

Amaero International Ltd

US location positive for earnings profile and valuation

Amaero International Ltd (ASX:3DA) is a global specialist in titanium and specialty alloy powder production and advanced manufacturing for the defence, aerospace, and other industrial sectors. The company has announced that it has greenlighted its flagship 827-tonne a year titanium powder manufacturing facility in Tennessee, USA, following commitments for economic incentives from government and business organisations that were more advantageous when compared with the previous location of the United Arab Emirates. The new “nearing completion” industrial facility in Cleveland, Tennessee, will allow Amaero to accelerate the installation of its titanium powder manufacturing facility, delivering first production more than 12-months ahead of the slated UAE start. This will deliver break-even 12 months’ sooner and reduce working capital requirements by an estimated \$22m. It also positions Amaero to benefit from the critical minerals status that titanium has been awarded by the US government. In our view, the new location also removes substantial risk for the company, with lower lease and electricity costs than the previous iteration, with closer proximity to the company’s primary customers and with financing for the project expected to be sourced from strategic US investors. We have adjusted our earnings forecasts to reflect the expected earlier start (profitable operations in CY26 and full capacity production in CY27) with two gas atomisers in operation from early FY25. Our base case valuation (based on a 10-year discounted cashflow) is now \$684.5m (previously of \$528m) or \$1.63/share (up from \$1.26/share) on the current share count and \$0.85/share fully diluted (previously \$0.66/share).

Business model

Amaero is focused on developing an 827-tonne-a-year titanium powder facility in Tennessee, USA, of which 414 tonnes a year will be aerospace-grade titanium powder. Amaero has announced strategic plans that include integration of midstream titanium supply chain (melt, forge and mill) and advanced manufacturing alternatives to metal forgings and castings.

On the fast-track for development

Amaero has announced that it has greenlighted its titanium powder manufacturing operation at a nearing completion facility in Cleveland, Tennessee in the US. The company has taken a lease over the facility with lease payments at least 75% less than the proposed build-to-suit facility at KEZAD in the United Arab Emirates and with a 10-year electricity deal substantially below that offered in the UAE and 85% below the prevailing rates in Victoria. The company will now install four electrode inert gas atomisers (EIGAs) at the new location in a purpose-built extension. By opting for a nearly completed facility, Amaero will be able to accelerate first production by more than 12 months and reach break-even much earlier than the timing planned in the UAE. This will also cut the working capital requirements by \$22m to \$56m. We have adjusted our forecasts for the new timing, which has had the effect of upgrading our forecasts from FY25. We now expect Amaero to post its maiden EBITDA profit in FY26, 12 months earlier than our previous estimates.

Base-case DCF valuation upgraded by 30% to \$685m

Our base-case DCF valuation is \$0.85/share, fully diluted for anticipated strategic raisings, or A\$684.5m (previously \$528m). On the current share count of 419m shares the valuation is \$1.63/share (previously \$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 Tennessee titanium powder project with earnings estimates from FY25, operational profitability from FY26, and “at capacity” earnings achieved in CY27. 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)	nm
06/23f	0.5	1.4	(11.2)	(15.3)	(3.1)	nm
06/24f	0.0	0.0	(20.6)	(22.0)	(4.6)	nm
06/25f	22.3	9.1	(23.4)	(29.3)	(5.2)	6.46

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

Additive Manufacturing

20 July 2023

Share Details

ASX code	3DA
Share price (19-Jul)	\$0.12
Market capitalisation	\$50.8M
Shares on issue	419.0M
Net est. cash 30-June	\$8.9M
Free Float	33.0%

Share Performance (12 months)



Upside Case

- Amaero’s US operation 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 US

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 US
- Completion of facility in Tennessee
- Finalisation of certification and offtake agreements

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

Hank J. Holland (Chair/CEO)	+61 3 9905 9847
hank.holland@amaero.com.au	
Gabriella Hold (IR)	+61 411 364 382
gabriella.hold@atomicgroup.com.au	

RaaS Contact

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

*The analyst holds shares

US Location Delivers A Stronger Business Case

The US location delivers a substantially stronger business case to Amaero's titanium powder manufacturing operations with the following points to note:

- The "nearing completion" facility with a prepared pad for the high-bay extension for the EIGAs will allow Amaero to install the plant sooner than the proposed "build to suit" project in the UAE. This shaves at least 12 months off the time to break-even and reduces working capital requirements by an estimated \$22m. The capital budget remains the same;
- The company plans to tap into the US capital markets for emerging growth companies, including venture debt and equipment leasing. Chairman and CEO Hank Holland has substantial experience in these markets and extensive relationships with US financial and strategic investors;
- Tennessee delivers a pro-growth business environment and proximity to the company's primary customers, to supply chain, to research and development facilities, and to a highly-skilled workforce. Amaero will have more business development flexibility from both a technology-transfer and export control perspective;
- The UAE's decision to withdraw from a US-led maritime coalition (31 May 2023) and join a naval alliance with Iran, Saudi Arabia and Oman (3 June 2023) potentially increases uncertainty for business investment in the region;
- The US locale will give Amaero the opportunity to pursue US government funding and incentives targeting re-shoring advanced manufacturing, critical materials supply chain and defence production;
- The new location does not stop Amaero from pursuing offset credit funding for other strategic projects in the UAE.

