue from contract manufacturing of components using its WAM process; sales of the 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 possible large-scale use of the WAM® technology.

Sale of ARCEMY® module to RMIT

Like the recent purchase by University of Queensland, RMIT has purchased the smallest ARCEMY® module capable of printing objects up to a volume of 1.5m³ and mass of 750kg. The price paid is also consistent with the previous transaction. We view the sale as another sign that the WAM® process is a well-regarded, flexible, scalable, industrial 3D printing process with strong potential for greater use in heavy engineering and manufacturing applications. We likewise expect AL3 will supply consumables for the module and participate in future R&D associated with 3D printing processes. AL3 also noted the supply of a high-strength 3D printed part to a “leading North American aerospace company”. We view this as an early-stage exploration of the capacity of AL3’s WAM® process and expect further developments in time. There is no change to our forecasts at this point in time.

Base case DCF valuation of \$71m with upside to \$124m

We use the discounted cashflow methodology to value AML3D due to the company’s early stage of development. Negative free cashflow was reported in 2021 and is expected in 2022 and 2023. We expect strong free cash generation thereafter. Using a WACC of 11.1% (Beta 1.5 vs measured Beta of 0.21, terminal growth rate of 2.2%) we derive an equity value of \$71m or \$0.475/share on the current issued capital of 150.4m shares. 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 at \$0.829/share. A full discussion of our valuation is available in our recent initiation report [Additive manufacturing matures](#).

Historical earnings and RaaS estimates

Year end	Total Revenue (A\$m)	Gross Profit (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	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 Advisory estimates for FY22e, and FY23e

Share Details

ASX code	AL3
Share price (4-Nov)	\$0.18
Market capitalisation	\$26.7M
Shares on issue	150.4M
Net cash at 30-Sep	\$5.3M
Free float	~54%

Share Price Performance (12-months)



Upside Case

- Strong consumer 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
- Product trials do not convert to sales

Catalysts

- Announcement of additional machine sales
- Ratification of test parts supplied to potential customers (e.g., Boeing)
- Manufacturing orders following ratification
- AGM 19th November 2021

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FINANCIAL SERVICES GUIDE

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

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