

Alexium International Group Ltd

Buy

AJX 4C and FY16 preview

Materials / Diversified Chemicals

2 August 2016

Company Update

Ticker	AJX AU
Stock Price	\$0.620
Target Price	\$1.200
Forecast Capital Return	95.1%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	95.1%

Company market data

Market Cap.	\$181.9m
Free Float (%)	71.2
Enterprise Value	\$171.7m
52 Week Range	\$0.55 - \$1.13
Shares Out.	295.8m
Avg. Daily Value	\$0.0m

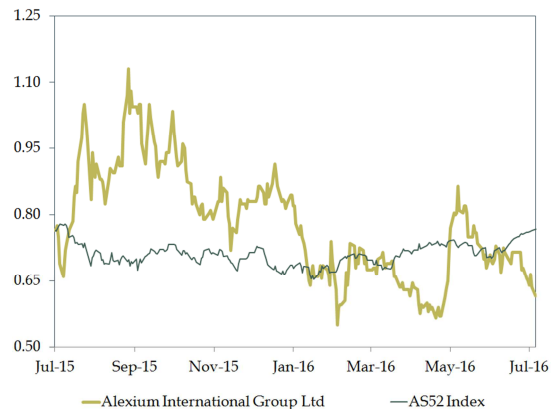
Estimates changes

	2015a	2016e	2017e	2018e
Core NPAT - new	(6.9)	(12.2)	1.9	4.2
Core EPS dil. (€) - new	(3.0)	(4.4)	0.6	1.4
DPS (€) - new	0.0	0.0	0.0	0.0

All figures are in AUD unless otherwise specified.

Share price performance

Alexium International Group Ltd vs. AS52 (rebased index)



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Event

AJX released its 4C on Friday 29 July. Whilst net operating cash flows were better than our estimates ( net outflows of \$10.1m vs. Moelis estimates of net outflows of \$10.5m), we were hoping to see higher cash receipts from customers, especially if AJX is on-track to meet its CY16 revenue guidance. At the upcoming FY16 result, we are looking for 2H16 revenue of US\$3.7m to US\$4.6m which represents 20-25% of AJX's CY16 US\$18.5m revenue guidance.

Customers in the pipeline but a need for capital?

AJX commented that it has seen the number of clients in the total sales pipeline increase by 129% in the last 6 months, with a 95% increase in clients in the scale-up (or implementation) stage.

The company also commented that, "There is not a need to raise capital unless there is a large contract or a significant licensing agreement requiring significant working capital." We understand that AJX has sufficient working capital for the foreseeable future (including reaching its CY16 US\$18.5m revenue target). If AJX won a major contract that required significant capital, it would be a vote of confidence for the technology. It is also worth noting that as AJX's products increase in demand, the company could adapt its business model so it shares (or passes through) the cost of R&D, chemical sourcing etc.

