

3 March 2020

## DXN Ltd

### Modules sales gathering momentum

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 secured a \$714,000 contract for another three modular cable landing stations with Telecommunication Tokelau Corporation (Teletok). DXN will design, build and install three pre-fabricated modular terrestrial cable landing stations for the islands of Fakaofu, Nukunono and Atafu which will deliver high speed broadband to the island nation of Tokelau. The contract brings the total number of cable landing stations being built by DXN for the Pacific Islands in the past six months, to ten. The contract also follows DXN's recent announcement that it will acquire the assets and revenues of TasmaNet's DC3 in Hobart for \$2.7m, a deal which is being funded by a fully underwritten \$6m non-renounceable rights issue at \$0.04/share). The rights issue closes on March 13. Our forecasts are under review following the acquisition, rights issue and the company's recent interim result.

### 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.

### H1 FY20 result takeaways

DXN reported a net loss of \$6.11m for H1FY20 which included a \$1.97m impairment on its leases under the new AASB 16 accounting standard for leases. The underlying EBITDA loss was \$3.1m, compared with an EBITDA loss of \$2.7m a year before and our forecast for an operating loss of \$2.7m. Sales revenue for the period was \$2.5m and mostly derived from DXN Modules. This was an increase of 90% on the previous corresponding period. We had forecast \$4.6m in sales for the half including \$0.5m in sales from Syd-01. We see the difference in reported sales to our forecasts as a timing issue and are pleased to see the momentum that the company is gaining in its Modules division. Total revenue for the half was \$3.4m and included an R&D grant of \$0.92m.

### Forecasts under review

We are in the process of reviewing our forecasts for the recent acquisition of DC3 and the emergence of DXN's regional Edge data centre strategy, the current rights issue and DXN's interim results.

#### Share details

|                       |            |
|-----------------------|------------|
| ASX Code              | DXN        |
| Share Price           | \$0.039    |
| Market Capitalisation | \$17.71M   |
| Number of shares      | 454.21M    |
| Enterprise Value      | ~\$16.82M  |
| 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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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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