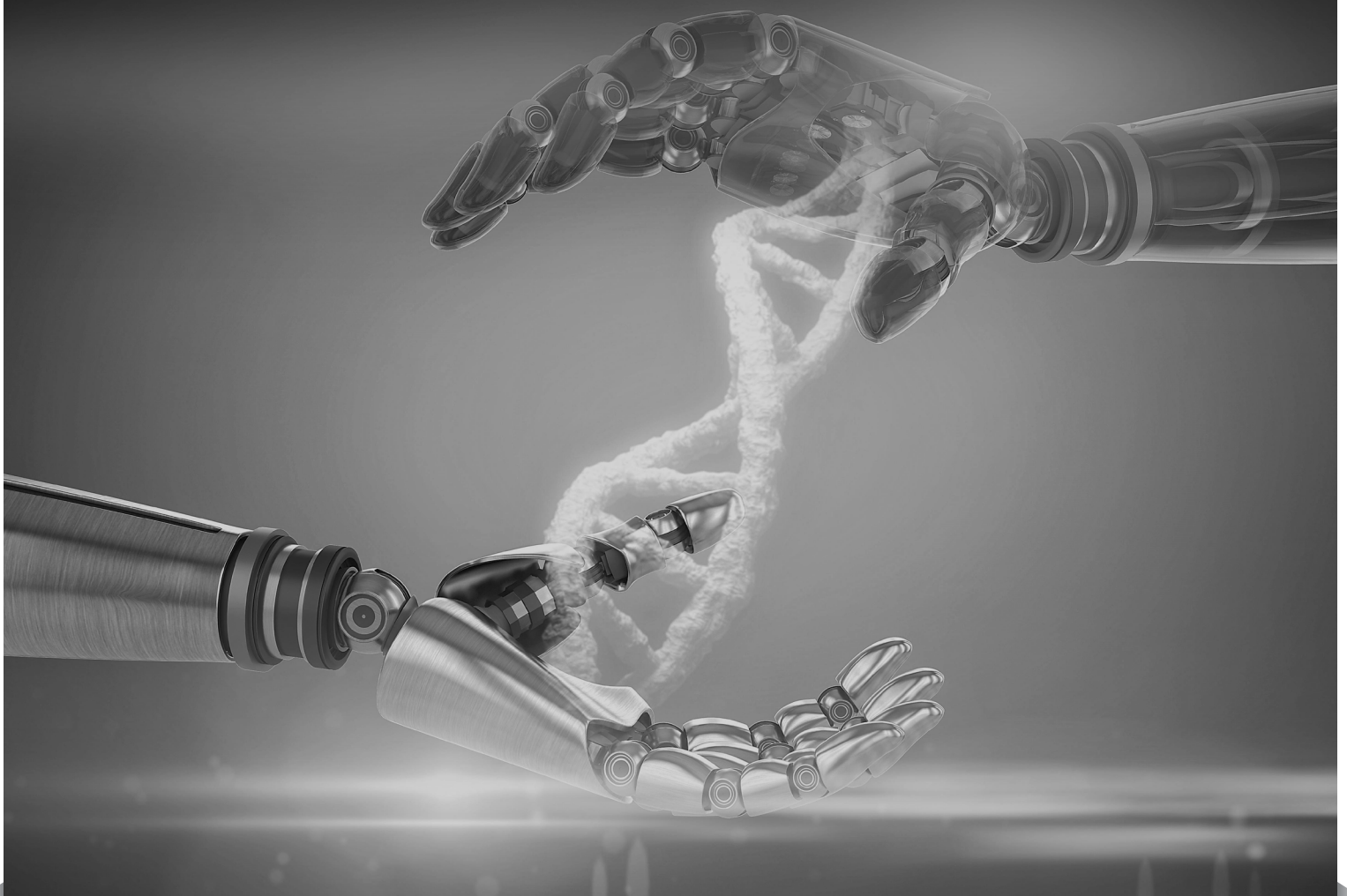




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Emerging Stocks Down Under



K-TIG

Productivity tool with a Capital P

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Stocks Down Under rating: ★★☆☆

ASX: KTG
Market cap: A\$60M

52-week range: A\$0.26 / A\$0.58
Share price: A\$0.35

It's been another good quarter for K-TIG Ltd, the Adelaide-based welding technology developer. The three months to December 2021 saw cash receipts of \$1.5m, which was another record and 235% better than December 2020. The world is starting to wake up to the extraordinary productivity tools K-TIG has developed for welders and it's reasonable to suggest that the next few quarters will continue the momentum.

