

DXN Ltd

Update note

Q3 cash receipts up 218% 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 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 has reported Q3 cash receipts of \$2.1m, up 218% on the previous corresponding quarter with strong cost containment evident in this result. The company noted that it had reduced staff costs by \$0.645m or 39% from the prior period. Costs for the quarter were \$2.9m, including manufacturing costs, well below our expectations. The strong cost containment suggests the company is tracking better than our forecasts for costs in 2H FY20. We are forecasting cash costs of \$8.3m for 2H FY20, half of which is related to product manufacturing. We have not changed our forecasts for this half given the uncertain environment presented by COVID-19 but see the cost containment delivered by the company in Q3 as a good buffer against any deterioration in market conditions. Our base case DCF valuation is \$0.08/share fully diluted, implying a forward 12 months EV/Sales multiple of 6.65x.

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.

Q3 result and outlook

DXN has delivered a better than expected Q3 cashflow summary with sales and costs both bettering our forecasts. Cash receipts increased 218% to \$2.1m while costs for the quarter were \$2.9m including \$1.1m for product and manufacturing costs which are directly related to the sales contracts secured for data centre and cable landing stations. Employee costs were reduced by \$0.645m in the quarter and going forward, the company has removed \$0.2m per month in employee costs. Excluding government grants, the company has executed a net cash turnaround of \$1.84m or 70% over the prior corresponding quarter. Cash at the end of the quarter was \$1.463m. The company is finalising a fully underwritten \$5.9m entitlements offer at \$0.01/share which will deliver additional working capital to the group. DXN noted that it is targeting cash outflow of \$0.84m per month in the current quarter, which is below the \$0.95m per month in Q3.

DCF valuation is \$0.08/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 \$0.08/share, which on a 12-months' forward basis equates to an EV/Sales multiple of 6.65x, 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)	0.80	na
06/20e	8.8	(6.1)	(10.3)	(1.98)	1.30	na
06/21e	19.6	(0.4)	(3.8)	(0.37)	0.58	na
06/22e	27.3	2.8	(1.0)	(0.09)	0.44	4.38

Source: RaaS Advisory Estimates, Company Data

Data Centres

1 May 2020

Share details

ASX Code	DXN
Share price	\$0.01
Market Capitalisation post entitlements offer	\$11.3M
Shares on issue post entitlements offer	1,128M
Enterprise value post entitlement offer	~\$7.3M
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

RaaS Advisory contacts

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Exhibit 2: Financial Summary

