MOELIS & COMPANY

Alexium

Buy

New Client in Fiberglass Epoxy

Materials / Diversified Chemicals **10 May 2016**

Company Update

Ticker	AJX
Stock Price	$0.590
Target Price	$1.20
Forecast Capital Return	103.4%
Forecast Dividend Yield	0.0%
Forecast Total Return.	103.4%

Company market data	
Market Cap.	$174.5m
Enterprise Value	$164.3m
52 week range	$0.44 - $1.17
Shares out.	295.8m

Estimates changes	2015a	2016e	2017e
Core NPAT - *new*	(6.9)	(12.2)	1.9
Core EPS dil. (cents) - *new*	(3.0)	(4.4)	0.6
DPS (cents) - *new*	0.0	0.0	0.0

Share price performance

Chart Data Not Available

Event

After a period of restriction, we have updated our estimates to account for AJX's $6m equity raising to fund development into new markets and categories, take advantage of new sales opportunities and fund working capital.

In addition, AJX announced that it has received a new purchase order from a fiberglass epoxy manufacturer.

Impact

The new purchase order gives us greater confidence in AJX's sales trajectory for its Coatings and Polymers division. AJX has guided to CY16 revenue of US$4m for the division, split 22% 2H16 and 78% 1H17. We view the Coatings and Polymers division as the growth driver of AJX in the medium-term, the company estimates the market will reach US$6.6bn by 2019.

Investment View

We reiterate our **BUY rating** and **12 month target price of $1.20.** We view AJX as a strategic investment leveraging increased scrutiny on stringent fire safety regulations and banning of toxic and harmful chemicals in traditional brominated and halogenated flame retardant products.

Analysts

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All figures are in AUD unless otherwise specified.

Y/E June 30	2015a	2016e	2017e
EBITDA	(6.4)	(12.1)	2.5
EV/EBITDA	(25.8)x	(13.5)x	64.7x
Core NPAT	(6.9)	(12.2)	1.9
Core EPS (Diluted) cents	(3.0)	(4.4)	0.6
P/E	(19.9)x	(13.5)x	90.9x
EPS growth	56.8%	47.4%	(114.9)%
DPS (cents)	0.0	0.0	0.0
Yield	0.0%	0.0%	0.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%
Net Tangible Assets ($/share)	0.04	0.04	0.02

All figures are in AUD.

Alexium Intl Group (AJX)

Market Cap: $175m | Last Price: $0.59 | Target Price: $1.20 | **BUY**

Key Stock Data

Year Ending Jun	2015a	2016e	2017e	2018e
EPS (Underlying) (¢)	**(3.0)**	**(4.4)**	**0.6**	**1.4**
Growth	57%	47%	-115%	120%
DPS (¢)	**-**	**-**	**-**	**-**
Growth	0%	0%	0%	0%
Yield (%)	0%	0%	0%	0%
Payout Ratio (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
P/E (x)	**-19.9 x**	**-13.5 x**	**nm**	**nm**
P/E Small Ind. (ex Fin's)	16.9 x	14.8 x	13.4 x	12.8 x
Premium (Discount)	-218%	-191%		
EV/EBITDA (x)	**-25.8 x**	**-13.5 x**	**nm**	**nm**
EV/EBITDA Small Ind.		10.6 x	9.3 x	8.7 x
Premium (Discount)		-228%		
FCF/Share ($)	**(0.02)**	**(0.04)**	**0.03**	**0.03**
Price/FCPS (x)	-31.2 x	-15.4 x	22.3 x	22.9 x
Free Cash Flow Yield (%)	-3%	-6%	4%	4%

Profit and Loss ($m)

Year Ending Jun	2015a	2016e	2017e	2018e
Revenue	**0.1**	**6.6**	**41.7**	**55.1**
Growth	-76%	11132%	527%	32%
EBITDA	**(6.4)**	**(12.1)**	**2.5**	**6.0**
Growth	133%	91%	-121%	137%
Dep'n & Amort	(0.1)	(0.2)	(0.3)	(0.5)
EBIT	**(6.5)**	**(12.3)**	**2.2**	**5.5**
Growth	129%	90%	-118%	148%
Net Interest Expense	(0.4)	0.2	0.5	0.5
Profit Before Tax	**(6.9)**	**(12.2)**	**2.7**	**6.0**
Tax	0.0	0.0	(0.8)	(1.8)
Tax Rate (%)	0%	0%	30%	30%
Minorities	0.0	0.0	0.0	0.0
NPAT (Underlying)	**(6.9)**	**(12.2)**	**1.9**	**4.2**
Growth	107%	77%	-116%	120%
One-Off Items	(4.9)	0.0	0.0	0.0
NPAT (Reported)	**(11.8)**	**(12.2)**	**1.9**	**4.2**
EPS (Underlying) (¢)	**(3.0)**	**(4.4)**	**0.6**	**1.4**
Growth	57%	47%	-115%	120%
EPS (Reported) (¢)	**(5.1)**	**(4.4)**	**0.6**	**1.4**

