

Modular sales pipeline growing strongly

Data Centres

3 February 2020

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. In Q2 FY20, the unweighted sales pipeline for DXN's modules division grew 243% to \$377m. Work in hand for the modular division has increased to \$7m following the signing last month of the \$0.7m contract to build Australian Gas Infrastructure Group (AGIG) a modular data centre in Perth and a \$75k Synergy maintenance contract. DXN announced Q2 cash receipts of \$0.66m and cash costs of \$3.5m. The company anticipates Q3 cash receipts of \$1.6m and cash outgoings of \$3.6m. In our view, the AGIG contract cements DXN's position as a leading manufacturer of Edge data centres. We anticipate DXN will accelerate its strategy of building Edge DCs for both third parties and for its own regional opportunities over the coming quarters and to build significant recurring revenues with maintenance contracts.

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.

Q2 result and outlook

DXN reported Q2 FY20 cash receipts of \$0.66m, bringing total cash receipts for the half to \$1.28m. Operating cash expenditure for H1 FY20 was \$5.9m, well below our forecast for \$6.7m. The company received an R&D grant of \$0.9m in Q2. Expenditure on property plant and equipment was \$3.9m and related to the expansion of the SYD-01's capacity to 800kW. The company expects operating cash outflow in Q3 FY20 to be \$3.6m and cash receipts of \$1.6m. Cash at December end was \$2.67m while \$3.56m was drawn on the company's \$5.2m finance facility. DXN noted that it was receiving good interest from channel partners for its SYD-01 centre and that it expected to sign more channel partners to bring the total to 12 in Q3. The company expects the channel partners together with DXN's direct sales team to deliver new customers in the near term. DXN's medium term target for its modular product is to achieve sustainable annual revenues of \$25m.

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 includes our expectation that over time DXN will need to raise additional capital to develop SYD-01 and other centres. Our valuation includes the dilutionary impact of forecast raises. In our view, continues sales successes should underpin DXN's share price.

Earnings History and Estimates

Year end	Revenue(A\$m)	EBITDA(A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)	EV/EBITDA (x)
06/19a	2.6	(7.0)	(7.4)	(3.50)	7.30	na
06/20e	16.0	(3.2)	(3.1)	(0.66)	1.26	na
06/21e	31.6	2.8	1.0	0.15	0.60	6.71
06/22e	41.7	9.0	4.4	0.66	0.64	2.97

Source: RaaS Advisory Estimates, Company Data

Share details

ASX Code	DXN
Share price	\$0.048
Market Capitalisation post entitlements offer	\$30.9M
Shares on issue	451.8M
Enterprise value	\$31.7M
Net debt at 31 Dec	~\$0.8m
Free float	~58%

Share 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 in the market currently
- Growth of mature centres reverts to CPI

Substantial/Institutional 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%

Board of Directors

Douglas Loh	Non-Executive Chairman
Richard Carden	Non-Executive Director
Terry Smart	Non-Executive Director
John Duffin	Non-Executive Director
John Baillie	Non-Executive Director
Timothy Desmond	Non- Executive Director

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Exhibit 1: Financial Summary

