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DXN Ltd

Edge strategy emerges with Tasmanian DC acquisition

DXN Ltd (ASX:DXN) is a vertically integrated prefabricated modular data centre business with manufacturing facilities in Perth and its own data centre, SYD01, at Sydney Olympic Park in Sydney. The company has announced it will acquire from TasmaNet Pty Ltd, the assets and revenues of DC3, a data centre in Hobart, Tasmania, for \$2.7m in cash, implying an acquisition multiple of 6x EBITDA. The acquisition also includes a minimum 3-year, up to 5-year commitment from TasmaNet to spend at least \$0.86m annually. DC3 generated \$0.86m in revenue and \$0.45m in EBITDA in FY19. The company intends to fund the acquisition from a \$6m fully-underwritten (by Pinnacle Corporate Finance), non-renounceable rights issue priced at \$0.04/share. The rights issue includes a \$0.08 option for every share subscribed with a 12 month-expiry. The proceeds from the issue will pay for the acquisition, fund working capital (\$1.01m), allow additional module manufacturing (\$2.0m) and data centre marketing (\$0.09m). We estimate that the earnings from DC3 make the impact of the acquisition and raise earnings per share neutral. Importantly, the acquisition highlights DXN's strategy for extending its Edge DC footprint regionally in both Australia and New Zealand.

Business model

DXN Ltd designs, builds, owns and operates data centres. The company achieved an industry first to become the first modular data centre developer to receive both Uptime Institute Tier-Ready III and Tier-Ready IV design review awards. DXN owns its own modular co-location data centre, SYD-01, in leased premises at Sydney Olympic Park which is being expanded to 800kW capacity from its initial 400kW (1.0MW core supporting infrastructure). The company utilised its established engineering and manufacturing facility in Perth to deliver custom-designed, inhouse data centre infrastructure. Its strategy is to build capacity in stages 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 is being generated from manufacturing data centre modules for third parties, operating and renting rack space in its co-location data centre and from software licence fees for its monitoring, management and access control system.

Tasmanian DC acquisition the first step in Edge footprint

DC3 is a Tier II ready modular data centre with currently 30 racks and capability to expand to 100 racks over the next three years. Data consumption on the Nbn network in Tasmania has increased 25% in the past 12 months, flagging the potential growth opportunity in that market. We see the transaction as the first step in DXN building out a carrier-neutral Edge footprint regionally in both Australia and New Zealand.

DCF valuation is \$0.21/share

Our base case DCF valuation (WACC 12.1%, beta 1.9, terminal growth rate of 2.2%) is \$0.21/share and has always included an expectation that DXN would need to raise additional capital to develop SYD-01 and other centres. There will be adjustments to our forecasts to include DC3 and the new shares issued from the rights issue.

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)	6.27	na
06/20e	16.0	(3.2)	(3.1)	(0.66)	1.03	na
06/21e	31.6	2.8	1.0	0.15	0.47	5.28
06/22e	41.7	9.0	4.4	0.66	0.54	2.52

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

Share details

ASX Code	DXN
Share Price	\$0.042
Market Capitalisation	\$21.35M
Number of shares	454.27M
Enterprise Value	~\$22.15M
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

- Additional contract wins for DXN Modules
- Contracted sales 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/Tim Desmond) 12.3%, SG Hiscock & Company Limited 9.88%

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FINANCIAL SERVICES GUIDE

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