

DXN Ltd

Quarterly update

Q4 cash receipts up 219% on pcp, strong cost containment

DXN Ltd (ASX:DXN) is a vertically integrated prefabricated modular data centre business with manufacturing facilities in Perth and its own data centres, SYD01, at Sydney Olympic Park in Sydney and the recently acquired Data Centre 3 in Hobart, Tasmania. The company has reported Q4 cash receipts of \$1.765m, up 218.6% on the previous corresponding quarter with strong cost containment evident in this result. Costs, apart from product manufacturing costs which are directly related to sales, were down across the board. Cost for the quarter were \$2.58m, bringing total costs for 2H FY20 to \$5.98m. Cash receipts for 2H FY20 were \$3.9m, lower than our forecast for \$5.2m but cash costs were lower than our forecast of \$8.3m for 2H FY20. We have incorporated the final quarter result in our FY20 forecasts taking into account the company's guidance for \$5m in revenue but also the lower cost base. This has had the effect of increasing our base case DCF valuation by \$0.01/share to \$0.09/share fully diluted, implying a forward 12 months EV/Sales multiple of 7.97x.

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 recently acquired the TasmaNet DC3 centre in Hobart which has delivered another 30 racks and expanded DXN's footprint beyond Sydney. 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.

Q4 FY20 result and outlook

DXN has delivered strong Q4 cashflows with costs containment the key feature of the result. Cash receipts for the quarter were \$1.765m, up 218.6% on pcp, but down from the \$2.1m reported in Q3 FY20. This brought total cash receipts for the year to \$5.337m, in line with the company's June guidance for full year revenue to be around \$5m, but below of forecast for \$6.8m. Costs for the quarter were \$2.58m, including \$0.9m for product and manufacturing costs which are directly related to the sales contracts secured for data centre and cable landing stations. Monthly cash burn reduced 68.5% in Q4 to \$0.203m, compared with Q4 FY19. Cash costs were lower than we had been forecasting for the year and as a consequence, we have incorporated the result into our forecasts. We are now forecasting a net loss of \$7.9m for FY20 versus our previous forecast for a net loss of \$8.3m. The company commented that it expected a stronger FY21 for its Sydney DC, that DC3 in Hobart would deliver a significant contribution to revenue and cashflow in FY21 and that its modules business had responded to a number of proposals in the final quarter.

DCF valuation is \$0.09/share fully diluted

We are of the view that the discounted cashflow methodology is the most appropriate method of valuing DXN. Our DCF valuation using a WACC of 12.9%, terminal growth rate of 2.2%, delivers a fully diluted DCF valuation of \$0.09/share, which on a 12-months' forward basis equates to an EV/Sales multiple of 7.97x, 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	1.4	(7.0)	(7.4)	(3.50)	3.03	na
06/20e	5.4	(5.9)	(11.6)	(2.11)	3.47	na
06/21e	16.8	(0.9)	(4.1)	(0.39)	1.43	na
06/22e	30.8	4.9	0.8	0.08	0.76	4.83

Source: RaaS Advisory Estimates, Company Data

Data Centres

3 August 2020

Share details

ASX Code	DXN
Share price	\$0.023
Market Capitalisation	\$24.3M
Shares on issue	1.06B
Enterprise value	\$20.7M
Net cash at 30 June	\$2.2M
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) 5.22%, Kenneth Baker 5.01%
SG Hiscock & Company Limited 3.38%

