

28th November 2019

DXN Ltd

DXN Modules work-in-hand up 435% on FY19

DXN Ltd (ASX:DXN) is a vertically integrated prefabricated modular data centre business with manufacturing facilities in Perth and now open for business data centre, SYD01, at Sydney Olympic Park in Sydney. The company was previously known as The Data Exchange Network. DXN provided an update at its Annual General Meeting in Melbourne today, noting that DXN Modules currently has \$6.2m work-in-hand for FY20, up 435% on FY19, and has developed new revenue streams from maintenance contracts which are expected to become material in FY21. Our base case DCF valuation is \$0.21/share (WACC 12.1%, terminal growth rate of 2.2%) and includes the dilution from anticipated capital raises from FY20-22. On the current share count of 453m shares, our base case valuation is \$0.23/share.

Business model

DXN, formerly The Data Exchange Network, has completed construction of an initial 400kW capacity (1.0MW core supporting infrastructure), pre-fabricated modular co-location data centre, DXN-SYD01, in leased premises in Sydney and is in the process of building this out to 800kW which it expects to complete by the end of CY19. The company has utilised its established engineering and manufacturing facility in Perth to deliver custom-designed, inhouse data centre infrastructure. The company also has a site at Port Melbourne which currently is being considered for a short-term sub-lease while power issues are resolved. The company's strategy is to build capacity in stages starting with 400kW or 58 racks in Sydney then moving quickly to 1MW or 145 racks and gradually installing 5MW or 725 racks as demand fills existing infrastructure. This enables DXN to maintain a capital light model compared to traditional DCs which build greater capacity upfront. Revenue will be derived from manufacturing data centre modules for third parties, operating and renting rack space in its co-location data centres and from software licence fees for its monitoring, management and access control system. We forecast operational breakeven in H1FY21 with an expectation of DXN module sales of \$11.5m and \$2.5m in sales from DXN-SYD01.

FY20 update

DXN has announced that DXN Modules has current work-in-hand of \$6.2m, an increase of 435% on FY19, with additional contracts expected this quarter and Q3 FY20. The division's sales pipeline has grown three-fold since August with increased demand from SE Asia and the Pacific region. In our view, the company's recent contract wins with Southern Cross Cable and the Cook Islands' Manatua Cable have positioned DXN Modules to capitalise on the growing traffic nexus between Australia, the Pacific and the US and increasing demand in the region for both modular data centres and cable landing stations. The company also noted that it was in negotiation with three new customers at DXN-SYD01 and had signed six channel partners with four more expected by the end of this year. DXN reiterated its 12-month target for more than \$12m Module sales and to complete sales for 1MW at DXN-SYD01.

Historical earnings and RaaS Advisory estimates (in A\$m)

Year end	Revenue	EBITDA reported	NPAT reported	EPS (c)	EV/Sales (x)	EV/EBITDA (x)
06/19a	2.6	(7.0)	(7.4)	(3.50)	7.47	na
06/20e	16.0	(3.2)	(3.1)	(0.66)	1.30	na
06/21e	31.6	2.8	1.0	0.15	0.62	6.95
06/22e	41.7	9.0	4.4	0.66	0.65	3.04

Source: Company data, RaaS Advisory Estimates for FY20e, FY21e, FY22e

Share details

ASX Code	DXN
Share Price (intraday)	\$0.049
Market Capitalisation	\$22.2M
Number of shares	453M
Enterprise Value	~\$17.2M
Sector	Technology
Free Float	~58%

Share price performance (12-months)



Upside Case

- Edge Infrastructure and Manufacturing facility in Perth assists in early cashflows and has capacity to meet both internal and external customer demand
- Capital light compared to traditional data centre operators as building 1MW at a time
- Modularised and smaller data centres will be critical to 5G mobile and the Internet of Things

Downside Case

- Small player in a market dominated by global players with deep pockets
- Significant data centre capacity currently in the market
- Growth of mature centres reverts to CPI

Catalysts

- Further contract wins for DXN Modules
- Completion of expansion at SYD-01 by CY19 end
- New sales of rack space at SYD-01

Comparative companies (Australia & NZ)

MAQ, NXT

Substantial Shareholders

JP Morgan Nominees Australia Pty Ltd (Newgate Capital Partners) 16.1%,
Carason Ward Pte Ltd (Dean Coetzee and Tim Desmond) 12.3%,
SG Hiscock & Company Limited 9.88%

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FINANCIAL SERVICES GUIDE

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- complaint processes

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