

# Amaero International Ltd

## No surprises in Q3 result, focus on the UAE greenlight

Amaero International Ltd (ASX:3DA) is a global specialist in metal additive manufacturing for the defence, aerospace, and other industrial sectors. The company has reported a Q3 operating cash loss of \$3.33m which was in line with our expectations. The cash balance at the end of Q3 was \$9.8m with an additional \$2.05m in non-recurring cash payments has been received since the end of the quarter. The company's focus is on the development of its 827-tonne a year titanium powder facility in the United Arab Emirates which it expects to greenlight before the end of this financial year. The newly created UAE enterprise, Amaero Advanced Metals Ltd, will be built within Abu Dhabi's KEZAD industrial park, with negotiations likely to see Amaero free-carried on rent and fitout costs until the company generates revenue. Amaero has publicly stated (investor call 4 April 2023) with a monthly cash burn of ~\$0.8-\$1.0m, it believes it has sufficient funds for the remainder of CY23 and into early CY24 and Chairman and CEO Hank Holland reiterated to shareholders on a conference call on April 26 that he did not expect to return to equity markets for additional capital. Instead, Amaero plans to seek strategic investors for future capital needs. As we highlighted in our April 6 report **'Plan B' brings risk but potentially greater returns**, with the green-light for the project slated for the end of June 2023, we conservatively anticipate first production by CY25, powder qualification commencing in CY27 and "at capacity" production in CY28. This derives a base case valuation of \$528m, \$1.26/share on the current share count and \$0.66/share fully diluted for anticipated strategic placements and debt to fund the operations.

### Business model

Amaero is focused on developing an 827-tonne-a-year titanium powder facility in the United Arab Emirates of which 414 tonnes a year will be aerospace-grade titanium powder. Amaero has announced strategic plans that include expansion of powder production to include other specialty alloys (Cu, Al and Ni-based superalloys), integration of midstream titanium supply chain (melt and mill) and Digital Manufacturing Commercialization Centres.

### Positioning to become a significant player in Ti supply chain

Amaero's decision to focus on becoming a strategic player in the titanium powder supply chain dovetails with a geopolitical shift in supply sources. The company's equipment and process knowledge positions Amaero to produce titanium powder, including aerospace grade, more efficiently and cost-effectively than legacy competitors. The company's Chairman and CEO Hank Holland highlighted to shareholders in a post quarterly conference call on April 26 that Amaero was shifting from metal additive manufacturing to a significant titanium powder, melt and sponge manufacturer all of which are currently in short supply globally. Mr Holland noted that early scoping for a melt operation had begun in tandem with ongoing planning for the titanium powder facility which remains on track for approval to proceed by June 2023 with the installation of the four gas atomisers in each quarter in CY25. He anticipates aerospace- and defence-grade powder qualification 24 months after each installation in CY27, with 'at capacity' qualified powder revenues in CY28. Our report of [6 April](#) has full details of our earnings estimates for the project.

### Base-case DCF valuation is \$0.66/share fully diluted or \$528m

Our base-case DCF valuation is \$0.66/share, fully diluted, or \$528m following a substantial restructuring of our financial model and forecasts. On the current share count of 419m shares the valuation is \$1.26/share. There is increased risk in the long lead times to profitability and this is embedded in our forecasts and valuation. Our forecasts now reflect our expectation that the value now lies in the UAE titanium powder project with earnings estimates from H1 FY25 and "at capacity" earnings achieved in H1 FY28. Our forecasts only include the initial titanium powder facility without additional downstream production or projects. Earlier approvals for the delivery of powder and/or non-equity-participating funding to build the facility could have a positive impact on valuation.

#### Historical earnings and RaaS forecasts (in \$A unless otherwise stated)

Y/E	Sales revenue	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)
06/22a	0.6	0.8	(7.2)	(8.6)	(4.1)	n.m.
06/23f	0.5	1.4	(11.2)	(18.1)	(3.1)	n.m.
06/24f	0.0	0.0	(20.6)	(21.6)	(4.6)	n.m.
06/25f	3.6	(0.9)	(29.3)	(35.0)	(6.2)	49.8

Source: Company data for historical; RaaS estimates for FY23f, FY24f and FY25f

## Additive Manufacturing

27 April 2023

### Share Details

ASX code	3DA
Share price (26-Apr)	\$0.16
Market capitalisation	\$67.0
Shares on issue	419.0M
Net est. cash 26-Apr	\$11.8M

