

30th July 2019

DXN

Good cost containment in 2H19

DXN Ltd (ASX:DXN) is a vertically integrated prefabricated modular data centre business with manufacturing facilities in Perth and a soon to be commissioned data centre, SYD01, at Sydney Olympic Park in Sydney. The company was previously known as The Data Exchange Network. DXN has reported its 4th quarter results, with the key takeaway, in our view, that both operating and investing costs are being well contained. The company ended FY19 with \$7.36m cash in the bank, well ahead of our forecast for \$5.2m. This was despite H219 cash receipts of \$0.61m being lower than our forecast for \$1.3m for the same period and reflective of the delayed nature of payments to DXN Modules. 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, is building a pre-fabricated modular co-location data centre in leased premises in Sydney, utilising its established engineering and manufacturing facility in Perth to deliver its 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 1 MW or 145 racks in Sydney and gradually installing 5MW in Sydney and 6MW in Melbourne 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.

Takeaways from 4th Quarter Cashflow Summary

DXN has reported Q4 operating cash outflow of \$1.9m, investing cash outflow of \$3.1m offset by financing cash inflow of \$7.6m following the successful completion of its \$8.3m underwritten rights issue. Cost containment in Q4 and H219 was better than our forecasts, resulting in the company reporting higher cash in hand than forecast of \$7.36m (versus our forecast of \$5.2m) at period end. The company has noted that cash outflows in Q1 FY20 are estimated at \$5.2m with \$1.3m of this directly related to manufacturing costs of the company's three recent contract wins with Radlink, Niue and the Cook Islands. We expect to see cash receipts from these contract wins reflected over the next three quarters as the company executes. DXN also anticipates another \$1.9m in expenditure on supporting infrastructure for the SYD01 data centre which is expected to be commissioned in coming weeks.

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

Year end	Revenue	EBITDA reported	NPAT reported	EPS (c)	EV/Sales (x)	EV/EBITDA (x)
0618a	2.0	(4.0)	(5.7)	(5.86)	na	na
0619e	2.6	(7.3)	(6.1)	(2.04)	3.70	na
0620e	18.8	(2.1)	(2.2)	(0.46)	0.89	na
0621e	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

- Commissioning of Sydney data centre in July/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%,
Buttonwood Nominees Pty Ltd (Newgate Capital Partners) 15.48%,
SG Hiscock & Company Limited 9.88%

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FINANCIAL SERVICES GUIDE

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