Balance Sheet ($m)

Year Ending Jun	2015a	2016e	2017e	2018e
Cash	11.6	13.7	15.1	20.3
Inventory	0.0	0.0	0.0	0.0
Current Receivables	0.1	0.8	2.9	4.3
PPE	0.4	0.5	0.6	0.7
Intangibles	0.2	0.2	0.6	1.2
Other	0.3	0.5	0.5	0.5
Total Assets	**12.6**	**15.7**	**19.8**	**27.0**
Current Payables	0.6	3.1	11.7	17.1
ST Debt	0.0	0.0	0.0	0.0
LT Debt	0.0	0.0	0.0	0.0
Provisions	0.1	0.1	0.1	0.1
Other	0.1	0.1	0.1	0.1
Total Liabilities	**0.8**	**3.3**	**11.9**	**17.3**
Net Assets	**11.8**	**12.4**	**7.9**	**9.7**
Equity & Reserves	45.8	58.5	52.1	49.7
Retained Profits	(34.0)	(46.1)	(44.2)	(40.0)
Shareholders Equity	**11.8**	**12.4**	**7.9**	**9.7**
Minorities	0.0	0.0	0.0	0.0
Total Equity	**11.8**	**12.4**	**7.9**	**9.7**
Metrics				
Working Capital	(0.5)	(2.0)	(8.5)	(12.5)
Working Capital/Sales (%)	-882%	-31%	-20%	-23%
NTA	11.6	12.2	7.2	8.5
NTA/Share ($)	0.04	0.04	0.02	0.03

Cashflow ($m)

Year Ending Jun	2015a	2016e	2017e	2018e
EBIT	(6.5)	(12.3)	2.2	5.5
Dep'n & Amort	0.1	0.2	0.3	0.5
Net Interest	(0.1)	0.2	0.5	0.5
Tax	(0.0)	0.0	(0.8)	(1.8)
Change in WC	(6.5)	1.8	6.4	4.0
Other	8.7	(0.3)	0.0	0.0
Operating Cash Flow	**(4.3)**	**(10.5)**	**8.7**	**8.7**
Growth	39%	145%	-183%	1%
Capex	(0.1)	(0.2)	(0.8)	(1.1)
Acquisitions	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0
Other	(0.0)	0.0	0.0	0.0
Investing Cash Flow	**(0.1)**	**(0.2)**	**(0.8)**	**(1.1)**
Equity Raised	11.9	9.5	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
Net Borrowings	(0.8)	1.2	(7.8)	(7.6)
Other	0.0	0.0	0.0	0.0
Financing Cash Flow	**11.1**	**10.7**	**(7.8)**	**(7.6)**
FX / Non Cash Items	0.7	1.2	1.2	1.2
Change in Cash	**6.7**	**0.0**	**0.0**	**0.0**
Metrics				
FCF	(4.4)	(10.7)	7.8	7.6
Gross Cash Conversion	65%	88%	354%	167%
Capex/Sales (%)	199%	3%	2%	2%
Capex/Depreciation (x)	0.9 x	1.1 x	2.7 x	2.3 x

1H/2H Results ($m)

Item	2H14	1H15	2H15	1H16
Revenue	0.0	0.0	0.0	1.0
EBITDA	(1.3)	(2.4)	(3.9)	(8.9)
EBIT	(1.1)	(2.5)	(4.0)	(9.0)
NPAT (Underlying)	(1.5)	(2.6)	(4.3)	(9.0)
EPS (¢)	nm	(1.2)	(1.7)	(3.3)
DPS (¢)	0.0	0.0	0.0	0.0
Operating Cash Flow	(1.7)	(1.8)	(2.4)	(5.4)
Capex	(0.1)	(0.0)	(0.1)	(0.1)
FCF	(1.8)	(1.9)	(2.5)	(5.5)
Skew (% Full Year)				
% Sales	16%	28%	72%	15%
% EBITDA	49%	38%	62%	74%
% NPAT	45%	38%	62%	74%

Margins, Leverage & Returns

Year Ending Jun	2015a	2016e	2017e	2018e
Margins (%)				
EBITDA	-10744%	-183%	6%	11%
EBIT	-10971%	-186%	5%	10%
NPAT	-11595%	-183%	5%	8%
Leverage				
Net Debt (Cash) ($m)	(11.6)	(13.7)	(15.1)	(20.3)
Net Debt/EBITDA (x)	1.8 x	1.1 x	-5.9 x	-3.4 x
ND/(ND + Equity) (%)	-6274%	1060%	209%	191%
Interest Cover (x)	-15.1x	-69.5x	4.4x	11.4x
Returns (%)				
ROA	-52%	-86%	11%	18%
ROE	-65%	-101%	19%	48%
ROIC	-188%	2234%	-37%	-43%

Source: Company data, IRESS, Moelis & Company research estimates — 9-May-16

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