### Share Performance (12 months)



### Upside Case

- UAE project develops a significant presence in the global titanium supply chain
- Strong tailwinds in global demand for both additive manufacturing and metal powder production
- Strong Chairman/CEO with experience and connectivity to key stakeholders in the UAE

### Downside Case

- Further capital raises may result in dilution
- Still very early stage with no guarantee that strategy will translate into earnings success
- Long lead times for approval and engagement with defence primes

### Catalysts

- Funding secured for Ti powder production in UAE
- Commencement/completion of facility at KEZAD
- Finalisation of an offtake arrangement with a defence major and subsequent certification

### Company Interview

[Amaero International RaaS Chairman & CEO Interview](#)

### Board of Directors & Management

Hank J. Holland	Chairman and CEO
David Hanna	Non-Executive Director
Lucy Robb Vujcic	Non-Executive Director
Omar Granit	Non-Executive Director
Erik Levy	Non-Executive Director

### Company Contacts

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\*The analyst holds shares

## Next Steps In The Project

In a conference call with shareholders on 26 April, Chairman and CEO Hank Holland reiterated that Amaero was aiming to greenlight the project by June 30. The following was highlighted:

- Negotiations with the Khalifa Economic Zone Abu Dhabi Group (KEZAD Group) continued apace on the development of the built-to-suit titanium powder facility with the first phase comprising a 9,300-square-metre (100,000-square-foot) operation with two gas atomisers for titanium powder production together with office, a laboratory and powder processing. A second phase will see an 11,150-sqm (120,000-sq-ft) operation with another two gas atomisers, revert/titanium recycling plant and powder processing. Amaero has negotiated an initial rent-free period and the company expects that the development and fit out costs will be capitalised on a long-term lease. Amaero reiterated its expectation that a binding lease will be signed by the end of June and that the first phase of the facility will be delivered by June 2024.
- Amaero continues to advance discussions with Emirates Development Bank for project financing which would see EDB capitalise interest until the project reaches profitability. Frost & Sullivan has been retained to produce an independent feasibility study for EDB in order for the financing to advance to final approval and a binding term sheet. This report is expected to be finalised by the end of April with Mr Holland expecting to finalise the binding term sheet by the end of June.
- The Korn Ferry engagement to fill several key executive roles for the project including Managing Director – Titanium Powder Production and Chief Financial Officer/Chief Administration Officer continues with candidates from both Europe and Australia identified.
- Amaero continues engagement with at least two prime OEMs and metal distributors for feedstock and offtake agreements. It is expected that the offtake agreement will be accompanied by a collaboration to identify Ti and speciality powders that are in critical demand, to evaluate equipment technology, to certify equipment and to qualify powder. Amaero is also in discussion with OEMs of equipment to determine the best path for melt and sponge operations.
- Mr Holland reiterated his expectation that it would take 24 months from the installation of each gas atomiser to secure aerospace powder qualification. He highlighted that it was currently envisaged that the four gas atomisers would each be installed in quarters 1,2,3, and 4 of CY25 with qualification for aerospace grade in each quarter of CY27 and at capacity production and revenues in CY28.
- Mr Holland and Pegasus Growth Capital now both have Foreign Investment Review Board approval to acquire up to an additional 20.5% interest in Amaero (including the options currently held by both parties), which would take the combined holding to 60%. They will be eligible to acquire additional shares from 1 June 2023 to 6 February 2024.

## DCF Valuation

In our view, given the early-stage nature of Amaero's business and the time that it will take to get the UAE project into full production, the discounted cashflow methodology is the most appropriate method for valuing the company. Earlier commencement of the project, and earlier qualification of aerospace grade powder, would have a material impact on our forecasts given the time-weighting in this methodology. We derive a weighted average cost of capital (WACC) of 12.0% (Cost of Equity 14.9%, beta 1.8, terminal growth rate 2.2%) and this gives us a base-case valuation of \$528m or \$0.66/share on a fully diluted basis. On the current share count of 419m, the valuation is \$1.26/share. We use an equity risk premium of 6.5%, risk-free rate of 3.5% and target gearing of 25%. Note that we use the UAE corporate tax rate of 9% in our valuation. The valuation also assumes that the project is predominantly debt/strategic equity funded. Should the company secure non-participating funding for the project's capex and/or working capital, this could potentially increase our valuation.

