

Alexium International Group Ltd

Buy

Alexicool contract announcement included in US\$18.5m revenue guidance for CY16

Materials / Diversified Chemicals

16 August 2016

Company Update

Ticker	AJX AU
Stock Price	\$0.600
Target Price	\$1.200
Forecast Capital Return	101.7%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	101.7%

Company market data

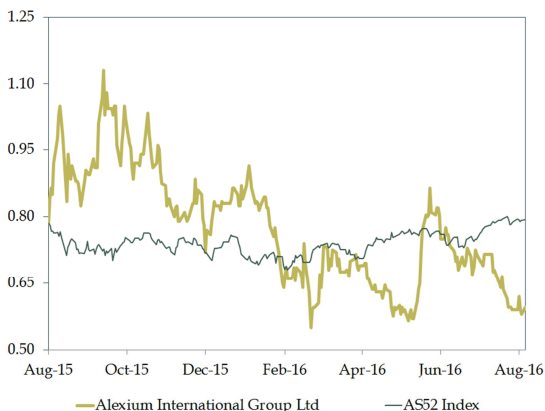
Market Cap.	\$176.0m
Free Float (%)	71.2
Enterprise Value	\$165.8m
52 Week Range	\$0.55 - \$1.13
Shares Out.	295.8m
Avg. Daily Value	\$0.0m

Estimates changes	2015a	2016e	2017e	2018e
Core NPAT - <i>old</i>	(6.9)	(12.2)	1.9	4.2
Core NPAT - <i>new</i>	(6.9)	(12.2)	1.9	4.2
% Change	0.0	0.0	0.0	0.0
Core EPS dil. (€) - <i>old</i>	(3.0)	(4.4)	0.6	1.4
Core EPS dil. (€) - <i>new</i>	(3.0)	(4.4)	0.6	1.4
% Change	0.0	0.0	0.0	0.0
DPS (€) - <i>old</i>	0.0	0.0	0.0	0.0
DPS (€) - <i>new</i>	0.0	0.0	0.0	0.0
% Change	-	-	-	-

All figures are in AUD unless otherwise specified.

Share price performance

Alexium International Group Ltd vs. AS52 (rebased index)



Analysts

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Event

Alexium has announced that iTextiles has sourced new business developments and international sales contracts for its Alexicool technology. New customers referred by iTextiles totals annual revenue of more than US\$1.7m in CY16.

In addition to the US\$1.7m in revenue, AJX has received orders for multiple containers of chemistry from 2 well-established companies that manufacture adhesives and coatings. It is estimated that the total annual market for adhesives and sealants is estimated at US\$42.5bn globally, with an annual growth rate of 3.2%.

Impact

AJX has commented that it is on track for expected ramp-up of revenues in 2H CY16 (i.e. July - December 2016). We understand that AJX has added significantly to its inventories in 1H CY16 (i.e. January - June 2016) to accommodate this and potentially other contracts.

It is our understanding that the US\$1.7m in revenue from new contracts is already included in AJX's revenue guidance of US\$18.5m for CY16, therefore, there is no change to our estimates. Our view is that the next catalyst for this stock will be the FY16 earnings report where the market will look to see if AJX has reached 20-25% of US\$18.5m for revenue in 2H16.

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.

Y/E Jun 30	2015a	2016e	2017e	2018e
EBITDA	(6.4)	(12.1)	2.5	6.0
EV/EBITDA	nm	nm	65.3x	27.5x
Core NPAT	(6.9)	(12.2)	1.9	4.2
Core EPS (Diluted) (€)	(3.0)	(4.4)	0.6	1.4
P/E	nm	nm	93.6x	42.2x
EPS growth	56.8%	47.4%	(114.6%)	122.0%
DPS (€)	0.0	0.0	0.0	0.0
Yield	0.0%	0.0%	0.0%	0.0%
DPS growth	-	-	-	-
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

All figures are in AUD.