DXN Ltd						Share price (31 January 2020)						A\$	0.048						
Profit and Loss (A\$m)						Interim (A\$m)						H119F	H219F	H120F	H220F	H121F	H221F		
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Revenue	2.5	0.1	5.2	10.8	14.3	17.3	EBITDA	(2.7)	(4.2)	(2.7)	(0.5)	0.8	2.0
						EBIT	(2.8)	(4.5)	(3.3)	(1.1)	0.2	1.0	NPAT (normalised)	(2.7)	(4.5)	(2.4)	(0.7)	0.2	0.8
Revenue	2.0	2.6	16.0	31.6	41.7	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(2.7)	(4.6)	(2.4)	(0.7)	0.2	0.8
EBITDA	(4.0)	(7.0)	(3.2)	2.8	9.0	EPS (normalised)	(1.6)	(1.3)	(0.5)	(0.1)	0.0	0.1	EPS (reported)	(1.6)	(1.3)	(0.5)	(0.1)	0.0	0.1
Depn	(0.0)	(0.2)	(1.1)	(1.5)	(2.6)	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0
Amort	(1.7)	(0.0)	(0.1)	(0.1)	(0.0)	Operating cash flow	(4.3)	(2.5)	(1.6)	(0.7)	0.1	1.5	Free Cash flow	(4.4)	(2.6)	(1.7)	(0.9)	(0.1)	1.2
EBIT	(5.7)	(7.2)	(4.4)	1.2	6.3	Divisions							Port Melbourne	0.0	0.0	0.2	0.3	0.3	0.0
Interest	0.0	0.0	(0.0)	0.1	0.0	Homebush	0.0	0.0	0.4	1.2	2.5	3.1	Edge Infrastructure	1.3	0.1	4.6	9.2	11.5	14.0
Tax	0.0	0.0	1.3	(0.4)	(1.9)	Software sales	0.0	0.0	0.0	0.0	0.1	0.1	Other income	1.2	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0	Total Revenue	2.5	0.1	5.2	10.8	14.3	17.3	COGS	2.3	1.1	3.9	7.0	8.8	10.6
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Gross Profit	0.3	(0.9)	1.2	3.8	5.5	6.7	Employment costs	1.0	1.8	1.9	2.1	2.5	2.5
NPAT pre significant items	(5.7)	(7.4)	(3.1)	1.0	4.4	Other operating costs	0.5	0.7	0.6	0.8	0.8	0.8	Corporate overheads	1.4	1.4	1.4	1.4	1.4	1.5
Significant items	0.0	0.0	0.0	0.0	0.0	Total Operating Costs	3.0	3.9	4.0	4.3	4.7	4.8	EBITDA	(2.7)	(4.8)	(2.8)	(0.5)	0.8	2.0
NPAT (reported)	(5.7)	(7.4)	(3.1)	1.0	4.4	Capex required	4.1	0.0	0.0	2.6	5.2	2.6	Margins, Leverage, Returns						
Cash flow (A\$m)						EBITDA			FY18A	FY19A	FY20F	FY21F	FY22F	EBITDA	n/a	(264.2%)	(20.2%)	8.9%	21.5%
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	EBIT			n/a	(274.1%)	(27.6%)	3.8%	15.0%	EBIT	n/a	(274.1%)	(27.6%)	3.8%	15.0%
EBITDA	(4.0)	(7.0)	(3.2)	2.8	9.0	NPAT pre significant items			n/a	(279.2%)	(19.3%)	3.0%	10.5%	NPAT pre significant items					
Interest	0.0	0.0	(0.0)	0.1	0.0	Net Debt (Cash)			12.0	2.4	9.8	13.2	5.5	Net Debt (Cash)					
Tax	0.0	0.0	0.0	(0.4)	(1.9)	Net debt/EBITDA (x)	(x)		n/a	n/a	n/a	4.704	0.617	Net debt/EBITDA (x)					
Working capital changes	(1.0)	0.1	0.9	(1.0)	(1.2)	ND/ND+Equity (%)	(%)		n/a	(16.6%)	(59.2%)	(54.6%)	(13.7%)	ND/ND+Equity (%)					
Operating cash flow	(5.0)	(6.9)	(2.3)	1.5	5.8	EBIT interest cover (x)	(x)		n/a	n/a	n/a	0.1	0.0	EBIT interest cover (x)					
Mtce capex	0.0	0.0	(0.3)	(0.4)	(0.7)	ROA			n/a	(38.2%)	(15.6%)	3.0%	11.3%	ROA					
Free cash flow	(5.0)	(6.9)	(2.6)	1.1	5.2	ROE			n/a	(46.7%)	(14.3%)	3.0%	10.5%	ROE					
Growth capex	(0.5)	(10.4)	(2.6)	(7.8)	(17.0)	ROIC			0.0%	(32.1%)	(30.5%)	3.6%	18.4%	ROIC					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	NTA (per share)			0.08	0.04	0.04	0.06	0.07	NTA (per share)					
Other	(1.1)	(2.0)	0.0	0.0	0.0	Working capital			0.6	0.9	1.6	3.4	4.7	Working capital					
