

AGL begins 3D printing power station parts on-demand

AML3D Ltd (ASX:AL3) was established in 2014 to commercialise the patented WAM (Wire Additive Manufacturing) process, an additive manufacturing technology for the cost-effective production of large, high-performance metal components and structures. The company has reported a positive outlook with Q3 results and forecasts a strong revenue and cashflow quarter in Q4. AL3 is currently building three machines for delivery in FY22 and expects another sale in Singapore. The company has orders for two more machines to be delivered before December. AL3 is 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 and likely provide additional commercial opportunities in supply of welding materials. AL3's announcement of a supply agreement with AGL Energy Ltd (ASX:AGL) is a significant step on the path to fully integrating 3D printing and the WAM process into corporate supply chains. Adding the capacity for locally supplied, on-demand, parts has the potential to rebalance logistics and strategic challenges back in favour of the remote user of those parts.

Business model

AML3D generates revenues 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.

AGL enhances supply-chain with on-demand parts

AGL has signed an agreement with AL3 to supply power station parts on-demand from the Adelaide facility. The initial order is not significant financially, at \$55,000, but is a first step to integrate the WAM process into industrial supply chains. The agreement provides a large signpost to the capability of AL3's ARCEMY modules to transform modern industrial supplies and production processes.

Base-case DCF valuation of \$65m

We use the discounted cashflow methodology to value AML3D due to the company's early stage of development. As we highlighted in our 13 October 2021 Initiation Report, **Additive manufacturing matures**, our base case remains 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 still at \$0.75/share. This valuation will be adjusted as risk-free rates rise.

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	2.0	0.8	(4.0)	(4.1)	(2.5)	4.1
06/23e	4.6	1.4	(3.1)	(2.7)	(1.6)	3.0

Source: Company data; RaaS estimates for FY22e and FY23e

Additive Manufacturing

20 May 2022

Share Details

ASX code	AL3
Share price (20-May)	\$0.09
Market capitalisation	\$13.2M
Shares on issue	150.4M
Net cash 31-Mar-2022	\$3.1M
Free float	~54%

Share Performance (12 months)



Upside Case

- Strong customer interest leads to further machine orders
- Manufacturing contracts ramp up from latest agreements
- First-mover advantage is maintained through R&D in manufacturing and materials

Downside Case

- Slow conversion of customers
- Further delays in expansion due to COVID
- Manufacturing orders slow to arrive

Catalysts

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

Board of Directors

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

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Key Points

- AML3D becomes an approved supplier for power plants;
- Initial order valued at \$55,000 for nickel-aluminium-bronze impellers;
- The first example of supply chain integration for AML3D;
- Provides an example of the path ahead for AML3D and industry usage of 3D printing;
- AL3 will create a library of parts for future delivery as AGL proceeds through its parts replacement program;
- AGL is able to reduce inventory and supply chain risks;
- WAM technology allows AGL to replace parts no longer available from original manufacturers or have long, expensive, lead times; and
- The WAM process has an inherently lower environmental footprint than traditional manufacturing processes.

Longer Term Implications

This agreement is AL3's first on-going supply agreement and may be the first of its kind for the supply of large-scale printed components. The arrangement will provide a clear example for other similar agreements and is an important step in the transformation of modern manufacturing and engineering processes. It may be even more important in the current geopolitical environment as Australia confronts the need to be less dependent on lengthy and concentrated supply chains.

