

21 December 2023

Amaero International Ltd

Several milestones tracking ahead of schedule

Amaero International Ltd (ASX:3DA) is a global specialist in advanced materials manufacturing for the defence, aerospace, and other industrial sectors. The company is developing a 1,000+-tonne-a-year critical metals alloy powder manufacturing facility in Tennessee, USA with its initial focus on producing refractory alloy powder, C103, a critical metal powder used in hypersonics weaponry. On December 19, the company provided an update to investors on its progress to date this month with several milestones tracking ahead of schedule. These milestones included the completion of the Fairmont Consulting Group Market Study; completion of the final design and engineering for Phase 1 with construction now commenced on the Phase 1 fit-out; advancing contract negotiations for the second atomiser; and an expectation that the first atomiser would now be installed ahead of the prior April guidance. Furthermore, the company is now engaging counterparties and advancing discussions for an offtake agreement and feedstock supply agreement. Executive Chairman Hank Holland told shareholders that there was nothing in the Fairmont Consulting Group's work which suggested current market analyst expectations needed to be wound back. Amaero anticipates it will provide an executive summary from the study to shareholders in late January, subject to ASX approval.

Business model

Amaero is developing a critical metals powder manufacturing facility in Tennessee, USA, with the first EIGA gas atomiser's production focused on C-103, a Niobium alloy with high-performance, heat-resistant properties which are critical to hypersonic and space applications. We anticipate that the second gas atomiser will be used to produce specialty alloys on short-term assignments with the third deployed to Ti64 production for use in defence and aerospace applications.

Moving apace on key milestones

Amaero has provided an investor update on its progress this month to date which highlights that the company is moving apace, and potentially ahead of the timing incorporated into our forecasts, on key milestones. The first atomiser is now expected to be installed in advance of its prior April guidance, which potentially will enable the company to move to testing and commissioning earlier than we have envisaged in our financial modelling. Amaero has also progressed contract negotiations for its second EIGA, at least one quarter ahead of our forecasts, which again, potentially shortens the timeline to cash flow from operations. The company highlighted it was advancing a corporate credit facility with a US-based bank and that separately, it was finalising engagement with a US-based investment bank to advise on strategic financing, corporate strategy and financial planning. New hires include Chief Commercial Officer Steve Kachur and Dr Ronald Aman as Director of Manufacturing, while VP Operations, Jay Chandran has been promoted to the role of Chief Commercial Officer.

Base-case DCF valuation is \$1.39b or \$1.45/share fully-diluted

Our base-case DCF valuation remains unchanged at \$1.39b or \$1.45/share, fully diluted for an anticipated strategic raising and incorporating the current raise and options exercise. On the post-raise share count of 479m shares the valuation is \$2.90/share. Our expectation is that Amaero will deliver revenue from FY25, profitability from FY26, and achieve "at capacity" earnings in H2 CY28. Our forecasts anticipate Amaero will opt to produce a range of powders, first C103, followed by specialty alloy and Ti64 titanium powder. Our modelling has incorporated only three gas atomisers as per 3DA's commentary, despite having capacity in its Tennessee facility for five. A decision to add additional gas atomisers and/or to focus entirely on C103 or a mix of C103 and specialty powders would have a significant impact on our forecasts.

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

Y/E	Sales revenue	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)	EV/EBITDA (x)	PER (x)
06/23a	0.8	2.1	(7.9)	(12.5)	(2.8)	nm	nm	nm
06/24f	1.8	(7.8)	(22.2)	(19.9)	(3.1)	nm	nm	nm
06/25f	43.3	(14.2)	(30.9)	(28.9)	(3.9)	5.6	nm	nm
06/26f	240.1	63.4	41.3	26.3	2.8	0.9	6.1	8.8
06/27f	474.2	175.5	110.5	80.9	8.2	0.3	1.4	3.0

Source: Company data, RaaS Advisory estimates for FY24f-FY27f

Share Details

ASX code	3DA
Share price (20-Dec)	\$0.25
Market capitalisation	\$119.8M
Shares on issue (post Nov issue)	479M
Est. cash at Nov-23	~\$14M
Free float	~33%

Share Price Performance (12-months)



Upside Case

- Amaero develops a significant presence in the advanced manufacturing supply chain
- Strong tailwinds in US and global demand for US advanced metal powder production
- Strong Chairman/CEO with experience and connectivity to key stakeholders in the US

Downside Case

- Further strategic equity raises may result in dilution
- Pre-production with no guarantee that strategy will translate into earnings success
- Cash-flow profit still at least two years away

Catalysts

- Release of Fairmont Consulting's exec summary
- Project finance secured for Tennessee operation
- Strategic equity commitment secured
- Completion of fitout at Tennessee facility
- Successful commissioning of first EIGA atomiser
- Offtake agreements for C103 production
- Purchase/installation of additional EIGAs
- Confirmation of first revenue/cash-flow

Company Interview

[Amaero post AGM interview 8 November 2023](#)

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FINANCIAL SERVICES GUIDE

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