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	67.6x	28.5x
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	96.8x	43.6x
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: \$182m						Last Price: \$0.620		Target Price: \$1.200		Buy	
<b>Profit and Loss (\$m)</b>						<b>Valuation Summary</b>					
	2014a	2015a	2016e	2017e	2018e						
<b>Revenue</b>	<b>0.2</b>	<b>0.1</b>	<b>6.6</b>	<b>41.7</b>	<b>55.1</b>	Current Mkt Capitalisation 181.9					
<i>Growth</i>	-	(75.6%)	11,131.5%	527.0%	32.2%	Shares on Issue 295.8					
<b>EBITDA</b>	<b>(2.7)</b>	<b>(6.4)</b>	<b>(12.1)</b>	<b>2.5</b>	<b>6.0</b>	Last Price 0.620					
<i>Growth</i>	-	132.8%	90.9%	(120.9%)	137.3%	<b>12 Mth Target Price 1.200</b>					
Dep'n & Amort	(0.1)	(0.1)	(0.2)	(0.3)	(0.5)	Total Estimated 12 Mth Return 95.1%					
<b>EBIT</b>	<b>(2.8)</b>	<b>(6.5)</b>	<b>(12.3)</b>	<b>2.2</b>	<b>5.5</b>	12 Mth Fwd Capital Return 95.1%					
<i>Growth</i>	-	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						
<b>Profit Before Tax</b>	<b>(3.3)</b>	<b>(6.9)</b>	<b>(12.2)</b>	<b>2.7</b>	<b>6.0</b>						
Tax	0.0	0.0	0.0	(0.8)	(1.8)						
<i>Tax Rate (%)</i>	0.0%	0.0%	0.0%	30.0%	30.0%						
Minorities	0.0	0.0	0.0	0.0	0.0						
<b>NPAT (Underlying)</b>	<b>(3.3)</b>	<b>(6.9)</b>	<b>(12.2)</b>	<b>1.9</b>	<b>4.2</b>						
<i>Growth</i>	-	106.9%	77.2%	(115.5%)	122.0%						
One-Off Items	0.5	(4.9)	0.0	0.0	0.0						
<b>NPAT (Reported)</b>	<b>(2.9)</b>	<b>(11.8)</b>	<b>(12.2)</b>	<b>1.9</b>	<b>4.2</b>						
<b>EPS (Underlying) (€)</b>	<b>(1.9)</b>	<b>(3.0)</b>	<b>(4.4)</b>	<b>0.6</b>	<b>1.4</b>						
<i>Growth</i>	-	56.8%	47.4%	(114.6%)	122.0%						
<b>Balance Sheet (\$m)</b>						<b>Valuation Ratios</b>					
	2014a	2015a	2016e	2017e	2018e	2014a	2015a	2016e	2017e	2018e	
Cash	4.2	11.6	11.2	19.4	27.3	<b>EPS (Underlying) (€)</b>	<b>(1.9)</b>	<b>(3.0)</b>	<b>(4.4)</b>	<b>0.6</b>	<b>1.4</b>
Inventory	0.0	0.0	0.0	0.0	0.0	<i>Growth</i>	-	56.8%	47.4%	(114.6%)	122.0%
Current Receivables	0.1	0.1	0.8	2.9	4.3	<b>P/E (x)</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>96.8x</b>	<b>43.6x</b>
PPE	0.3	0.4	0.6	0.7	0.7	Small Industrials (ex Fin's)	0.0x	0.0x	16.9x	14.8x	13.4x
Intangibles	9.1	0.2	0.2	0.6	1.1	Premium / (Discount)	nm	nm	nm	552.8%	224.6%
Other	0.1	0.3	0.5	0.5	0.5	<b>EV/EBITDA (x)</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>	<b>67.6x</b>	<b>28.5x</b>
<b>Total Assets</b>	<b>13.8</b>	<b>12.6</b>	<b>13.2</b>	<b>24.1</b>	<b>34.0</b>	Small Industrials (ex Fin's)	0.0x	0.0x	0.0x	10.6x	9.3x
Current Payables	0.2	0.6	3.1	11.7	17.1	Premium / (Discount)	nm	nm	nm	538.5%	206.1%
ST Debt	0.6	0.0	0.0	0.0	0.0	<b>DPS (€)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
LT Debt	0.9	0.0	0.0	0.0	0.0	<i>Growth</i>	-	-	-	-	-
Provisions	0.0	0.1	0.1	0.1	0.1	Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Other	2.6	0.1	0.1	0.1	0.1	Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total Liabilities</b>	<b>4.4</b>	<b>0.8</b>	<b>3.3</b>	<b>11.9</b>	<b>17.3</b>	Franking (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Net Assets</b>	<b>9.4</b>	<b>11.8</b>	<b>9.9</b>	<b>12.2</b>	<b>16.7</b>	NTA	0.3	11.6	9.8	11.6	15.6