Earnings Adjustments

We have brought forward our estimates for powder production by 12-months, reflecting the company's announced new timetable. This has had the effect of bringing nearer the project's breakeven, which we now anticipate in FY26 (previously FY27). We also now anticipate that the facility will reach at capacity in CY27 as opposed to CY28. Our forecasts also incorporate a lower electricity cost and lower lease costs.

Exhibit 1: Earnings Adjustments for Amaero International FY24f-FY27f

Year ending June 30	FY24 old	FY24 new	FY25 old	FY25 new	FY26 old	FY26 new	FY27 old	FY27 new
Sales Revenue	-	-	3.6	22.3	22.9	88.3	122.2	140.4
Gross Profit	-	-	(0.9)	9.1	(2.7)	42.0	73.9	85.6
Gross Profit Margin (%)	-	-	(26.1)	41.0	(11.9)	47.6	60.5	61.0
EBITDA	(20.6)	(20.6)	(29.3)	(23.4)	(44.1)	1.4	19.8	33.0
NPAT	(21.6)	(22.0)	(35.0)	(29.3)	(52.9)	(7.7)	10.3	22.5

Source: RaaS estimates

DCF Valuation

In our view, given the early-stage nature of Amaero's business, 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 11.2% (Cost of Equity 14.0%, beta 1.5, terminal growth rate 2.2%) and this gives us a base-case valuation of \$685m or \$0.85/share on a fully diluted basis. On the current share count of 419m, the valuation is \$1.63/share. We use an equity risk premium of 6.5%, risk-free rate of 4.0% and target gearing of 25%. Note that for conservatism we use the US corporate tax rate of 21% in our valuation; however, Amaero is not expected to pay taxes for the forecast period due to carry-forward operating losses and economic incentives. 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 2: DCF valuation (in A\$m unless otherwise stated)

DCF valuation	Parameters
Cost of Equity	14.0%
Beta	1.5
Cost of Debt after tax	3.2%
WACC	11.2%
Equity risk premium	6.5%
Risk-free rate	4.0%
Terminal growth rate	2.2%
Sum of PV (A\$m)	163.8
Terminal value at FY33 (A\$m)	1,417.7
Present value of terminal value (A\$m)	441.0
PV of enterprise (A\$m)	604.8
Fully diluted cash and debt (A\$m)	(79.6)
Net value – shareholder (A\$m)	684.5
No. of shares on issue (fully diluted) (M)	804.4
NPV in A\$/share	\$0.85
Source: RaaS analysis	