**Exhibit 1: DCF valuation (in A\$m unless otherwise stated)**

DCF valuation	Parameters
Cost of Equity	14.9%
Beta	1.8
Cost of Debt after tax	3.2%
WACC	12.0%
Equity risk premium	6.5%
Risk-free rate	3.5%
Terminal growth rate	2.2%
Sum of PV (A\$m)	83.3
Terminal value at FY33 (A\$m)	1,264.0
Present value of terminal value (A\$m)	365.1
PV of enterprise (A\$m)	448.3
Fully diluted cash and debt (A\$m)	(79.6)
Net value – shareholder (A\$m)	528.0
No. of shares on issue (fully diluted) (M)	804.4
<b>NPV in A\$/share</b>	<b>\$0.66</b>

Source: RaaS analysis

## Exhibit 2: Financial Summary

Amaero International Ltd						Share price (26 April 2023)						A\$	0.16					
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223F	H223F	H223F	
Y/E 30 June	FY22A	FY23F	FY24F	FY25F	FY26F													
Sales Revenue	0.6	0.5	0.0	3.6	22.9	Sales Revenue	0.2	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Revenue	1.5	1.9	0.0	3.6	22.9	EBITDA Adj	(3.0)	(4.2)	(3.1)	(8.1)	(8.5)	(12.1)						
Gross Profit	0.8	1.4	0.0	(0.9)	(2.7)	EBIT Adj	(3.5)	(4.7)	(3.7)	(8.6)	(9.4)	(13.0)						
EBITDA Adj	(7.2)	(11.2)	(20.6)	(29.3)	(44.1)	NPAT (Adj)	(3.6)	(4.8)	(3.8)	(8.6)	(8.9)	(12.7)						
Depn	(1.1)	(1.1)	(1.8)	(6.0)	(9.0)	Minorities	-	-	-	-	-	-						
Amort	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(3.5)	(5.1)	(6.6)	(8.6)	(8.9)	(12.7)						
EBIT Adj	(8.2)	(15.2)	(22.4)	(35.3)	(53.1)	EPS (Adj)	(1.76)	(2.31)	(1.05)	(2.04)	(1.98)	(2.53)						
Interest	(0.2)	(0.0)	0.8	0.3	0.2	EPS (reported)	(1.73)	(2.45)	(2.39)	(2.00)	(1.88)	(2.41)						
Tax	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	-	-	-	-	-	-						
Minorities	0.0	0.0	0.0	0.0	0.0	Imputation	-	-	-	-	-	-						
Equity accounted assoc	(0.0)	0.0	0.0	0.0	0.0	Operating cash flow	(4.4)	(3.5)	(6.2)	(3.0)	(11.8)	(16.0)						
NPAT pre significant items	(8.4)	(15.2)	(21.6)	(35.0)	(52.9)	Free Cash flow	(4.4)	(3.5)	(6.2)	(3.0)	(11.8)	(16.0)						
Significant items	(0.2)	(2.9)	0.0	0.0	0.0	Divisions												
NPAT (reported)	(8.6)	(18.1)	(21.6)	(35.0)	(52.9)	Sales and service revenue	0.2	0.4	0.5	0.0	0.0	0.0						
Cash flow (A\$m)						R&D grants	0.8	0.2	1.4	0.0	0.0	0.0						
Y/E 30 June	FY22A	FY23F	FY24F	FY25F	FY26F	Total Revenue	1.0	0.5	1.9	0.0	0.0	0.0						
EBITDA	(7.2)	(11.2)	(20.6)	(29.3)	(44.1)	COGS	0.4	0.3	0.5	0.0	0.0	0.0						
Interest	(0.2)	(0.0)	0.8	0.3	0.2	Gross Profit	0.6	0.2	1.4	0.0	0.0	0.0						
Tax	0.0	0.0	0.0	0.0	0.0	R&D costs	(1.2)	(1.8)	(1.6)	0.0	0.0	0.0						
Working capital changes	(0.6)	2.1	(8.1)	(28.7)	(9.4)	Employment	(0.8)	(0.8)	(1.2)	(2.4)	(2.6)	(5.2)						
Operating cash flow	(8.0)	(9.2)	(27.9)	(57.7)	(53.3)	General & Admin costs	(1.0)	(1.2)	(1.2)	(4.8)	(4.9)	(5.9)						
Mtce capex	0.0	0.0	0.0	0.0	0.0	Other costs	(0.6)	(0.5)	(0.5)	(0.9)	(0.9)	(1.0)						
Free cash flow	(8.0)	(9.2)	(27.9)	(57.7)	(53.3)	EBITDA	(3.0)	(4.2)	(3.1)	(8.1)	(8.5)	(12.1)						
Growth capex	(3.2)	(7.1)	(34.5)	(32.1)	(8.3)	Margins, Leverage, Returns												
Acquisitions/Disposals	0.0	(0.0)	0.0	0.0	0.0	FY22A	FY23F	FY24F	FY25F	FY26F								
Other	(0.0)	0.0	0.0	0.0	0.0	EBITDA	nm	nm	nm	nm	nm							
