

De.mem Limited

Increased revenue flows from BOO water treatment

De.mem Limited (ASX:DEM) is a decentralised water and wastewater treatment business that predominantly designs, builds, owns and operates turnkey water and wastewater treatments for some of the world's largest mining, electronics, chemical, oil and gas, and food and beverage companies. Technologies uniquely offered by DEM include a low-pressure hollow fibre nanofiltration membrane that uses less electricity and is cheaper to operate than conventional systems, as well as new forward osmosis membrane deployed in de-watering applications or the concentration of liquids, using technology developed by the NTU in Singapore. DEM raised \$3.0m at \$0.14/share in August 2022 to fund ongoing growth and finished the September 2022 quarter with \$5.5m cash, representing eight quarters of cash burn at the September quarter burn rate. DEM is targeting an EBITDA/operating cash flow positive position by H1 CY23 from a combination of improved gross margins (34.1% in H1 CY22, up from 33.6% in CY21) and operating leverage from new contracts. The H1 CY22 EBITDA loss was \$800k, with the Q1 CY22 loss of \$470k narrowing to \$330k in Q2 CY22.

Business model

For decentralised water treatment, De.mem predominantly operates a build, own, operate (BOO) model whereby DEM rents out water treatment equipment (containerised membrane plants) to a client, operates and maintains the plant on behalf of the client including the provision of specialty chemicals and pumps/small water treatment equipment. Such equipment & services are provided across the groups four divisions, Equipment, Services, Speciality Chemicals and Pumps/Small Water Treatment equipment/services. The company also sells equipment on a project or one-off basis if requested and offers their services and consumables for sale outside of BOO contracts. Contracts are typically fixed for several years and to date DEM has not lost a contract to a competitor. The upfront build offers few cost surprises while ongoing service fees have price increases factored in, limiting the impacts of higher inflation. The new Graphene-Oxide membrane technology will be marketed via established water players in target markets, beginning with Purafy, Canada.

Fourteen consecutive quarters of cash receipts growth

DEM delivered cash receipts of \$5.5m in Q3 CY22, a record and the fourteenth consecutive quarter of cash receipts growth. Recurring revenue as a percentage of total revenue is now >90%, up from 73% in December and 38% in CY18. Cash burn was \$668k, representing eight quarters at the current burn rate. A combination of higher gross margins and operating leverage from new contracts is expected to see this burn rate decline over coming quarters to reach cash flow breakeven during H1 CY23.

Peers rely on people and capital equipment for revenue

Peers for DEM include business models that build/service and maintain physical infrastructure, and/or provide consumables to industries such as mining and chemicals. Most of these businesses will have gross profit margins around 30%, similar to DEM, due to capital and people intensity. Suggested peers include GNG Engineering (ASX:GNG), Lycopodium (ASX:LYL) and SRG Global (ASX:SRG). In the water treatment space peers could include Phoslock (ASX:PET), Fluence Corporation (ASX:FLU) and Scidev (ASX:SDV).

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	Gross profit	EBITDA adj.*	NPAT adj.	Recurring rev. (%)	Cash @ bank	EV/Sales (x)
12/19a	10.1	25.5	(3.6)	(3.5)	54	7.7	0.7
12/20a	14.1	30.7	(3.1)	(3.5)	58	4.6	1.0
12/21a	18.1	33.6	(2.2)	(4.3)	70	8.6	0.8

Source: Company data; *Revenue, EBITDA, NPAT and EPS adjusted for one-time, non-cash items and discontinued operations

Software & Services

7 November 2022

Share Details

ASX code	DEM
Share price (4-Nov)	\$0.11
Market capitalisation	\$26.9M
Shares on issue	244.4M
Net cash at 30-Sept-2022	\$5.5M
Free float	~74.9%

Share Performance (12 months)



Upside Case

- Continued BOO contracts
- Complementary acquisitions
- Successful entry into the US domestic water mkt

Downside Case

- Contract losses
- Competition from new technology
- Access to funding

Catalysts

- Further contract announcements
- NSF certification/US household entry

Comparable Companies (Aust/NZ)

GNG Engineering (ASX:GNG), SRG Global (ASX:SRG), Lycopodium (ASX:LYL)

Board and Management

Cosimo Trimiglozzi	Non-Exec. Chair
Andreas Kroell	CEO and Director
Bernd Dautel	Non-Exec. Director
Michael Edwards	Non-Exec. Director

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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