Alexium International Group Ltd (AJX) Market Cap: \$176m						Last Price: \$0.600	Target Price: \$1.200	Buy			
Profit and Loss (\$m)						Valuation Summary					
Revenue	2014a	2015a	2016e	2017e	2018e	Current Mkt Capitalisation	176.0				
Growth	-	(75.6%)	11,131.5%	527.0%	32.2%	Shares on Issue	295.8				
EBITDA	(2.7)	(6.4)	(12.1)	2.5	6.0	Last Price	0.600				
Growth	-	132.8%	90.9%	(120.9%)	137.3%	12 Mth Target Price	1.200				
Dep'n & Amort	(0.1)	(0.1)	(0.2)	(0.3)	(0.5)	Total Estimated 12 Mth Return	101.7%				
EBIT	(2.8)	(6.5)	(12.3)	2.2	5.5	12 Mth Fwd Capital Return	101.7%				
Growth	-	128.7%	90.0%	(118.1%)	147.6%	12 Mth Fwd Dividend Yield	0.0%				
Net Interest Expense	(0.5)	(0.4)	0.2	0.4	0.4						
Profit Before Tax	(3.3)	(6.9)	(12.2)	2.7	6.0						
Tax	0.0	0.0	0.0	(0.8)	(1.8)						
Tax Rate (%)	0.0%	0.0%	0.0%	30.0%	30.0%						
Minorities	0.0	0.0	0.0	0.0	0.0						
NPAT (Underlying)	(3.3)	(6.9)	(12.2)	1.9	4.2						
Growth	-	106.9%	77.2%	(115.5%)	122.0%						
One-Off Items	0.5	(4.9)	0.0	0.0	0.0						
NPAT (Reported)	(2.9)	(11.8)	(12.2)	1.9	4.2						
EPS (Underlying) (€)	(1.9)	(3.0)	(4.4)	0.6	1.4						
Growth	-	56.8%	47.4%	(114.6%)	122.0%						
Balance Sheet (\$m)						Valuation Ratios					
Cash	2014a	2015a	2016e	2017e	2018e	EPS (Underlying) (€)	2014a	2015a	2016e	2017e	2018e
Inventory	4.2	11.6	11.2	19.4	27.3	Growth	(1.9)	(3.0)	(4.4)	0.6	1.4
Current Receivables	0.0	0.0	0.0	0.0	0.0	P/E (x)	-	56.8%	47.4%	(114.6%)	122.0%
PPE	0.1	0.1	0.8	2.9	4.3	Small Industrials (ex Fin's)	nm	nm	nm	93.6x	42.2x
Intangibles	0.3	0.4	0.6	0.7	0.7	Premium / (Discount)	0.0x	0.0x	16.9x	14.8x	13.4x
Other	9.1	0.2	0.2	0.6	1.1	EV/EBITDA (x)	nm	nm	nm	531.6%	214.0%
Total Assets	0.1	0.3	0.5	0.5	0.5	Small Industrials (ex Fin's)	nm	nm	nm	65.3x	27.5x
Current Payables	13.8	12.6	13.2	24.1	34.0	Premium / (Discount)	0.0x	0.0x	0.0x	10.6x	9.3x
ST Debt	0.2	0.6	3.1	11.7	17.1	NTA	nm	nm	nm	516.5%	195.5%
LT Debt	0.6	0.0	0.0	0.0	0.0	NTA/Share (\$)	0.00	0.05	0.04	0.04	0.05
Provisions	0.9	0.0	0.0	0.0	0.0						
Other	0.0	0.1	0.1	0.1	0.1						
Total Liabilities	2.6	0.1	0.1	0.1	0.1						
Net Assets	4.4	0.8	3.3	11.9	17.3						
Equity & Reserves	9.4	11.8	9.9	12.2	16.7						
Retained Profits	25.3	45.8	56.1	56.4	56.8						
