



## On a high-growth trajectory

Share Price: A\$0.015

Delta Drone International (ASX: DLT) is an emerging Drone-as-a-service (DaaS) provider that currently focusses on mining and agriculture verticals. We believe that the grant of the Beyond Visual Line of Sight (BVLOS) drone operating license by the Australian Civil Aviation Safety Authority (CASA) is a significant development and opens up business opportunities for the company to tender for contracts with existing and new clients. DLT stands to benefit ahead of competitors, because it is one of the first companies to obtain a license in Australia, particularly across large land area corridors. Additionally, DLT now operates as a pure drone company with a strengthened balance sheet, following the ParaZero divestiture.

### BVLOS license - the key near-term driver for DLT

DLT's experience in operating BVLOS in countries, such as South Africa, positions the company well to capture the opportunity and provide solutions in a sector that is currently using expensively manned aircraft solutions or operating largely on Visual Line of Site (VLOS) only solution. The license enables DLT to compete with manned aerial operations of up to 10 square kilometres.

Delta is targeting the manned LiDAR market, which is valued at \$50m in Australia. The overall global LiDAR market is worth an estimated US\$1.3bn and is expected to grow at 22% CAGR over the next 4 years.

### Valuation range of A\$0.05–0.09 per share

We maintain the valuation range for DLT at A\$0.05 per share base case and A\$0.09 bull case using a DCF model. We remain optimistic on the growth trajectory of the company underpinned by the BVLOS license granted in Australia. Key risks are (1) aviation regulations in different geographies, (2) execution risk, and (3) lower adoption within new markets.

Year to Dec (AUD)	CY20a	CY21a	CY22e	CY23e	CY24e
Sales (mn)	3.4	4.6	7.0	11.5	16.7
EBITDA (mn)	0.2	(1.6)	(0.5)	0.6	2.0
Net Profit (mn)	(0.1)	(3.6)	(0.6)	0.3	1.4
EPS (cents)	(0.08)	(0.71)	(0.12)	0.06	0.28
DPS (cents)	NM	NM	NM	NM	NM
EV/Sales		2.0x	0.3x	0.3x	0.3x
EV/EBITDA		NM	NM	16.9x	4.8x
P/E		NM	NM	24.3x	5.4x

Source: Company, Pitt Street Research

ASX: DLT

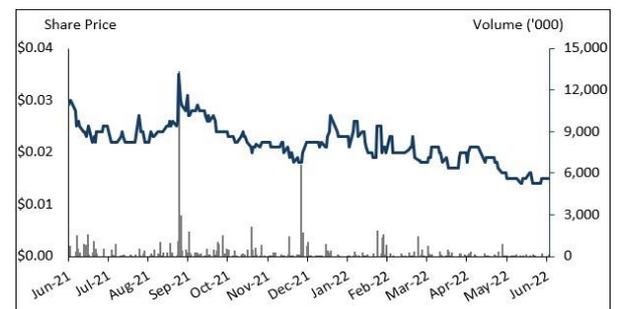
Sector: Technology Hardware & Equipment

7 June 2022

Market cap. (A\$m)	7.7
# shares outstanding (m)	511.6
# shares fully diluted (m)	580.1
Market cap full. dil. (A\$m)	8.7
Free float	34.1%
52-week high/low (A\$)	0.040 / 0.014
Avg. 12M daily volume ('000)	322.7
Website	<a href="https://dlti.com.au">https://dlti.com.au</a>

Source: Company, Pitt Street Research

### Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Pitt Street Research, Refinitiv Ikon

Valuation metrics	
DCF fair valuation range (A\$)	0.05–0.09
Discount rate	12.2%
Assumed terminal growth rate	2.0%

Source: Pitt Street Research

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## DLT bags the BVLOS licence

On 9 May 2022, DLT was granted the BVLOS drone operating license from CASA. This has opened a significant business opportunity within Australia, allowing the company to tender for contracts with existing and new clients. The licence is valid until 31 July 2024.

The acquisition of a BVLOS licence allows the company to operate remotely piloted aircraft beyond the line of sight. This is different from the standard Visual Line of Sight (VLOS) licence, under which the drone has to remain constantly in the line of sight.

Obtaining a BVLOS license involves a stringent process that requires applicants to go through extensive documentation and operational procedures that are spread across one year. The process covers safety, stakeholder engagement with relevant landholders, detailed risk assessments and operational procedures, development of concept of operations (CONNOPS), flight demonstrations and training of pilots with International Research & Exchanges Board (IREX) ratings.