Board of Directors

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

RaaS Advisory contacts

Finola Burke +61 414 354 712
finola.burke@raasgroup.com

Exhibit 2: Financial Summary

DXN Ltd						Share price (31 July 2020)						A\$	0.023
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Revenue	H119F	H219F	H120F	H220F	H121F	H221F	
Sales revenue	2.0	1.4	5.4	16.8	30.8	EBITDA	(2.7)	(4.2)	(3.1)	(2.8)	(1.3)	0.4	
Total Revenue	2.0	2.6	6.6	16.8	30.8	EBIT	(2.8)	(4.5)	(4.0)	(3.8)	(2.6)	(1.0)	
EBITDA	(4.0)	(7.0)	(5.9)	(0.9)	4.9	NPAT (normalised)	(2.7)	(4.5)	(4.1)	(3.8)	(2.7)	(1.4)	
Depn	(0.0)	(0.2)	(0.6)	(1.7)	(1.9)	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	
Amort	(1.7)	(0.0)	(0.3)	(0.0)	(0.0)	NPAT (reported)	(2.7)	(4.6)	(6.1)	(5.5)	(2.7)	(1.4)	
EBIT	(5.7)	(7.2)	(7.8)	(3.5)	2.1	EPS (normalised)	(1.6)	(1.3)	(1.6)	(0.5)	(0.3)	(0.1)	
Interest	0.0	0.0	(0.1)	(0.6)	(0.9)	EPS (reported)	(1.6)	(1.3)	(1.6)	(0.5)	(0.3)	(0.1)	
Tax	0.0	0.0	0.0	0.0	(0.4)	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0	
Minorities	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(4.3)	(2.5)	(4.7)	(1.9)	(0.5)	(0.0)	
NPAT pre significant items	(5.7)	(7.4)	(7.9)	(4.1)	0.8	Free Cash flow	(4.4)	(2.6)	(4.7)	(2.1)	(0.8)	(0.4)	
Significant items	0.0	0.0	(3.7)	0.0	0.0	Divisions							
NPAT (reported)	(5.7)	(7.4)	(11.6)	(4.1)	0.8	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	0.0	0.2	0.4	
EBITDA	(4.0)	(7.0)	(5.9)	(0.9)	4.9	Edge Infrastructure	1.3	0.1	2.5	2.8	5.7	9.6	
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	(0.4)	Other income	1.2	0.0	0.9	0.3	0.0	0.0	
Working capital changes	(1.0)	0.1	(0.6)	0.9	(0.2)	Total Revenue	2.5	0.1	3.4	3.2	5.9	10.1	
Operating cash flow	(5.0)	(6.9)	(6.5)	(0.5)	3.4	COGS	2.3	0.9	2.0	2.0	3.8	6.3	
Mtce capex	0.0	0.0	(0.3)	(0.7)	(0.7)	Gross Profit	0.3	(0.7)	1.5	1.2	2.1	3.8	
Free cash flow	(5.0)	(6.9)	(6.8)	(1.2)	2.7	Employment costs	1.3	1.7	3.2	2.7	2.6	2.6	
Growth capex	(0.5)	(10.4)	(3.0)	(3.9)	(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	3.8	3.6	3.6	
Cash flow pre financing	(6.6)	(19.3)	(12.7)	(5.1)	(0.4)	EBITDA	(2.7)	(4.1)	(3.1)	(2.6)	(1.5)	0.2	
Equity	16.0	10.3	10.9	0.0	0.0	Capex required	4.1	0.0	0.0	0.0	2.6	1.3	
Debt	4.4	(0.7)	0.6	4.0	1.0	Margins, Leverage, Returns							
Dividends paid	0.0	0.0	0.0	0.0	0.0	FY18A	FY19A	FY20F	FY21F	FY22F			
Net cash flow for year	13.7	(9.6)	(1.2)	(1.1)	0.6	EBITDA	n/a	(264.2%)	(88.9%)	(5.2%)	15.8%		
Balance sheet (A\$m)						EBIT	n/a	(274.1%)	(117.9%)	(21.0%)	6.9%		
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	NPAT pre significant items	n/a	(279.2%)	(119.5%)	(24.3%)	2.7%		
Cash	12.0	5.4	3.3	2.2	2.9	Net Debt (Cash)		12.0	2.4	-	17.7	-	18.0
Accounts receivable	1.2	1.0	0.9	2.8	5.1	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	-	3.709
Inventory	0.2	1.0	0.2	0.7	1.2	ND/ND+Equity (%)	(%)	n/a	(16.6%)	45.1%	61.2%	59.9%	
Other current assets	0.7	0.4	0.7	0.7	0.7	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	0.4	
Total current assets	14.2	7.8	5.2	6.5	10.0	ROA		n/a	(38.2%)	(28.1%)	(10.1%)	5.5%	
PPE	0.4	11.1	16.4	19.2	21.1	ROE			(46.7%)	(72.1%)	(30.8%)	7.1%	
Goodwill	0.0	0.0	0.0	0.0	0.0	ROIC		0.0%	(32.1%)	346.6%	34.9%	(17.1%)	
Investments	0.0	0.0	0.0	0.0	0.0	NTA (per share)							
Deferred tax asset	0.0	0.0	0.0	0.0	0.0			0.08	0.04	0.01	0.01	0.01	
Other assets	1.1	3.4	11.6	10.6	9.8	Working capital		0.6	0.9	0.6	1.8	3.4	
Total non current assets	1.4	14.5	28.0	29.9	30.9	WC/Sales (%)		27.8%	33.4%	8.5%	10.8%	11.0%	
Total Assets	15.6	22.3	33.2	36.4	40.9	Revenue growth		n/a	31.1%	150.6%	153.8%	83.1%	
Accounts payable	0.9	1.2	0.6	1.7	3.0	EBIT growth pa		n/a	n/a	n/a	n/a	(160.1%)	
Short term debt	0.0	0.9	2.3	2.3	2.3	Pricing							
Tax payable	0.0	0.0	0.0	0.0	0.0	FY18A	FY19A	FY20F	FY21F	FY22F			
Other current liabilities	0.1	1.3	1.0	3.2	4.5	No of shares (y/e)	(m)	194	453	1,045	1,045	1,045	
Total current liabilities	1.0	3.4	3.9	7.1	9.8	Weighted Av Dil Shares	(m)	98	211	1,128	1,128	1,128	
Long term debt/lease liabilities	0.0	2.1	13.6	17.6	18.6	EPS Reported	cps	(5.86)	(3.50)	(2.11)	(0.39)	0.08	
Other non current liab	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(5.86)	(3.41)	(1.43)	(0.39)	0.08	
Total long term liabilities	0.0	2.1	13.6	17.6	18.6	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	-120%	
Total Liabilities	1.0	5.5	17.5	24.7	28.4	DPS	cps	-	-	-	-	-	
Net Assets	14.7	16.9	15.7	11.6	12.4	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Share capital	20.1	29.7	40.1	40.1	40.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Accumulated profits/losses	(5.7)	(13.1)	(25.2)	(29.2)	(28.4)	Dividend imputation		30	30	30	30	30	
Reserves	0.3	0.3	0.3	0.3	0.3	PE (x)		-	-	-	-	29.0	
Minorities	0.0	0.0	0.0	0.0	0.0	PE market		15.6	15.6	15.6	15.6	15.6	
Total Shareholder funds	14.7	16.9	15.3	11.2	12.0	Premium/(discount)			(100.0%)	(100.0%)	(100.0%)	86.2%	
						EV/EBITDA		1.9	(1.1)	(3.9)	(27.7)	4.8	
						FCF/Share	cps	(2.6)	(1.5)	(0.6)	0.0	0.4	
						Price/FCF share		(0.9)	(1.5)	(3.8)	173.4	5.9	
						Free Cash flow Yield		(112.8%)	(65.8%)	(26.2%)	0.6%	16.9%	

