Companies Like Aquarius Engines (A.M) (TLV:AQUA) Are In A Position To Invest In Growth

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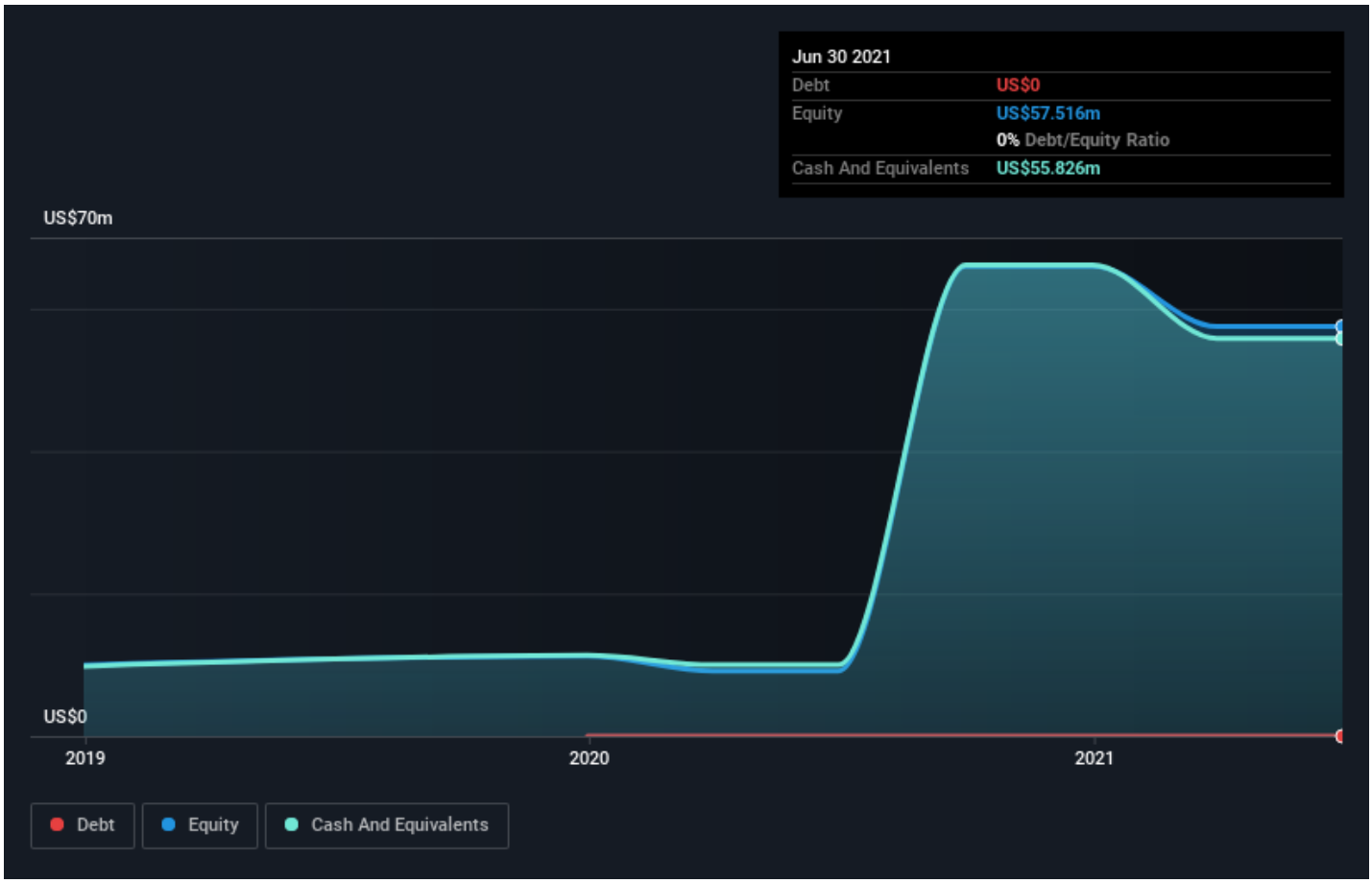
Just because a business does not make any money, does not mean that the stock will go down. For example, biotech and mining exploration companies often lose money for years before finding success with a new treatment or mineral discovery. Having said that, unprofitable companies are risky because they could potentially burn through all their cash and become distressed.

Given this risk, we thought we'd take a look at whether **Aquarius Engines (A.M)** (TLV:AQUA) shareholders should be worried about its cash burn. For the purposes of this article, cash burn is the annual rate at which an unprofitable company spends cash to fund its growth; its negative free cash flow. We'll start by comparing its cash burn with its cash reserves in order to calculate its cash runway.

View our latest analysis for Aquarius Engines (A.M)

How Long Is Aquarius Engines (A.M)'s Cash Runway?

A company's cash runway is the amount of time it would take to burn through its cash reserves at its current cash burn rate. In June 2021, Aquarius Engines (A.M) had US$56m in cash, and was debt-free. Importantly, its cash burn was US$15m over the trailing twelve months. Therefore, from June 2021 it had 3.7 years of cash runway. There's no doubt that this is a reassuringly long runway. You can see how its cash balance has changed over time in the image below.



TASE:AQUA Debt to Equity History October 12th 2021

How Is Aquarius Engines (A.M)'s Cash Burn Changing Over Time?

Aquarius Engines (A.M) didn't record any revenue over the last year, indicating that it's an early stage company still developing its business. Nonetheless, we can

still examine its cash burn trajectory as part of our assessment of its cash burn situation. In fact, it ramped its spending strongly over the last year, increasing cash burn by 162%. That sort of spending growth rate can't continue for very long before it causes balance sheet weakness, generally speaking. Admittedly, we're a bit cautious of Aquarius Engines (A.M) due to its lack of significant operating revenues. We prefer most of the stocks on this list of stocks that analysts expect to grow.

Can Aquarius Engines (A.M) Raise More Cash Easily?

Given its cash burn trajectory, Aquarius Engines (A.M) shareholders may wish to consider how easily it could raise more cash, despite its solid cash runway. Companies can raise capital through either debt or equity. One of the main advantages held by publicly listed companies is that they can sell shares to investors to raise cash and fund growth. By comparing a company's annual cash burn to its total market capitalisation, we can estimate roughly how many shares it would have to issue in order to run the company for another year (at the same burn rate).

Aquarius Engines (A.M)'s cash burn of US$15m is about 4.7% of its US$320m market capitalisation. Given that is a rather small percentage, it would probably be really easy for the company to fund another year's growth by issuing some new shares to investors, or even by taking out a loan.

So, Should We Worry About Aquarius Engines (A.M)'s Cash Burn?

As you can probably tell by now, we're not too worried about Aquarius Engines (A.M)'s cash burn. In particular, we think its cash runway stands out as evidence that the company is well on top of its spending. While we must concede that its increasing cash burn is a bit worrying, the other factors mentioned in this article provide great comfort when it comes to the cash burn. After taking into account

the various metrics mentioned in this report, we're pretty comfortable with how the company is spending its cash, as it seems on track to meet its needs over the medium term. Separately, we looked at different risks affecting the company and spotted **2 warning signs for Aquarius Engines (A.M)** (of which 1 makes us a bit uncomfortable!) you should know about.

Of course, **you might find a fantastic investment by looking elsewhere.** So take a peek at this **free** list of companies insiders are buying, and this list of stocks growth stocks (according to analyst forecasts)

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