



AML3D Ltd (AL3.ASX)

All ARCEMY Modules Firing Amid Healthy Pipeline

Event:

- Site visit; revised earnings, valuation, PT.

Investment Highlights:

- Recent SA site visit showcased fully utilised modules:** recently established new contract manufacturing centre in Adelaide had seven operating ARCEMY modules manufacturing a diverse range of products for clients in aerospace, defence, oil & gas, and marine applications. Highlights include a Davit arm for Austal, marine grade stainless steel impeller for ThyssenKrupp, Panama chock for Keppel, and body armour for Lightforce.
- Very healthy pipeline, no shortage of opportunities:** the company continues to register strong inbound interest for both ARCEMY unit sales as well as contract manufacturing capability. AL3 has had more than 250 product enquiries CYTD, 50+ component and specification requests, and 20+ customers engaged for component testing. ARCEMY module sales over FY21 YTD include iKAD Engineering and Rowlands Metalworks.
- Global ambition for rollout:** with the Adelaide head office and manufacturing hub up and running, and establishment of the Singapore manufacturing site, management has reiterated its goal for scalable manufacturing global rollout in three key country markets in the next 24 months, likely US, Germany, and Japan.
- Estimated cash of \$9M and nil debt:** well-funded in our view to pursue its growth strategy and global rollout of WAM capability.

Earnings and Valuation:

- We have reduced underlying NPAT forecasts of -\$3.7M, -\$1.9M and -\$0.9M (prior -\$1.6M, -\$0.2M, and \$1.5M) in FY21e to FY23e**, offset in the medium term by stronger growth to reflect strong pipeline and recent conversion success, derisking our view of the business. The company has been busily selling units and contract manufacturing at its new Adelaide site, and has demonstrated recent success in generating inbound interest as well as conversion of pipeline.
- We continue to look for success in converting sales pipeline**, especially in imminent defence, mining, and marine projects and the acceleration of global rollout manufacturing capability.
- We increase our valuation for AL3 of \$0.50/share (prior \$0.30)**; the suite of operating modules, recent ARCEMY module sales, healthy order book, and strong pipeline in our view derisks the business, as well as provides greater confidence for continued growth into the medium term. A successful global rollout to prove up scalable manufacturing provides further upside potential.

Recommendation:

- We maintain a Buy recommendation with an increased price target of \$0.50/share (prior \$0.30)**, in line with our valuation. Healthy order book, and significant pipeline only wants for conversion; successful global rollout will capture overseas sales and contract manufacturing opportunities.
- Catalysts for the share price** include: 1) manufacturing contract wins with new customers and markets; 2) expanded agreements with existing customers; 3) ARCEMY unit sales; 4) updates on contract manufacturing centres.

Disclosure

The analyst does not own AL3 securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 560,106 AL3 shares. Refer to end of report for details.

Foster Stockbroking acted as Sole Lead Manager to the \$7M placement of 15.56M shares at \$0.45 in October 2020, and has received fees for this service.

Recommendation

Buy	Buy
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Previous	Buy
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Risk	High
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Price Target

Price Target	\$0.50
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Previous	\$0.30
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Share Price (A\$)

Share Price (A\$)	\$0.21
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ASX Code	AL3
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52 week low - high (A\$)	0.14-0.675
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Capital structure

Shares on Issue (M)	150.3
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Market Cap (A\$M)	32
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Net Cash/(Debt) (A\$M)	9
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EV (A\$M)	22
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12mth Av Daily Volume ('000)	782
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Y/e Jun A\$

	FY20a	FY21e	FY22e	FY23e
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Sales, \$M	0.3	1.2	4.5	6.0
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EBITDA adj. \$M	-2.0	-3.3	-1.8	-1.1
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NPAT adj. \$M	-2.1	-3.7	-1.9	-0.9
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EPS adj c	-2.6	-2.6	-1.3	-0.6
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PER (x)	nm	nm	nm	0.0
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Dividend c	0.0	0.0	0.0	0.0
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Board

Stephen Gerlach	Non-Executive Chairman
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Andrew Sales	Managing Director
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Sean Ebert	Executive Director
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Leonard Piro	Non-Executive Director
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Kevin Reid	Non-Executive Director
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Major Shareholders

Andrew Sales	26.4%
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Perennial Value Management	11.7%
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Global Asset Solutions	4.6%
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Share Price Graph

Share Price	Volume ('000)
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May 20	Jun 20	Jul 20	Aug 20	Sep 20	Nov 20	Dec 20	Jan 21	Feb 21
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\$0.80	\$0.70	\$0.60	\$0.50	\$0.40	\$0.30	\$0.20	\$0.10	\$0.00
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7,000	6,000	5,000	4,000	3,000	2,000	1,000	-
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