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.

This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

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

Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS, 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application form if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.

We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

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

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

DISCLAIMERS and DISCLOSURES

This report has been prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory's principals, employees and associates may hold shares in companies that are covered and, if so, this will be clearly stated on the front page of each report. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. RaaS Advisory provides this financial advice as an honest and reasonable opinion held at a point in time about an investment's risk profile and merit and the information is provided by the RaaS Advisory in good faith. The views of the adviser(s) do not necessarily reflect the views of the AFS Licensee. RaaS Advisory has no obligation to update the opinion unless RaaS Advisory is currently contracted to provide such an updated opinion. RaaS Advisory does not warrant the accuracy of any information it sources from others. All statements as to future matters are not guaranteed to be accurate and any statements as to past performance do not represent future performance.

Assessment of risk can be subjective. Portfolios of equity investments need to be well diversified and the risk appropriate for the investor. Equity investments in listed or unlisted companies yet to achieve a profit or with an equity value less than \$50 million should collectively be a small component of a balanced portfolio, with smaller individual investment sizes than otherwise. Investors are responsible for their own investment decisions, unless a contract stipulates otherwise. RaaS Advisory does not stand behind the capital value or performance of any investment. Subject to any terms implied by law and which cannot be excluded, RaaS Advisory shall not be liable for any errors, omissions, defects or misrepresentations in the information (including by reasons of negligence, negligent misstatement or otherwise) or for any loss or damage (whether direct or indirect) suffered by persons who use or rely on the information. If any law prohibits the exclusion of such liability, RaaS Advisory limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. Copyright 2020 RaaS Advisory Pty Ltd (A.B.N. 99 614 783 363). All rights reserved