Equity & Reserves	25.3	45.8	56.1	56.4	56.8	NTA/Share (\$)	0.00	0.05	0.04	0.04	0.05
Retained Profits	(15.9)	(34.0)	(46.1)	(44.3)	(40.1)	<b>Performance Ratios</b>					
<b>Shareholders' Equity</b>	<b>9.4</b>	<b>11.8</b>	<b>9.9</b>	<b>12.2</b>	<b>16.7</b>	2014a	2015a	2016e	2017e	2018e	
Minorities	0.0	0.0	0.0	0.0	0.0	ROA	(24.1%)	(54.4%)	(91.9%)	7.8%	12.3%
<b>Total Equity</b>	<b>9.4</b>	<b>11.8</b>	<b>9.9</b>	<b>12.2</b>	<b>16.7</b>	ROE	(35.5%)	(58.1%)	(122.6%)	15.4%	25.0%
<b>Cashflow (\$m)</b>						ROIC	(42.2%)	(3,505.7%)	950.0%	(21.7%)	(36.5%)
	2014a	2015a	2016e	2017e	2018e	Net Debt (Cash) (\$m)	(2.6)	(11.6)	(11.2)	(19.4)	(27.3)
EBITDA	(2.7)	(6.4)	(12.1)	2.5	6.0	Net Debt/EBITDA (x)	1.0x	1.8x	0.9x	(7.6x)	(4.5x)
Net Interest	(0.2)	(0.1)	0.2	0.4	0.4	ND/(ND + Equity) (%)	(39.1%)	(6,274.0%)	863.7%	268.7%	257.3%
Tax	0.1	0.0	0.0	(0.8)	(1.8)	Interest Cover (x)	(5.5x)	(15.1x)	(69.5x)	5.0x	13.2x
Δ in Working Capital	(2.8)	(6.5)	0.2	6.4	4.0	Working Capital	(0.1)	(0.5)	(2.0)	(8.5)	(12.5)
Other	2.6	8.7	1.7	0.0	0.0	Working Capital/Sales (%)	(40.2%)	(882.0%)	(30.5%)	(20.3%)	(22.7%)
<b>Operating Cash Flow</b>	<b>(3.1)</b>	<b>(4.3)</b>	<b>(10.1)</b>	<b>8.6</b>	<b>8.7</b>	<b>Cash Flow Metrics</b>					
<i>Growth</i>	-	38.7%	136.0%	(185.7%)	0.6%	2014a	2015a	2016e	2017e	2018e	
Capex	(0.1)	(0.1)	(0.2)	(0.8)	(1.1)	<b>FCF/Share (\$)</b>	<b>(0.02)</b>	<b>(0.02)</b>	<b>(0.04)</b>	<b>0.03</b>	<b>0.03</b>
Acquisitions	0.0	0.0	0.0	0.0	0.0	Price/FCPS (x)	nm	nm	nm	23.3x	24.0x
Divestments	0.0	0.0	0.0	0.0	0.0	Free Cash Flow Yield (%)	(3.0%)	(3.1%)	(6.0%)	4.3%	4.2%
Other	0.0	0.0	0.0	0.0	0.0	Gross Cash Conversion	0.0%	0.0%	82.7%	371.6%	173.8%
<b>Investing Cash Flow</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>(1.1)</b>	Capex/Sales (%)	(55.5%)	(199.5%)	(3.2%)	(2.0%)	(2.0%)
Equity Raised	6.4	11.9	9.5	0.0	0.0	Capex/Depreciation (x)	1.3x	0.9x	1.1x	2.8x	2.3x
Dividends Paid	0.0	0.0	0.0	0.0	0.0	<b>Margins</b>					
Net Borrowings	0.0	(0.8)	0.0	0.0	0.0	2014a	2015a	2016e	2017e	2018e	
Other	0.0	0.0	0.0	0.0	0.0	EBITDA	(1,126.6%)	(10,743.7%)	(182.6%)	6.1%	10.9%
<b>Financing Cash Flow</b>	<b>6.4</b>	<b>11.1</b>	<b>9.5</b>	<b>0.0</b>	<b>0.0</b>	EBIT	(1,170.9%)	(10,970.9%)	(185.6%)	5.4%	10.1%
FX / Non Cash Items	(0.2)	0.7	0.4	0.4	0.4	NPAT	(1,368.4%)	(11,595.1%)	(183.0%)	4.5%	7.6%
<b>Change in Cash</b>	<b>3.0</b>	<b>7.4</b>	<b>(0.4)</b>	<b>8.2</b>	<b>8.0</b>	<b>Valuation Methodology</b>					
<b>Free Cash Flow</b>	<b>(3.2)</b>	<b>(4.4)</b>	<b>(10.3)</b>	<b>7.8</b>	<b>7.6</b>	WACC (%)	10.9%				
						Discounted Cash Flow Valuation	1.097				
						Sum-of-the-Parts Valuation	0.000				
						Average Valuation	1.097				
						<b>12 Mth Target Price</b>	<b>1.200</b>				

Source: Company data, IRESS, Moelis & Company research estimates

2-Aug-16

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## Distribution of Ratings as at 2 August 2016

SELL	HOLD	BUY
0.0%	50.0%	50.0%

## Rating and Price Target History: Alexium International Group Ltd (AJX AU) as of 1/08/2016



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