Exhibit 3: Financial Summary

Amaero International Ltd						Share price (19 July 2023)						A\$	0.12				
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223F	H124F	H224F
Y/E 30 June	FY22A	FY23F	FY24F	FY25F	FY26F												
Sales Revenue	0.6	0.5	0.0	22.3	88.3	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	22.3	88.3	EBITDA Adj	(3.0)	(4.2)	(3.1)	(8.1)	(8.5)	(12.1)					
Gross Profit	0.8	1.4	0.0	9.1	42.0	EBIT Adj	(3.5)	(4.7)	(3.7)	(8.6)	(9.4)	(13.1)					
EBITDA Adj	(7.2)	(11.2)	(20.6)	(23.4)	1.4	NPAT (Adj)	(3.6)	(4.8)	(3.8)	(8.6)	(9.4)	(12.7)					
Depn	(1.1)	(1.1)	(1.9)	(6.2)	(9.3)	Minorities	-	-	-	-	-	-					
Amort	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(3.5)	(5.1)	(6.6)	(8.6)	(9.4)	(12.7)					
EBIT Adj	(8.2)	(12.3)	(22.5)	(29.7)	(7.9)	EPS (Adj)	(1.76)	(2.31)	(1.05)	(2.05)	(2.07)	(2.54)					
Interest	(0.2)	(0.0)	0.4	0.3	0.2	EPS (reported)	(1.73)	(2.45)	(2.39)	(2.00)	(1.97)	(2.42)					
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)	(12.2)	(16.0)					
NPAT pre significant items	(8.4)	(12.4)	(22.1)	(29.3)	(7.7)	Free Cash flow	(4.4)	(3.5)	(6.2)	(3.0)	(12.2)	(16.0)					
Significant items	(0.2)	(2.9)	0.0	0.0	0.0	Divisions	H122A	H222A	H123A	H223F	H124F	H224F					
NPAT (reported)	(8.6)	(15.3)	(22.1)	(29.3)	(7.7)	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)	(23.4)	1.4	COGS	0.4	0.3	0.5	0.0	0.0	0.0					
Interest	(0.2)	(0.0)	0.4	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)	(30.3)	(20.1)	Employment	(0.8)	(0.8)	(1.2)	(2.4)	(2.6)	(5.2)					
Operating cash flow	(8.0)	(9.2)	(28.3)	(53.4)	(18.6)	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)	(28.3)	(53.4)	(18.6)	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	FY22A	FY23F	FY24F	FY25F	FY26F						
Acquisitions/Disposals	0.0	(0.0)	0.0	0.0	0.0	EBITDA	nm	nm	nm	nm	nm	nm					
Other	(0.0)	0.0	0.0	0.0	0.0	EBIT	nm	nm	nm	nm	nm	nm					
Cash flow pre financing	(11.1)	(16.3)	(62.8)	(85.5)	(26.9)	NPAT pre significant items	nm	nm	nm	nm	nm	nm					
Equity	8.1	10.5	23.4	72.6	45.2	Net Debt (Cash)		8.3	4.5	(36.0)	(52.5)	(36.4)					
Debt	2.6	(0.1)	79.7	0.0	(2.8)	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	(25.8)					
Dividends paid	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	(132.8%)	(58.8%)	74.2%	50.1%	29.4%					
Net cash flow for year	(0.4)	(5.9)	40.3	(12.8)	15.5	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a					
Balance sheet (A\$m)						ROA		(40.1%)	(56.7%)	(35.7%)	(22.8%)	(4.4%)					
Y/E 30 June	FY22A	FY23F	FY24F	FY25F	FY26F	ROE		(58.0%)	(114.0%)	(178.1%)	(90.7%)	(11.1%)					
Cash	11.1	4.5	43.6	27.2	40.4	ROIC		(637.1%)	2426.4%	(117.9%)	(32.8%)	(9.7%)					
Accounts receivable	0.4	0.1	0.0	3.0	11.8	NTA (per share)		0.06	0.03	0.02	0.07	0.11					
Inventry	1.1	1.0	1.0	8.2	26.2	Working capital		0.0	(3.9)	(6.8)	(8.8)	4.8					
Other current assets	0.1	0.2	0.2	0.2	0.2	WC/Sales (%)		1.9%	(804.7%)	nm	(39.4%)	5.4%					
Total current assets	12.7	5.9	44.9	38.6	78.6	Revenue growth		13.0%	(14.9%)	(100.0%)	nm	295.9%					
PPE	8.6	14.6	47.2	73.1	72.1	EBIT growth pa		n/a	n/a	n/a	n/a	n/a					
Intangibles and Goodwill	0.0	0.0	0.0	0.0	0.0	Pricing	FY22A	FY23F	FY24F	FY25F	FY26F						
Investments	0.4	1.0	12.0	44.2	50.8	No of shares (y/e)	(m)	241	474	581	764	804					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	207	419	500	581	713					
Other non current assets	0.2	0.2	0.2	0.2	0.2	EPS Reported	cps	(4.2)	(4.4)	(4.6)	(5.2)	(1.3)					
Total non current assets	9.1	15.8	59.5	117.5	123.1	EPS Normalised/Diluted	cps	(4.1)	(3.1)	(4.6)	(5.2)	(1.3)					
Total Assets	21.9	21.6	104.3	156.1	201.7	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	n/a					
Accounts payable	1.4	5.0	7.9	20.0	33.2	DPS	cps	-	-	-	-	-					
Short term debt	0.0	0.0	0.0	0.0	0.0	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Other current liabilities	0.6	2.2	2.2	2.2	2.2	Dividend imputation		0	0	0	0	0					
Total current liabilities	2.1	7.2	10.1	22.2	35.4	PE (x)		-	-	-	-	-					
Long term debt	2.8	0.0	79.7	79.7	76.8	PE market		15.0	15.0	15.0	15.0	15.0					
Other non current liabs	2.4	2.2	2.2	2.2	2.2	Premium/(discount)		nm	nm	nm	nm	nm					
Total long term liabilities	5.2	2.2	81.9	81.9	79.0	EV/EBITDA		nm	nm	nm	nm	nm					
Total Liabilities	7.2	9.4	91.9	104.1	114.4	FCF/Share	cps	(3.30)	(1.94)	(4.86)	(6.98)	(2.31)					
Net Assets	14.6	12.3	12.5	52.2	87.3	Price/FCF share		(3.6)	(6.2)	(2.47)	(1.72)	(5.20)					
Share capital	35.3	48.2	71.6	144.2	189.6	Free Cash flow Yield		(27.5%)	(16.2%)	(40.5%)	(58.2%)	(19.2%)					
Accumulated profits/losses	(21.5)	(36.1)	(59.2)	(92.3)	(102.3)												
Reserves	0.8	0.1	0.1	0.2	0.0												
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	14.6	12.2	12.5	52.2	87.3												

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: 6th May 2021

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

- 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

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

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

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES

This report has been commissioned by Amaero International Ltd and prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory has been paid a fee to prepare this report. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise.

The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2023 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved.