

Fully underwritten entitlement offer to acquire Hobart DC

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 response to the recent market volatility, DXN has restructured its non-renounceable entitlement offer. The company is now offering a 13 for 10 non-renounceable share issue at \$0.01/share to raise \$5.92m, with an attached \$0.02/share option expiring in three years' time. Proceeds from the offer will fund the acquisition of TasmaNet's Data Centre 3 revenues and assets (\$2.43m), \$0.89m in general working capital, \$2.0m for product manufacturing working capital for DXN Modules and \$0.09m for data centre marketing. The offer is fully underwritten by lead manager Pinnacle Corporate Finance with institutional shareholder SG Hiscock sub-underwriting approximately \$556,000 and DXN executives \$95,000 of the offer. The company has also secured a six-month principal and interest repayment holiday from its \$5m secured chattel finance facility with ANZ Bank, saving around \$140,000 per month. The financing restructure follows the announcement last week of a two-phased \$2.3m contract with Speedcast International (ASX:SDA) to design, build and install a prefabricated modular cable station at its Mozambique operations. This underscores our forecasts for sales of \$7.8m (total revenues of \$8.8m) in FY20. We have updated our DCF valuation for the new entitlement offer, which will see more shares and listed options issued than previously forecast. Our base case DCF valuation is \$0.08/share fully diluted, implying a forward 12 months EV/Sales multiple of 6.9x.

Business model

DXN Ltd designs, builds, owns and operates prefabricated modular 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). It is also in the process of acquiring the TasmaNet DC3 centre in Hobart which will deliver another 30 racks and expand DXN's footprint regionally. Revenue is being generated from manufacturing prefabricated data centre modules for third parties and operating and renting rack space in its co-location data centres.

Contract win

DXN has secured a two-staged, \$2.3m contract with Speedcast to design, build and install a prefabricated modular cable station at its Mozambique operations. The design stage will generate \$50,000 in revenue with the remainder of the contract in the build/install phase which the parties have agreed to sign of after phase 1 has been completed and accepted.

DCF valuation is \$0.08/share fully diluted

We have factored in the additional shares being issued in the entitlement offer and have assumed that the accompanying options are fully exercised in 3 years' time. We have also incorporated the benefit of the principal and interest holiday, which improves our FY20 net result by 3.5% and FY21 by 5.0%. This delivers a fully diluted DCF valuation of \$0.08/share, which on a 12-months' forward basis equates to an EV/Sales multiple of 6.9x, a steep discount to larger data centre peers.

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)	1.49	na
06/20e	8.8	(6.1)	(10.3)	(1.98)	1.77	na
06/21e	19.6	(0.4)	(3.8)	(0.37)	0.79	na
06/22e	27.3	2.8	(1.0)	(0.09)	0.59	5.90

Source: RaaS Advisory Estimates, Company Data

Data Centres

9 April 2020

Share details

ASX Code	DXN
Share price	\$0.014
Market Capitalisation post entitlements offer	\$14.6M
Shares on issue post entitlements offer	1,128M
Enterprise value post entitlement offer	~\$10.6M
Net cash post raise	~\$4.0M
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) 19.22%, Carason Ward Pte Ltd (Dean Coetzee and Tim Desmond) 14.6%, SG Hiscock & Company Limited 12.45%

Board of Directors

John Baillie	Non-Executive Chairman
Richard Carden	Non-Executive Director
John Duffin	Non-Executive Director

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Revised Entitlement Offer Details

DXN has announced that it has struck a new fully-underwritten arrangement for a 13-for-10 non-renounceable entitlements issue at an issue price of \$0.01/share to raise \$5.92m pre-costs. The new offer includes a free listed option of \$0.02/option with expiry three years from the date of issue. The new offer price was at a 29% discount to the last traded price before the announcement of \$0.014/share and a 69% discount to the 30 day VWAP of \$0.0322. Lead manager Pinnacle Corporate Finance has agreed to fully underwrite the new offer, while institutional shareholder SG Hiscock will priority sub-underwrite the offer to approximately \$556,000, a vote of confidence in the company's strategy, in our view. CEO Matthew Madden has entered a priority sub-underwriting agreement for \$50,000 while other senior executives will priority sub-underwrite \$45,000. The priority sub-underwriting parties are entitled to a 3.0% fee. The new offer will result in about 592.18m new shares and 592.18m new options being issued. DXN noted its priority was to complete the DC3 acquisition from TasmaNet for \$2.43m, increase capacity at the Hobart centre from 30 to 100 racks, continue to fill its DXN-SYD001 data centre and build on the strong momentum in the DXN Modules business.

Potential debt reset

DXN announced that it has secured agreement from ANZ Bank to put principal and interest payments on its Chattel Finance Facility on hold for at least six months, saving the company around \$140,000 per month. The \$5m facility was drawn to about \$3.4m at March 31. Further, DXN noted that it is looking to renegotiate the ANZ facility on more favourable terms to release the \$2.0m in restricted cash held against the facility. We have factored in the reduced interest charges, resulting in a ~3.5% improvement in our forecasts in FY20 and 5.0% improvement in FY21.