Cash flow pre financing	(11.1)	(16.3)	(62.4)	(89.8)	(61.7)	EBIT	nm	nm	nm	nm	nm							
Equity	8.1	10.5	23.4	72.6	45.2	NPAT pre significant items	nm	nm	nm	nm	nm							
Debt	2.6	79.5	0.0	0.0	(2.8)	Net Debt (Cash)		8.3	4.5	(35.6)	(56.4)	(75.1)						
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	n/a						
Net cash flow for year	(0.4)	73.8	(39.0)	(17.2)	(19.2)	ND/ND+Equity (%)	(%)	(132.8%)	(58.7%)	73.2%	54.5%	67.0%						
Balance sheet (A\$m)						EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a						
Y/E 30 June	FY22A	FY23F	FY24F	FY25F	FY26F	ROA		(40.1%)	(24.6%)	(21.7%)	(28.2%)	(36.7%)						
Cash	11.1	84.2	44.0	23.2	1.7	ROE		(58.0%)	(134.9%)	(170.7%)	(116.6%)	(125.8%)						
Accounts receivable	0.4	0.1	0.0	0.5	3.0	ROIC		(637.1%)	3053.3%	(38.0%)	(70.6%)	(70.1%)						
Inventory	1.1	1.0	1.0	3.6	15.0	NTA (per share)		0.06	0.03	0.02	0.06	0.05						
Other current assets	0.1	0.2	0.2	0.2	0.2	Working capital		0.0	(3.9)	(6.8)	(10.3)	(7.5)						
Total current assets	12.7	85.5	45.3	27.5	20.0	WC/Sales (%)		1.9%	(804.7%)	nm	(286.1%)	(32.7%)						
PPE	8.6	14.6	47.3	73.4	72.8	Revenue growth		13.0%	(14.9%)	(100.0%)	nm	532.9%						
Intangibles and Goodwill	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		n/a	n/a	n/a	n/a	n/a						
Investments	0.4	1.0	12.0	44.2	50.8	Pricing												
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	No of shares (y/e)	(m)	241	474	581	764	804						
Other non current assets	0.2	0.2	0.2	0.2	0.2	Weighted Av Dil Shares	(m)	207	419	500	581	713						
Total non current assets	9.1	15.8	59.6	117.9	123.7	EPS Reported	cps	(4.2)	(4.4)	(4.6)	(6.2)	(7.0)						
Total Assets	21.9	101.3	104.8	145.4	143.8	EPS Normalised/Diluted	cps	(4.1)	(3.1)	(4.6)	(6.2)	(7.0)						
Accounts payable	1.4	5.0	7.9	14.4	25.5	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	n/a						
Short term debt	0.0	0.0	0.0	0.0	0.0	DPS	cps	-	-	-	-	-						
Tax payable	0.0	0.0	0.0	0.0	0.0	DPS Growth		n/a	n/a	n/a	n/a	n/a						
Other current liabilities	0.6	2.2	2.2	2.2	2.2	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%						
Total current liabilities	2.1	7.2	10.1	16.6	27.8	Dividend imputation		0	0	0	0	0						
Long term debt	2.8	79.7	79.7	79.7	76.8	PE (x)		-	-	-	-	-						
Other non current liabs	2.4	2.2	2.2	2.2	2.2	PE market		15.0	15.0	15.0	15.0	15.0						
Total long term liabilities	5.2	81.9	81.9	81.9	79.0	Premium/(discount)		nm	nm	nm	nm	nm						
Total Liabilities	7.2	89.1	91.9	98.5	106.8	EV/EBITDA		nm	nm	nm	nm	nm						
Net Assets	14.6	12.3	13.0	47.0	37.1	FCF/Share	cps	(3.30)	(1.94)	(4.79)	(7.55)	(6.63)						
Share capital	35.3	48.2	71.6	144.2	189.5	Price/FCF share		(4.9)	(8.3)	(3.34)	(2.12)	(2.41)						
Accumulated profits/losses	(21.5)	(36.0)	(58.7)	(97.4)	(152.5)	Free Cash flow Yield		(20.6%)	(12.1%)	(30.0%)	(47.2%)	(41.4%)						
Reserves	0.8	0.1	0.1	0.2	0.1													
Minorities	0.0	0.0	0.0	0.0	0.0													
Total Shareholder funds	14.6	12.3	13.0	47.0	37.1													

Source: Company data for historicals, RaaS estimates



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

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