Shareholders' Equity	(15.9)	(34.0)	(46.1)	(44.3)	(40.1)						
Minorities	0.0	0.0	0.0	0.0	0.0						
Total Equity	9.4	11.8	9.9	12.2	16.7						
Cashflow (\$m)						Performance Ratios					
EBITDA	2014a	2015a	2016e	2017e	2018e	ROA	2014a	2015a	2016e	2017e	2018e
Net Interest	(2.7)	(6.4)	(12.1)	2.5	6.0	ROE	(24.1%)	(54.4%)	(91.9%)	7.8%	12.3%
Tax	(0.2)	(0.1)	0.2	0.4	0.4	ROIC	(35.5%)	(58.1%)	(122.6%)	15.4%	25.0%
Δ in Working Capital	0.1	0.0	0.0	(0.8)	(1.8)	Net Debt (Cash) (\$m)	(42.2%)	(3,505.7%)	950.0%	(21.7%)	(36.5%)
Other	(2.8)	(6.5)	0.2	6.4	4.0	Net Debt/EBITDA (x)	(2.6)	(11.6)	(11.2)	(19.4)	(27.3)
Operating Cash Flow	2.6	8.7	1.7	0.0	0.0	ND/(ND + Equity) (%)	1.0x	1.8x	0.9x	(7.6x)	(4.5x)
Growth	(3.1)	(4.3)	(10.1)	8.6	8.7	Interest Cover (x)	(39.1%)	(6,274.0%)	863.7%	268.7%	257.3%
Capex	-	38.7%	136.0%	(185.7%)	0.6%	Working Capital	(5.5x)	(15.1x)	(69.5x)	5.0x	13.2x
Acquisitions	(0.1)	(0.1)	(0.2)	(0.8)	(1.1)	Working Capital/Sales (%)	(0.1)	(0.5)	(2.0)	(8.5)	(12.5)
Divestments	0.0	0.0	0.0	0.0	0.0	Cash Flow Metrics	(40.2%)	(882.0%)	(30.5%)	(20.3%)	(22.7%)
Other	0.0	0.0	0.0	0.0	0.0	FCF/Share (\$)	(0.02)	(0.02)	(0.04)	0.03	0.03
Investing Cash Flow	(0.1)	(0.1)	(0.2)	(0.8)	(1.1)	Price/FCPS (x)	nm	nm	nm	22.6x	23.2x
Equity Raised	6.4	11.9	9.5	0.0	0.0	Free Cash Flow Yield (%)	(3.1%)	(3.2%)	(6.2%)	4.4%	4.3%
Dividends Paid	0.0	0.0	0.0	0.0	0.0	Gross Cash Conversion	0.0%	0.0%	82.7%	371.6%	173.8%
Net Borrowings	0.0	(0.8)	0.0	0.0	0.0	Capex/Sales (%)	(55.5%)	(199.5%)	(3.2%)	(2.0%)	(2.0%)
Other	0.0	0.0	0.0	0.0	0.0	Capex/Depreciation (x)	1.3x	0.9x	1.1x	2.8x	2.3x
Financing Cash Flow	6.4	11.1	9.5	0.0	0.0						
FX / Non Cash Items	(0.2)	0.7	0.4	0.4	0.4						
Change in Cash	3.0	7.4	(0.4)	8.2	8.0						
Free Cash Flow	(3.2)	(4.4)	(10.3)	7.8	7.6						
						Margins					
						2014a 2015a 2016e 2017e 2018e					
						EBITDA (1,126.6% (10,743.7 (182.6%) 6.1% 10.9%					
						EBIT (1,170.9% (10,970.9 (185.6%) 5.4% 10.1%					
						NPAT (1,368.4% (11,595.1 (183.0%) 4.5% 7.6%					
						Valuation Methodology					
						WACC (%) 10.9%					
						Discounted Cash Flow Valuation 1.097					
						Sum-of-the-Parts Valuation 0.000					
						Average Valuation 1.097					
						12 Mth Target Price 1.200					