Share price chart



Source: Tradingview

There's productivity and then there's Productivity with a capital P. Most of the time, when you're in an industry that's been around for a while, the new tools coming in to the shop will let you eke out modest improvements in terms of time and costs. But every now and then a capital P tool comes along that changes the game. And we're not talking computers or the Internet here. Think, for example, of the sudden increase in cutting speeds that workshops experienced back in the 1930s when the first tungsten carbide tools arrived. We argue that K-TIG is one of those rare purveyors of Capital P productivity tools you'll be hearing a lot about in the years to come.

From six hours to three minutes

K-TIG, you see, has managed to engineer a 99% improvement in the speed with which welders can complete a TIG weld. You read that right. Give a properly trained welder some conventional TIG equipment and he or she can get the job done in about six hours. Give that same welder K-TIG and you're there in three minutes or so. And that's on materials up to 16 millimetres in thickness. Wow!

Okay, that sounds impressive. But what the heck is a TIG weld? Well, it's kind of a step up from the oxy-acetylene torch some of you DIY folks might have in the garage. For serious industrial welding these days, you more often than not are using 'arc' welding where an electric arc creates the heat to melt and join the metal.

TIG stands for Tungsten Inert Gas and refers to the required current coming from a tungsten electrode. The 'inert gas' part refers to the argon or helium used to shield the liquid 'weld pool' from chemical reactions with the ambient air. TIG welding, also called Gas Tungsten Arc Welding or GTAW, has been tried and trusted as a welding process since the 1940s, because it can join together more metals than any other process with high quality, clean welds. However, as we noted above, it can take hours to get the job done properly with the 'edge bevelling' and multiple passes required with the tungsten electrode.

The House That Laurie Built

In the early 2000s, Dr. Laurie Jarvis at the CSIRO in Adelaide set out to turn those hours into minutes. His solution was a 'keyhole' through the joint – the 'K' part of 'K-TIG' – that could allow the weld to be completed without bevelling and with only with one pass. CSIRO patented Jarvis' insights (you can check it out at WO/2006/084323), but handed the IP to the inventor when it ended its welding research effort in 2006. The result was K-TIG Ltd, which spent the next decade or so optimising the technology before the company finally arrived on the ASX via a backdoor listing at 20 cents in late 2019.

K-TIG has a patented Capital P Productivity tool for welders that's 100x better than what came before, meets industry standards globally and can cut fabrication costs for users by 80-95%. The industry globally spends billions on TIG welding and K-TIG has a solution that can be used in high-end applications, such as welding armour for military purposes, or vessels to hold nuclear waste. The company has some high-profile collaborations under way, including one with UK's Nuclear Advanced Manufacturing Research Centre (NAMRC), that could help it to become an industry standard for nuclear-grade robotic welding. And yet you can currently buy the whole of K-TIG for only about A\$60m.

Okay, K-TIG is not yet profitable. It has, however, had five straight quarters of increasing revenue, reaching \$1.05m in sales in the most recent quarter as against \$0.41m in the December 2020 quarter. And there's likely to be more where that came from because K-TIG is available via 'Welding as a Service'.

Like SaaS, but with a 'W'

Welding as a Service? Why, of course. The K-TIG product isn't a welding torch, so much as it's a software-controlled welding device that takes and processes feedback from the welding site. The software deploys via the Cloud and is regularly updated from there. That, importantly, opens up a SaaS-style subscription revenue model. So, K-TIG can scale easily with WaaS. The company also earns revenue selling the K-TIG welding units and is looking to get into fabrication joint ventures with enterprises that need TIG-based solutions.

We're expecting good things this year from the NAMRC collaboration. NAMRC wants to show that it can make nuclear waste boxes to help decommission 17 nuclear power sites in the UK and K-TIG is working to become a supplier of choice here for the welding solutions. We also think there will be more collaborations like that, which was unveiled in March last year with Hanwha, a major South Korean defence manufacturer that wants better welding solutions for armoured steels.

If the testing work by K-TIG's partners verifies what K-TIG has been saying about its technology, we expect the quarterly revenues for this ground-breaking technology will continue to increase. This may help K-TIG stock test the mid 50-cent level of last March. It bounced up nicely from the \$0.28 support level recently and we think that level would be a good stop-loss level if you're buying KTG in the low 30-cent range. Four stars from us.

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