DXN Ltd						Share price (1 May 2020)						AS\$	0.010				
Profit and Loss (A\$m)						Interim (A\$m)		H119F	H219F	H120F	H220F	H121F	H221F				
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Revenue	2.5	0.1	3.4	5.3	9.3	10.3					
						EBITDA	(2.7)	(4.2)	(3.1)	(3.0)	(0.4)	(0.0)					
Sales revenue	2.0	1.4	7.8	19.6	27.3	EBIT	(2.8)	(4.5)	(4.0)	(4.2)	(1.9)	(1.4)					
Total Revenue	2.0	2.6	8.8	19.6	27.3	NPAT (normalised)	(2.7)	(4.5)	(4.1)	(4.2)	(2.0)	(1.8)					
EBITDA	(4.0)	(7.0)	(6.1)	(0.4)	2.8	Minorities	0.0	0.0	0.0	0.0	0.0	0.0					
Depn	(0.0)	(0.2)	(1.0)	(1.8)	(1.9)	NPAT (reported)	(2.7)	(4.6)	(6.1)	(4.2)	(2.0)	(1.8)					
Amort	(1.7)	(0.0)	(0.1)	(0.1)	(0.1)	EPS (normalised)	(1.6)	(1.3)	(1.6)	(0.4)	(0.2)	(0.2)					
EBIT	(5.7)	(7.2)	(8.2)	(3.3)	0.0	EPS (reported)	(1.6)	(1.3)	(1.6)	(0.4)	(0.2)	(0.2)					
Interest	0.0	0.0	(0.1)	(0.6)	(0.9)	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0					
Tax	0.0	0.0	0.0	0.0	(0.0)	Imputation	30.0	30.0	30.0	30.0	30.0	30.0					
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(4.3)	(2.5)	(4.7)	(1.2)	(1.3)	(0.8)					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(4.4)	(2.6)	(4.7)	(1.5)	(1.7)	(1.1)					
NPAT pre significant items	(5.7)	(7.4)	(8.3)	(3.8)	(1.0)	Divisions	H119F	H219F	H120F	H220F	H121F	H221F					
Significant items	0.0	0.0	(2.0)	0.0	0.0	Port Melbourne	0.0	0.0	0.0	0.0	0.0	0.0					
NPAT (reported)	(5.7)	(7.4)	(10.3)	(3.8)	(1.0)	Homebush	0.0	0.0	0.0	0.1	0.2	0.4					
Cash flow (A\$m)						Edge Infrastructure	1.3	0.1	2.5	5.1	8.7	9.4					
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Software sales	0.0	0.0	0.0	0.0	0.0	0.0					
EBITDA	(4.0)	(7.0)	(6.1)	(0.4)	2.8	Other income	1.2	0.0	0.9	0.0	0.0	0.0					
Interest	0.0	0.0	0.0	(0.6)	(0.9)	Total Revenue	2.5	0.1	3.4	5.2	8.9	9.9					
Tax	0.0	0.0	0.0	0.0	(0.0)	COGS	2.3	0.9	2.0	4.1	5.8	6.3					
Working capital changes	(1.0)	0.1	0.2	(1.0)	0.3	Gross Profit	0.3	(0.7)	1.5	1.1	3.1	3.5					
Operating cash flow	(5.0)	(6.9)	(5.8)	(2.1)	2.1	Employment costs	1.3	1.7	3.2	2.7	2.6	2.7					
Mtce capex	0.0	0.0	(0.3)	(0.7)	(0.7)	Other operating costs	0.3	0.2	0.4	0.4	0.4	0.4					
Free cash flow	(5.0)	(6.9)	(6.1)	(2.8)	1.4	Corporate overheads	1.4	1.4	0.9	0.7	0.7	0.7					
Growth capex	(0.5)	(10.4)	(5.6)	(1.3)	(3.0)	Total Operating Costs	3.0	3.3	4.6	3.9	3.7	3.8					
Acquisitions/Disposals	0.0	0.0	(2.7)	0.0	0.0	EBITDA	(2.7)	(4.1)	(3.1)	(2.8)	(0.6)	(0.3)					
Other	(1.1)	(2.0)	(0.3)	0.0	0.0	Capex required	4.1	0.0	0.0	2.6	0.0	1.3					
Cash flow pre financing	(6.6)	(19.3)	(14.7)	(4.1)	(1.6)	Margins, Leverage, Returns							FY18A	FY19A	FY20F	FY21F	FY22F
Equity	16.0	10.3	10.9	0.0	0.0	EBITDA		n/a	(264.2%)	(69.2%)	(2.3%)	10.1%					
Debt	4.4	(0.7)	0.6	4.0	1.0	EBIT		n/a	(274.1%)	(93.5%)	(16.6%)	0.1%					
Dividends paid	0.0	0.0	0.0	0.0	0.0	NPAT pre significant items		n/a	(279.2%)	(94.7%)	(19.6%)	(3.5%)					
Net cash flow for year	13.7	(9.6)	(3.2)	(0.1)	(0.6)	Net Debt (Cash)		12.0	2.4	-	14.5	-	18.6	-	20.2		
Balance sheet (A\$m)						Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	-	7.339				
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	ND/ND+Equity (%)	(%)	n/a	(16.6%)	46.5%	59.2%	63.0%					
Cash	12.0	5.4	1.4	1.3	0.7	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	56.9					
Accounts receivable	1.2	1.0	1.3	3.3	4.5	ROA		n/a	(38.2%)	(28.1%)	(8.9%)	0.0%					
Inventory	0.2	1.0	0.4	0.8	1.1	ROE			(46.7%)	(61.2%)	(26.1%)	(7.8%)					
Other current assets	0.7	0.4	0.7	0.7	0.7	ROIC		0.0%	(32.1%)	321.7%	27.8%	(0.1%)					
Total current assets	14.2	7.8	3.9	6.2	7.1	NTA (per share)							0.08	0.04	0.02	0.01	0.01
PPE	0.4	11.1	18.7	18.8	20.7	Working capital		0.6	0.9	0.7	2.1	3.0					
Goodwill	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		27.8%	33.4%	8.1%	10.6%	10.8%					
Investments	0.0	0.0	0.0	0.0	0.0	Revenue growth		n/a	31.1%	231.3%	124.3%	39.2%					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		n/a	n/a	n/a	n/a	(100.5%)					
Other assets	1.1	3.4	13.5	12.5	11.6	Pricing							FY18A	FY19A	FY20F	FY21F	FY22F
Total non current assets	1.4	14.5	32.2	31.3	32.3	No of shares (y/e)	(m)	194	453	1,045	1,045	1,045					
Total Assets	15.6	22.3	36.0	37.5	39.4	Weighted Av Dil Shares	(m)	98	211	1,128	1,128	1,128					
Accounts payable	0.9	1.2	1.0	2.0	2.7												
Short term debt	0.0	0.9	2.3	2.3	2.3	EPS Reported	cps	(5.86)	(3.50)	(1.98)	(0.37)	(0.09)					
Tax payable	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(5.86)	(3.41)	(1.47)	(0.37)	(0.09)					
Other current liabilities	0.1	1.3	2.5	2.8	4.0	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	n/a					
Total current liabilities	1.0	3.4	5.8	7.1	9.0	DPS	cps	-	-	-	-	-					
Long term debt/lease liabilities	0.0	2.1	13.6	17.6	18.6	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Other non current liabs	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Total long term liabilities	0.0	2.1	13.6	17.6	18.6	Dividend imputation		30	30	30	30	30					
Total Liabilities	1.0	5.5	19.4	24.7	27.6	PE (x)		-	-	-	-	-					
Net Assets	14.7	16.9	16.7	12.8	11.9	PE market		13.2	13.2	13.2	13.2	13.2					
Share capital	20.1	29.7	40.1	40.1	40.1	Premium/(discount)			(100.0%)	(100.0%)	(100.0%)	(100.0%)					
Accumulated profits/losses	(5.7)	(13.1)	(23.8)	(27.6)	(28.6)	EV/EBITDA		2.5	(0.3)	(1.9)	(25.5)	4.4					
Reserves	0.3	0.3	0.3	0.3	0.3	FCF/Share	cps	(2.6)	(1.5)	(0.5)	(0.1)	0.3					
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(0.4)	(0.7)	(1.9)	(7.6)	3.8					
Total Shareholder funds	14.7	16.9	16.7	12.8	11.9	Free Cash flow Yield		(259.5%)	(151.3%)	(52.8%)	(13.2%)	26.5%					

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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