The granting of Delta's BVLOS license is all the more important because only a handful of companies in Australia have been able to acquire the license, but DLT is now one of them. Furthermore, DLT received the BVLOS operating license for a land corridor in greater Kalgoorlie in Western Australia – the corridor includes a number of existing mine sites of the company. DLT has already submitted further applications to increase its BVLOS scope following this initial successfully licensed corridor.

## How the BVLOS license expands DLT's business opportunities

In our view, the license will significantly expand the company's business opportunity in the mining and agriculture sectors that, despite having the highest drone penetration rates, operate almost wholly on VLOS only solutions. Despite knowing the benefits of BVLOS solutions, drone solution operators in Australia remain restricted by stringent licensing requirements of BVLOS by the CASA.

DLT can now apply for more BVLOS license applications in the mining, agriculture and other sectors more speedily and with greater certainty. DLT's strategy and experience in operating BVLOS in other countries and in Australia position the company to capture new opportunities.

We also note that in the March quarter, DLT demonstrated this ability to CASA and all of its pilots successfully passed the CASA Instrument rating exam (IREX). This is seen as the professional standard for flight in the world, requiring a high degree of aviation law knowledge and the ability to fly in complex airspaces where mistakes are not an option during critical stages of a flight. This accreditation expands DLT's capabilities to perform BVLOS for its customers and separates the company from "small drone" operators.

## BVLOS experience

DLT has successfully operated BVLOS services in South Africa in the mining and agriculture sectors since 2018 and holds licenses covering the whole of South Africa. In particular, the company has built up over 15,000+ BVLOS flying hours in Africa. It has also completed major Light Ranging and Detection (LiDAR) sensor projects for Newmont in Ghana. These experiences in South Africa and Ghana played a crucial role in demonstrating the relevant criteria of safety and compliance in the application process for granting of its Australian BVLOS license.

*DLT was granted the rare BVLOS drone operating license – this presents strong market opportunities for the company*



## DLT is targeting the Manned LiDAR Market

DLT can now compete with manned aerial operations up to 10 square kilometres, which are essentially cost-inefficient for large, manned aircraft. The company aims to target the manned LiDAR market, which, according to listed peer Aerometrex (ASX: AMX), is valued at A\$50m in Australia. The vast majority of this work is monthly reconnaissance work for mines or ad-hoc exploration sites and presents a significant opportunity for DLT. DLT also has the capability to address the lower end of the market as evidenced by its geomatics grade LiDAR solution QUBE 240.

## A glance at DLT's recent results

In Q1 FY2022, DLT's reported receipts from customers declined by 10% on a q-o-q basis to A\$1.8m. However, the decline in receipts was primarily as a result of the sale of the ParaZero business in the previous quarter. Continuing customer receipts, excluding the divested business, represented a 4% q-o-q growth. Compared to Q1 FY2021, DLT's receipts have grown by nearly 44%.

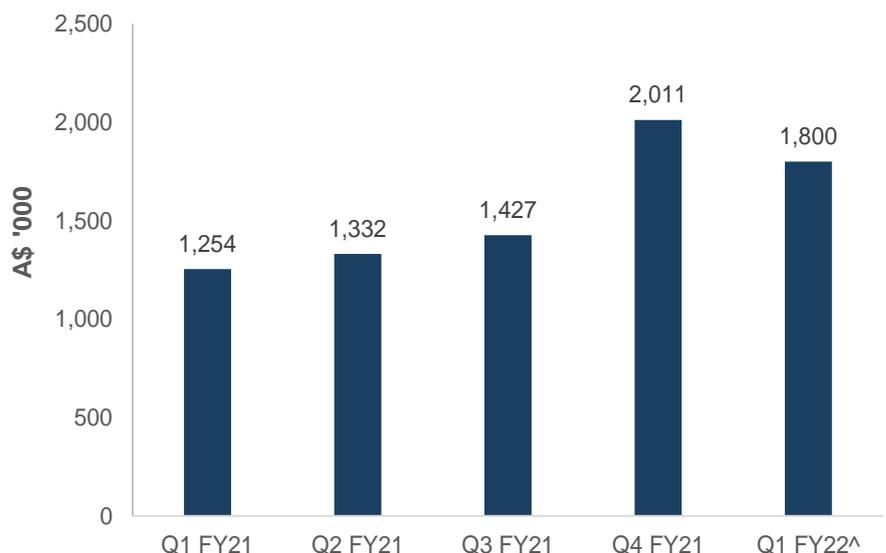
The company's cash balance increased significantly from A\$1m as of December 31, 2021 to A\$4.3m as of March 31, 2022 which indicates that it is comfortably placed to meet its financial obligations in the near term (~13 years at current burn rates).