DCF of \$0.08/share fully diluted

We have used the discounted cashflow methodology to value DXN, applying a WACC of 12.9%, beta of 1.9, terminal growth rate of 2.2% and target gearing of 10%, to our base case free cashflows. This derives an enterprise value of \$119.6m, unchanged from our last report. On a per share basis, the DCF valuation is \$0.08 post entitlement offer and our expectation that the new \$0.02 options will convert in three years' time. The terminal value accounts for 65% or \$0.05/share of the total value. We have included in the valuation the impact of the non-renounceable rights issue and options conversion. Share on issue currently are 454m. Our DCF valuation implies a 12-months forward EV/Sales of 6.9x less than half the multiples being applied by the market to much larger peers NextDC (ASX:NXT) and Megaport (ASX:MP1).

Exhibit 1: DCF valuation

	Parameters
Discount rate (WACC)	12.9%
Terminal Growth Rate	2.2%
Beta	1.9
Target gearing	10.0%
Present value of free cashflows	42.5
Present value of terminal value	77.1
Enterprise value	119.6
Add net cash inc all capital raises less debt raising expectatoinis	11.3
Equity value	130.9
Fully diluted shares (inc current raise, options conversion)	1637.2
Equity value per share	\$ 0.08

Source: RaaS estimates

Exhibit 2: Financial Summary

DXN Ltd						Share price (8 April 2020)						A\$ 0.014	
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	H119F	H219F	H120F	H220F	H121F	H221F		
Sales revenue	2.0	1.4	7.8	19.6	27.3	Revenue	2.5	0.1	3.4	5.3	9.3	10.3	
Total Revenue	2.0	2.6	8.8	19.6	27.3	EBITDA	(2.7)	(4.2)	(3.1)	(3.0)	(0.4)	(0.0)	
EBITDA	(4.0)	(7.0)	(6.1)	(0.4)	2.8	EBIT	(2.8)	(4.5)	(4.0)	(4.2)	(1.9)	(1.4)	
Depn	(0.0)	(0.2)	(1.0)	(1.8)	(1.9)	NPAT (normalised)	(2.7)	(4.5)	(4.1)	(4.2)	(2.0)	(1.8)	
Amort	(1.7)	(0.0)	(0.1)	(0.1)	(0.1)	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	
EBIT	(5.7)	(7.2)	(8.2)	(3.3)	0.0	NPAT (reported)	(2.7)	(4.6)	(6.1)	(4.2)	(2.0)	(1.8)	
Interest	0.0	0.0	(0.1)	(0.6)	(0.9)	EPS (normalised)	(1.6)	(1.3)	(1.6)	(0.4)	(0.2)	(0.2)	
Tax	0.0	0.0	0.0	0.0	(0.0)	EPS (reported)	(1.6)	(1.3)	(1.6)	(0.4)	(0.2)	(0.2)	
Minorities	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0	
NPAT pre significant items	(5.7)	(7.4)	(8.3)	(3.8)	(1.0)	Operating cash flow	(4.3)	(2.5)	(4.7)	(1.2)	(1.3)	(0.8)	
Significant items	0.0	0.0	(2.0)	0.0	0.0	Free Cash flow	(4.4)	(2.6)	(4.7)	(1.5)	(1.7)	(1.1)	
NPAT (reported)	(5.7)	(7.4)	(10.3)	(3.8)	(1.0)	Divisions	H119F	H219F	H120F	H220F	H121F	H221F	
Cash flow (A\$m)						Port Melbourne	0.0	0.0	0.0	0.0	0.0	0.0	
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Homebush	0.0	0.0	0.0	0.1	0.2	0.4	
EBITDA	(4.0)	(7.0)	(6.1)	(0.4)	2.8	Edge Infrastructure	1.3	0.1	2.5	5.1	8.7	9.4	
Interest	0.0	0.0	0.0	(0.6)	(0.9)	Software sales	0.0	0.0	0.0	0.0	0.0	0.0	
Tax	0.0	0.0	0.0	0.0	(0.0)	Other income	1.2	0.0	0.9	0.0	0.0	0.0	
Working capital changes	(1.0)	0.1	0.2	(1.0)	0.3	Total Revenue	2.5	0.1	3.4	5.2	8.9	9.9	
Operating cash flow	(5.0)	(6.9)	(5.8)	(2.1)	2.1	COGS	2.3	0.9	2.0	4.1	5.8	6.3	
Mtce capex	0.0	0.0	(0.3)	(0.7)	(0.7)	Gross Profit	0.3	(0.7)	1.5	1.1	3.1	3.5	
Free cash flow	(5.0)	(6.9)	(6.1)	(2.8)	1.4	Employment costs	1.3	1.7	3.2	2.7	2.6	2.7	
Growth capex	(0.5)	(10.4)	(5.6)	(1.3)	(3.0)	Other operating costs	0.3	0.2	0.4	0.4	0.4	0.4	