Exhibit 6: Financial Summary

AML3D Ltd (ASX:AL3)						Share price (Date) 20/05/2022						A\$ 0.092				
Profit and Loss (A\$m)						Interim (A\$m)										
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	1H20 A	2H20 A	1H21 A	2H21 A	1H22 E	2H22 E					
Sales Revenue	0.2	0.3	0.6	2.0	4.6	Revenue	0.1	0.2	0.1	0.5	0.3	1.7				
Gross Profit	0.2	0.2	0.3	0.8	1.4	EBITDA	(1.8)	(1.3)	(2.1)	(3.3)	(2.5)	(1.6)				
EBITDA	(0.6)	(3.2)	(5.5)	(4.0)	(3.1)	EBIT	(1.8)	(1.3)	(2.3)	(3.5)	(2.7)	(2.0)				
Depn	(0.1)	(0.1)	(0.4)	(0.6)	(0.6)	NPAT (normalised)	(1.8)	(1.3)	(2.2)	(3.5)	(2.7)	(1.4)				
Amort	0.0	0.0	0.0	(0.0)	(0.2)	Minorities	-	-	-	-	-	-				
EBIT	(0.7)	(3.2)	(5.9)	(4.7)	(3.9)	NPAT (reported)	(1.8)	(1.1)	(2.1)	(3.5)	(2.7)	(1.4)				
Interest	0.0	0.0	0.0	(0.0)	(0.0)	EPS (normalised)	(1.24)	(1.10)	(1.47)	(2.17)	(1.66)	(0.82)				
Tax	0.0	0.0	0.0	0.6	1.2	EPS (reported)	(1.39)	(0.85)	(1.43)	(2.30)	(1.82)	(0.90)				
Minorities	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	-	-	-	-	-	-				
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0				
NPAT pre significant item	(0.7)	(3.2)	(5.8)	(4.1)	(2.7)	Operating cash flow	(0.8)	(1.8)	(1.9)	(4.4)	(2.5)	(0.4)				
Significant items	0.0	0.1	0.2	0.0	0.0	Free Cash flow	(0.7)	(1.1)	0.4	(4.1)	(2.3)	0.7				
NPAT (reported)	(0.7)	(3.1)	(5.7)	(4.1)	(2.7)	Divisions	1H20 A	2H20 A	1H21 A	2H21 A	1H22 E	2H22 E				
Cash flow (A\$m)						Contract Manufacturing	0.0	0.0	0.0	0.0	0.6	0.7				
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	Machine Sales	0.0	0.0	0.0	0.0	0.0	0.7				
EBITDA	(0.6)	(3.2)	(5.5)	(4.0)	(3.1)	Licence Income	0.0	0.0	0.0	0.0	0.3	0.4				
Interest	0.0	0.0	0.0	(0.0)	(0.0)	COGS	0.0	0.0	0.0	0.0	(0.6)	(1.1)				
Tax	0.0	0.0	0.0	0.0	0.0	Employment	0.0	0.0	0.0	0.0	(1.6)	(1.6)				
Working capital changes	(0.3)	0.6	(0.9)	1.1	(0.6)	Technology, licence fees	0.0	0.0	0.0	0.0	0.0	0.0				
Operating cash flow	(0.9)	(2.6)	(6.3)	(2.9)	(3.7)	Other costs	0.0	0.0	(2.4)	(4.0)	(0.6)	(0.6)				
Mtce capex	(0.2)	(0.8)	(0.3)	(0.2)	(0.4)	EBITDA	(1.8)	(1.3)	(2.1)	(3.3)	(2.5)	(1.6)				
Free cash flow	(1.1)	(3.4)	(6.6)	(3.1)	(4.1)	Margins, Leverage, Returns						FY19A	FY20A	FY21A	FY22F	FY23F
Growth capex	(0.0)	(0.0)	(2.3)	(1.1)	(1.4)	EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Other	0.0	(0.0)	0.0	0.0	0.0	NPAT pre significant items	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Cash flow pre financing	(1.2)	(3.5)	(8.9)	(4.2)	(5.5)	Net Debt (Cash)	(0.6)	7.8	6.8	2.7	(2.8)					
Equity	0.1	10.2	7.3	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	n/a				
Debt	1.6	(0.1)	(0.1)	(0.1)	0.0	ND/ND+Equity (%)	(%)	125%	(411%)	(141%)	(58%)	37.3%				
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a				
Net cash flow for year	0.5	6.7	(1.7)	(4.2)	(5.5)	ROA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Balance sheet (A\$m)						ROE	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Y/E 30 June	FY19A	FY20A	FY21A	FY22F	FY23F	ROIC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Cash	1.2	8.2	7.3	3.0	(2.5)	NTA (per share)	n/a	0.07	0.08	0.04	0.01					
Accounts receivable	0.3	0.7	0.5	0.2	0.4	Working capital	0.2	0.0	1.7	0.3	0.9					
Inventory	0.0	0.1	2.0	0.3	0.8	WC/Sales (%)	105%	17%	259%	16%	20%					
Other current assets	0.0	0.2	0.2	0.2	0.2	Revenue growth	(35%)	45%	121%	213%	130%					
Total current assets	1.5	9.3	10.0	3.6	(1.2)	EBIT growth pa	n/a	n/a	n/a	n/a	n/a	n/a				
PPE	0.3	1.5	3.3	2.6	2.3	Pricing	FY19A	FY20A	FY21A	FY22F	FY23F					
Intangibles and Goodwill	0.0	0.0	0.1	1.3	2.6	No of shares (y/e)	(m)	132	148	150	150	150				
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	132	148	148	165	165				
Deferred tax asset	0.0	0.0	0.0	0.6	1.7	EPS Reported	cps	0.0	0.0	(3.4)	(2.5)	(1.6)				
Other non current assets	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	0.0	0.0	(3.6)	(2.5)	(1.6)				
Total non current assets	0.4	1.6	3.4	4.5	6.7	EPS growth (norm/dil)	n.a.	n.a.	n.a.	-32%	-34%					
Total Assets	1.8	10.9	13.4	8.1	5.5	DPS	cps	-	-	-	-	-				
Accounts payable	0.1	0.8	0.9	0.1	0.3	DPS Growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Short term debt	1.8	0.1	0.2	0.0	0.0	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%				
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend imputation	30	30	30	30	30	30				
Other current liabilities	0.1	0.0	0.5	0.3	0.3	PE (x)	n.a.	n.a.	-2.7	-3.7	-5.6					
Total current liabilities	1.9	0.9	1.5	0.4	0.5	PE market	17.8	17.8	17.8	17.8	17.8					
Long term debt	0.0	0.3	0.3	0.3	0.3	Premium/(discount)	n.a.	n.a.	(115%)	(121%)	(131%)					
Other non current liabs	0.0	0.0	0.0	0.0	0.0	EV/EBITDA	-18.4	-1.8	-1.3	-2.8	-5.4					
Total long term liabilities	0.0	0.3	0.3	0.3	0.3	FCF/Share	cps	-0.6	-1.2	-4.0	-1.8	-2.2				
Total Liabilities	1.9	1.2	1.8	0.7	0.8	Price/FCF share	-16.5	-7.8	-2.3	-5.1	-4.2					
Net Assets	(0.1)	9.7	11.6	7.4	4.7	Free Cash flow Yield	(6.1%)	(12.8%)	(43.2%)	(19.8%)	(23.9%)					
Share capital	1.1	14.0	21.3	20.6	20.6											
Accumulated profits/losse	0.0	(4.3)	(9.8)	(13.9)	(16.6)											
Reserves	(1.2)	0.0	0.1	0.7	0.7											
Minorities	0.0	0.0	0.0	0.0	0.0											
Total Shareholder func	(0.1)	9.7	11.6	7.4	4.7											

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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AFSL 456663

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

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