

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. Costs 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	\$22.0M
Net cash at 30 June	\$2.3M
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

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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	H119F	H219F	H120F	H220F	H121F	H221F		
Revenue						2.5	0.1	3.4	3.2	6.3	10.5		
EBITDA						(2.7)	(4.2)	(3.1)	(2.8)	(1.3)	0.4		
EBIT						(2.8)	(4.5)	(4.0)	(3.8)	(2.6)	(1.0)		
NPAT (normalised)						(2.7)	(4.5)	(4.1)	(3.8)	(2.7)	(1.4)		
Minorities						0.0	0.0	0.0	0.0	0.0	0.0		
NPAT (reported)						(2.7)	(4.6)	(6.1)	(5.5)	(2.7)	(1.4)		
EPS (normalised)						(1.6)	(1.3)	(1.6)	(0.5)	(0.3)	(0.1)		
EPS (reported)						(1.6)	(1.3)	(1.6)	(0.5)	(0.3)	(0.1)		
Dividend (cps)						0.0	0.0	0.0	0.0	0.0	0.0		
Imputation						30.0	30.0	30.0	30.0	30.0	30.0		
Operating cash flow						(4.3)	(2.5)	(4.7)	(1.9)	(0.5)	(0.0)		
Free Cash flow						(4.4)	(2.6)	(4.7)	(2.1)	(0.8)	(0.4)		
Divisions						H119F	H219F	H120F	H220F	H121F	H221F		
Port Melbourne						0.0	0.0	0.0	0.0	0.0	0.0		
Homebush						0.0	0.0	0.0	0.0	0.2	0.4		
Edge Infrastructure						1.3	0.1	2.5	2.8	5.7	9.6		
Software sales						0.0	0.0	0.0	0.0	0.0	0.0		
Other income						1.2	0.0	0.9	0.3	0.0	0.0		
Total Revenue						2.5	0.1	3.4	3.2	5.9	10.1		
COGS						2.3	0.9	2.0	2.0	3.8	6.3		
Gross Profit						0.3	(0.7)	1.5	1.2	2.1	3.8		
Employment costs						1.3	1.7	3.2	2.7	2.6	2.6		
Other operating costs						0.3	0.2	0.4	0.4	0.4	0.4		
Corporate overheads						1.4	1.4	0.9	0.7	0.7	0.7		
Total Operating Costs						3.0	3.3	4.6	3.8	3.6	3.6		
EBITDA						(2.7)	(4.1)	(3.1)	(2.6)	(1.5)	0.2		
Capex required						4.1	0.0	0.0	0.0	2.6	1.3		
Margins, Leverage, Returns						FY18A	FY19A	FY20F	FY21F	FY22F			
EBITDA						n/a	(264.2%)	(88.9%)	(5.2%)	15.8%			
EBIT						n/a	(274.1%)	(117.9%)	(21.0%)	6.9%			
NPAT pre significant items						n/a	(279.2%)	(119.5%)	(24.3%)	2.7%			
Net Debt (Cash)						12.0	2.4	-	12.3	-	18.0		
Net debt/EBITDA (x)						(x)	n/a	n/a	n/a	n/a	- 3.709		
ND/ND+Equity (%)						(%)	n/a	(16.6%)	43.5%	60.3%	59.1%		
EBIT interest cover (x)						(x)	n/a	n/a	n/a	n/a	0.4		
ROA						n/a	(38.2%)	(28.0%)	(10.1%)	5.5%			
ROE							(46.7%)	(70.7%)	(29.6%)	6.9%			
ROIC							0.0%	(32.1%)	435.7%	36.1%	(17.4%)		
NTA (per share)							0.08	0.04	0.02	0.01	0.01		
Working capital							0.6	0.9	0.6	1.8	3.4		
WC/Sales (%)							27.8%	33.4%	8.5%	10.8%	11.0%		
Revenue growth							n/a	31.1%	150.6%	153.8%	83.1%		
EBIT growth pa							n/a	n/a	n/a	n/a	(160.1%)		
Pricing						FY18A	FY19A	FY20F	FY21F	FY22F			
No of shares (y/e)						(m)	194	453	1,045	1,045	1,045		
Weighted Av Dil Shares						(m)	98	211	1,128	1,128	1,128		
EPS Reported						cps	(5.86)	(3.50)	(2.11)	(0.39)	0.08		
EPS Normalised/Diluted						cps	(5.86)	(3.41)	(1.43)	(0.39)	0.08		
EPS growth (norm/dil)							n/a	n/a	n/a	n/a	-120%		
DPS						cps	-	-	-	-	-		
DPS Growth							n/a	n/a	n/a	n/a	n/a		
Dividend yield							0.0%	0.0%	0.0%	0.0%	0.0%		
Dividend imputation							30	30	30	30	30		
PE (x)							-	-	-	-	29.0		
PE market							15.6	15.6	15.6	15.6	15.6		
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)	170.2	5.9		
Free Cash flow Yield							(112.8%)	(65.8%)	(26.2%)	0.6%	16.9%		
Balance sheet (A\$m)						FY18A	FY19A	FY20F	FY21F	FY22F			
Cash						12.0	5.4	3.6	2.3	2.9			
Accounts receivable						1.2	1.0	0.9	2.8	5.1			
Inventory						0.2	1.0	0.2	0.7	1.2			
Other current assets						0.7	0.4	0.7	0.7	0.7			
Total current assets						14.2	7.8	5.5	6.5	10.0			
PPE						0.4	11.1	16.4	19.2	21.1			
Goodwill						0.0	0.0	0.0	0.0	0.0			
Investments						0.0	0.0	0.0	0.0	0.0			
Deferred tax asset						0.0	0.0	0.0	0.0	0.0			
Other assets						1.1	3.4	11.6	10.6	9.8			
Total non current assets						1.4	14.5	28.0	29.9	30.9			
Total Assets						15.6	22.3	33.5	36.4	40.9			
Accounts payable						0.9	1.2	0.6	1.7	3.0			
Short term debt						0.0	0.9	2.3	2.3	2.3			
Tax payable						0.0	0.0	0.0	0.0	0.0			
Other current liabilities						0.1	1.3	1.0	3.2	4.5			
Total current liabilities						1.0	3.4	3.9	7.1	9.8			
Long term debt/lease liabilities						0.0	2.1	13.6	17.6	18.6			
Other non current liabs						0.0	0.0	0.0	0.0	0.0			
Total long term liabilities						0.0	2.1	13.6	17.6	18.6			
Total Liabilities						1.0	5.5	17.5	24.7	28.4			
Net Assets						14.7	16.9	16.0	11.6	12.4			
Share capital						20.1	29.7	40.1	40.1	40.1			
Accumulated profits/losses						(5.7)	(13.1)	(24.5)	(28.8)	(28.0)			
Reserves						0.3	0.3	0.3	0.3	0.3			
Minorities						0.0	0.0	0.0	0.0	0.0			
Total Shareholder funds						14.7	16.9	16.0	11.6	12.4			

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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