Cash flow pre financing	(6.6)	(19.3)	(5.2)	(6.7)	(11.8)	WC/Sales (%)			27.8%	33.4%	10.0%	10.7%	11.2%	WC/Sales (%)					
Equity	16.0	10.3	12.6	10.1	4.1	Revenue growth			n/a	31.1%	505.2%	97.6%	32.1%	Revenue growth					
Debt	4.4	(0.7)	0.0	0.0	6.8	EBIT growth pa			n/a	n/a	n/a	(127.5%)	415.2%	EBIT growth pa					
Dividends paid	0.0	0.0	0.0	0.0	0.0	Pricing			FY18A	FY19A	FY20F	FY21F	FY22F	Pricing					
Net cash flow for year	13.7	(9.6)	7.4	3.4	(0.9)	No of shares (y/e)	(m)		194	452	625	668	668	No of shares (y/e)					
Balance sheet (A\$m)						Weighted Av Dil Shares	(m)		98	211	618	721	751	Weighted Av Dil Shares					
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	EPS Reported	cps		(5.86)	(3.50)	(0.66)	0.15	0.66	EPS Reported					
Cash	12.0	5.4	12.8	16.2	15.3	EPS Normalised/Diluted	cps		(5.86)	(3.41)	(0.66)	0.15	0.66	EPS Normalised/Diluted					
Accounts receivable	1.2	1.0	2.6	5.2	6.9	EPS growth (norm/dil)			n/a	n/a	n/a	-123%	339%	EPS growth (norm/dil)					
Inventory	0.2	1.0	0.8	1.3	1.6	DPS	cps		-	-	-	-	-	DPS					
Other current assets	0.7	0.4	0.4	0.4	0.4	DPS Growth			n/a	n/a	n/a	n/a	n/a	DPS Growth					
Total current assets	14.2	7.8	16.6	23.2	24.2	Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%	Dividend yield					
PPE	0.4	11.1	13.0	19.7	34.6	Dividend imputation			30	30	30	30	30	Dividend imputation					
Goodwill	0.0	0.0	0.0	0.0	0.0	PE (x)			-	-	-	32.0	7.3	PE (x)					
Investments	0.0	0.0	0.0	0.0	0.0	PE market			15.2	15.2	15.2	15.2	15.2	PE market					
Deferred tax asset	0.0	0.0	1.3	1.3	1.3	Premium/(discount)			(100.0%)	(100.0%)	(100.0%)	110.5%	(52.0%)	Premium/(discount)					
Other assets	1.1	3.4	3.3	3.2	3.2	EV/EBITDA			0.7	(2.8)	(6.3)	6.7	3.0	EV/EBITDA					
Total non current assets	1.4	14.5	17.5	24.2	39.1	FCF/Share	cps		(2.6)	(1.5)	(0.3)	0.3	1.0	FCF/Share					
Total Assets	15.6	22.3	34.2	47.4	63.3	Price/FCF share			(1.8)	(3.2)	(15.1)	16.5	4.9	Price/FCF share					
Accounts payable	0.9	1.2	1.8	3.2	3.8	Free Cash flow Yield			(54.1%)	(31.6%)	(6.6%)	6.0%	20.3%	Free Cash flow Yield					
Short term debt	0.0	0.9	0.9	0.9	0.9														
Tax payable	0.0	0.0	0.0	0.0	0.0														
Other current liabilities	0.1	1.3	3.0	3.8	3.8														
Total current liabilities	1.0	3.4	5.7	7.8	8.5														
Long term debt	0.0	2.1	2.1	2.1	8.9														
Other non current liabs	0.0	0.0	0.0	0.0	0.0														
Total long term liabilities	0.0	2.1	2.1	2.1	8.9														
Total Liabilities	1.0	5.5	7.8	9.9	17.4														
Net Assets	14.7	16.9	26.4	37.4	45.9														
Share capital	20.1	29.7	42.3	52.4	56.5														
Accumulated profits/losses	(5.7)	(13.1)	(16.2)	(15.2)	(10.9)														
Reserves	0.3	0.3	0.3	0.3	0.3														
Minorities	0.0	0.0	0.0	0.0	0.0														
Total Shareholder funds	14.7	16.9	26.4	37.4	45.9														

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018



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- how we transact with you
- how we are paid, and
- complaint processes

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