

20th August 2019

DXN

Open for business

DXN Ltd (ASX:DXN) is a vertically integrated prefabricated modular data centre business with manufacturing facilities in Perth and recently constructed data centre, SYD01, at Sydney Olympic Park in Sydney. The company was previously known as The Data Exchange Network. DXN has announced that having completed the construction of SYD01 in a compressed four-month period, the centre is now ready for service. DXN's next milestone is the Tier Certification of Constructed Facility (TCCF) by independent specialist Uptime Institute. The TCCF audit is scheduled to take place in late August. Our base case DCF valuation is \$0.24/share (WACC 10.7%, terminal growth rate of 2.2%) and includes the dilution from anticipated capital raises from FY19-22. On the current share count of 361.3m shares, our base case valuation is \$0.34/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 in leased premises in Sydney. 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 is at an earlier stage of development. 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 6MW or 1,000 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 breakeven at 2.9MW built and \$10m pa in DXN Module sales.

Construction milestone met

DXN has met a key milestone in the completed construction of its initial 1.0MW of core supporting infrastructure. Construction was completed within four months from receipt of the construction certificate and is now ready for service. The company has commenced showcasing the centre to prospective clients ahead of the Uptime Institute undertaking the Tier III TCCF Audit later this month. The data centre has been designed to meet the Uptime Institute's Tier III and Tier IV standards using a modular design approach. The Tier III TCCF certification will help underpin DXN's sales proposition to prospective clients. We expect sales to quickly follow Tier III certification.

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

Year end	Revenue	EBITDA reported	NPAT reported	EPS (c)	EV/Sales (x)	EV/EBITDA (x)
06/18a	2.0	(4.0)	(5.7)	(5.86)	na	na
06/19e	2.6	(7.3)	(6.1)	(2.04)	3.70	na
06/20e	18.8	(2.1)	(2.2)	(0.46)	0.89	na
06/21e	32.1	3.2	0.9	0.16	0.57	5.79

Source: Company data, RaaS Advisory Estimates for FY19e, FY20e, FY21e

Share details

ASX Code	DXN
Share Price (intraday)	\$0.052
Market Capitalisation	\$18.7M
Number of shares	361.27M
Enterprise Value	\$11.4M
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

- Tier III certification in late Aug '19
- Further contract wins for DXN Modules

Comparative companies (Australia & NZ)

MAQ, NXT

Substantial Shareholders

Carason Ward Pte Ltd (Dean Coetzee and Tim Desmond) 15.42%,
JP Morgan Nominees Australia Pty Ltd (Newgate Capital Partners) 16.1%,
SG Hiscock & Company Limited 9.88%

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FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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