DLT now operates as a pure drone business following the divestment of ParaZero for A\$6m in cash, providing additional balance sheet flexibility. The divestment of ParaZero allows the company to aggressively accelerate growth across drone services, helping the company realize its vision of becoming one of the leading drone service providers in the world.

*Following the divestment of ParaZero business, DLT looks to become a leading global drones-as-a-service provider*

*In Q1 22, DLT achieved a 4% QoQ jump in business receipts*

Figure 1: DLT's Receipts from customers



Note: ex- ParaZero

Source: Company and Pitt Street Research



## Arvista acquisition update

Following the integration of Arvista into DLT, the latter has made progress in the Australian market with a blue-chip customer base and a solid pipeline of new business. In Q1 2022, Arvista made up 31% of DLT's international cash receipts and has a healthy operational outlook underpinned by new potential contracts and synergies with the broader DLT group.

## Valuation: DLT has significant upside potential

Using DCF, we reiterate a valuation range of A\$0.05 per share base case and A\$0.09 per share bull case for DLT. Considering the growth opportunities in Australia we have an optimistic stance towards DLT. The opening up of business opportunities for the company from the grant of the BVLOS drone operating license by CASA in Australia will provide the necessary support to our rationale.

Figure 2: DCF valuation

Base Case		Bull Case	
Valuation (AUD)		Valuation (AUD)	
Present value of FCF	9.2	Present value of FCF	17.1
Present value of Terminal FCF	21.7	Present value of Terminal FCF	35.1
<b>Enterprise Value (m)</b>	<b>30.9</b>	<b>Enterprise Value (m)</b>	<b>52.1</b>
Net debt (cash)	(0.9)	Net debt (cash)	(0.9)
<b>Equity value (m)</b>	<b>31.8</b>	<b>Equity value (m)</b>	<b>53.0</b>
Diluted shares	580.1	Diluted shares	580.1
<b>Implied price (A\$)</b>	<b>0.05</b>	<b>Implied price (A\$)</b>	<b>0.09</b>
Current price (A\$)	0.02	Current price (A\$)	0.02
Upside (%)	265.7%	Upside (%)	509.4%

Source: Pitt Street Research

## Risks

The main risks to our investment thesis include the following:

- **Regulatory risk:** Global regulations on drones vary across countries; while some countries are opening up and creating opportunities for commercial drone usage, others are less enthusiastic.
- **Integration risk:** There is a risk that management might not be able to extract the expected synergies from the integrated DLT/Arvista entity.
- **Execution risk:** Successful scaling of the business, as well as the acquisition of new customers in a completely new geography, requires considerable effort and investment. The company needs to appeal to people and establish the fact that the brand can be trusted
- **Slow offtake in most of the markets:** Even though permits to fly drones over urban areas has regularly been granted across the globe, the offtake has been limited. Not many large sale operations have taken off globally mainly due to considerable amount of risk involved in it – possibility of the drone malfunctioning and crashing cannot be ignored. DLT will have to overcome technological challenge and change of mind set for the end-user to expand operations.



## Appendix I – Analyst Qualifications

Marc Kennis, lead analyst on this report, has been working as an equities analyst since 1997.

- Marc obtained an MSc in Economics from Tilburg University, Netherlands, in 1996 and a post graduate degree in investment analysis in 2001.
- Since 1996, he has worked for a variety of brokers and banks in the Netherlands, including ING and Rabobank, where his main focus has been on the Technology sector, including the Semiconductor sector.
- After moving to Sydney in 2014, he worked for several Sydney-based brokers before setting up TMT Analytics Pty Ltd, an issuer-sponsored equities research firm.
- In July 2016, with Stuart Roberts, Marc co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including Technology companies.

Nick Sundich is an equities research analyst at Pitt Street Research.

- Nick obtained a Bachelor of Commerce/Bachelor of Arts from the University of Sydney in 2018. He has also completed the CFA Investment Foundations program.
- He joined Pitt Street Research in January 2022. Previously, he worked for over three years as a financial journalist at Stockhead.
- While at university, he worked for a handful of corporate advisory firms.

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