Acquisitions/Disposals	0.0	0.0	(2.7)	0.0	0.0	Corporate overheads	1.4	1.4	0.9	0.7	0.7	0.7	
Other	(1.1)	(2.0)	(0.3)	0.0	0.0	Total Operating Costs	3.0	3.3	4.6	3.9	3.7	3.8	
Cash flow pre financing	(6.6)	(19.3)	(14.7)	(4.1)	(1.6)	EBITDA	(2.7)	(4.1)	(3.1)	(2.8)	(0.6)	(0.3)	
Equity	16.0	10.3	10.9	0.0	0.0	Capex required	4.1	0.0	0.0	2.6	0.0	1.3	
Debt	4.4	(0.7)	0.6	4.0	1.0	Margins, Leverage, Returns		FY18A	FY19A	FY20F	FY21F	FY22F	
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBITDA		n/a	(264.2%)	(69.2%)	(2.3%)	10.1%	
Net cash flow for year	13.7	(9.6)	(3.2)	(0.1)	(0.6)	EBIT		n/a	(274.1%)	(93.5%)	(16.6%)	0.1%	
Balance sheet (A\$m)						NPAT pre significant items		n/a	(279.2%)	(94.7%)	(19.6%)	(3.5%)	
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Net Debt (Cash)			12.0	2.4	- 14.5	- 18.6	- 20.2
Cash	12.0	5.4	1.4	1.3	0.7	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	- 7.339	
Accounts receivable	1.2	1.0	1.3	3.3	4.5	ND/ND+Equity (%)	(%)	n/a	(16.6%)	46.5%	59.2%	63.0%	
Inventory	0.2	1.0	0.4	0.8	1.1	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	56.9	
Other current assets	0.7	0.4	0.7	0.7	0.7	ROA		n/a	(38.2%)	(28.1%)	(8.9%)	0.0%	
Total current assets	14.2	7.8	3.9	6.2	7.1	ROE			(46.7%)	(61.2%)	(26.1%)	(7.8%)	
PPE	0.4	11.1	18.7	18.8	20.7	ROIC			0.0%	(32.1%)	321.7%	27.8%	(0.1%)
Goodwill	0.0	0.0	0.0	0.0	0.0	NTA (per share)			0.08	0.04	0.02	0.01	0.01
Investments	0.0	0.0	0.0	0.0	0.0	Working capital			0.6	0.9	0.7	2.1	3.0
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)			27.8%	33.4%	8.1%	10.6%	10.8%
Other assets	1.1	3.4	13.5	12.5	11.6	Revenue growth			n/a	31.1%	231.3%	124.3%	39.2%
Total non current assets	1.4	14.5	32.2	31.3	32.3	EBIT growth pa			n/a	n/a	n/a	n/a	(100.5%)
Total Assets	15.6	22.3	36.0	37.5	39.4	Pricing			FY18A	FY19A	FY20F	FY21F	FY22F
Accounts payable	0.9	1.2	1.0	2.0	2.7	No of shares (y/e)	(m)		194	453	1,045	1,045	1,045
Short term debt	0.0	0.9	2.3	2.3	2.3	Weighted Av Dil Shares	(m)		98	211	1,128	1,128	1,128
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps		(5.86)	(3.50)	(1.98)	(0.37)	(0.09)
Other current liabilities	0.1	1.3	2.5	2.8	4.0	EPS Normalised/Diluted	cps		(5.86)	(3.41)	(1.47)	(0.37)	(0.09)
Total current liabilities	1.0	3.4	5.8	7.1	9.0	EPS growth (norm/dil)			n/a	n/a	n/a	n/a	n/a
Long term debt/lease liabilities	0.0	2.1	13.6	17.6	18.6	DPS	cps		-	-	-	-	-
Other non current liabs	0.0	0.0	0.0	0.0	0.0	DPS Growth			n/a	n/a	n/a	n/a	n/a
Total long term liabilities	0.0	2.1	13.6	17.6	18.6	Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%
Total Liabilities	1.0	5.5	19.4	24.7	27.6	Dividend imputation			30	30	30	30	30
Net Assets	14.7	16.9	16.7	12.8	11.9	PE (x)			-	-	-	-	-
Share capital	20.1	29.7	40.1	40.1	40.1	PE market			13.2	13.2	13.2	13.2	13.2
Accumulated profits/losses	(5.7)	(13.1)	(23.8)	(27.6)	(28.6)	Premium/(discount)			(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)
Reserves	0.3	0.3	0.3	0.3	0.3	EV/EBITDA			2.3	(0.6)	(2.6)	(34.8)	5.9
Minorities	0.0	0.0	0.0	0.0	0.0	FCF/Share	cps		(2.6)	(1.5)	(0.5)	(0.1)	0.3
Total Shareholder funds	14.7	16.9	16.7	12.8	11.9	Price/FCF share			(0.5)	(0.9)	(2.7)	(10.6)	5.3
						Free Cash flow Yield			(185.4%)	(108.1%)	(37.7%)	(9.4%)	18.9%

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

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