

Alexium International Group Ltd

Buy

AJX's 4C and 1H17 result preview

Materials / Diversified Chemicals

30 January 2017

Company Update

| | |
|---|---------|
| Ticker | AJX AU |
| Stock Price | \$0.670 |
| Target Price | \$1.000 |
| Forecast Capital Return | 49.3% |
| Forecast Dividend Yield | 0.0% |
| Estimated Total Return - 12 Mth Forward | 49.3% |

Company market data

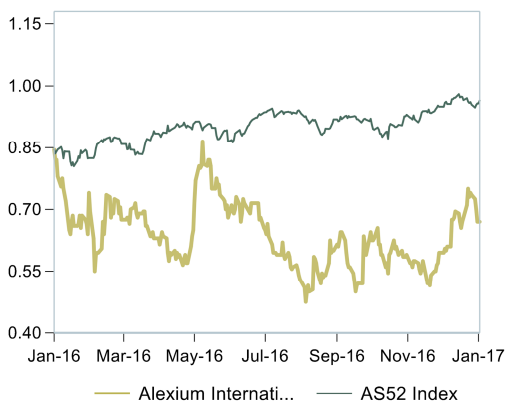
| | |
|------------------|-----------------|
| Market Cap. | \$198.2m |
| Free Float (%) | 42.9 |
| Enterprise Value | \$191.4m |
| 52 Week Range | \$0.48 - \$0.87 |
| Shares Out. | 295.8m |
| Avg. Daily Value | \$0.4m |

| Estimates changes | 2016a | 2017e | 2018e | 2019e |
|-------------------------|--------|-------|-------|-------|
| Core NPAT - old | (15.4) | (6.2) | 1.7 | 4.9 |
| Core NPAT - new | (15.4) | (6.5) | 1.7 | 4.9 |
| % Change | 0.0 | 4.4 | 2.4 | (0.3) |
| Core EPS dil. (€) - old | (5.5) | (2.1) | 0.6 | 1.7 |
| Core EPS dil. (€) - new | (5.5) | (2.2) | 0.6 | 1.7 |
| % Change | 0.0 | 4.4 | 2.4 | (0.3) |
| DPS (€) - old | 0.0 | 0.0 | 0.0 | 0.0 |
| DPS (€) - new | 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)



Analyst

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Event

AJX reported its 4C today. Key points:

- 1H FY17 cash receipts from customers \$9.1m, 72% increase on the pcp, this brings AJX's quarterly cash balance to \$12.4m.
- CY16 revenue A\$13.2m (vs. previous guidance of A\$15m), a 13-fold increase over CY15. Revenue for the quarter ending 31 December 2016 was A\$7.4m.
- Monthly recurring revenue rose from A\$1.25m to A\$1.5m following expansion orders under previously announced accounts.
- AJX expects average gross margins >40% in 2017 (Moelis estimates 37.7% GP margin in 2H FY17 and 38.2% margins in 1H FY18).
- Bottom-line profitability is expected in mid-2017 (Moelis estimate \$2.1m NPAT in 1H FY18) and a cash neutral position is expected in 2Q CY17 following further R&D investment in new product lines.
- AJX has a working capital debt facility of US\$10m in place to finance inventory and advance purchases, reducing the risk that it will raise equity in the near term.

1H17 results expected at the end of February

Key things to look for:

- Revenue split between end user segments:** Given the different growth rates and margins in each of the different end user segments, the breakdown of the A\$13.2m revenue number is important.
- Gross profit margins:** We estimate 1H FY17 gross profit margin of ~30%, given AJX has guided to gross margins >40% in 2017, we would be keen to hear AJX's strategy to expand margins.
- Capex outlook:** Capex for 1H FY17 was \$1.5m, over 12 times the amount spent in 1H FY16 due to the new facility in Greer. We view this level of capex as one-off in nature but would be keen to hear capex guidance at the result.
- Potential licencing deals:** AJX is engaged in exclusivity and licencing discussions with multiple players across Alexiflam SYN and Alexiflam NF.

Investment View

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 | 2016a | 2017e | 2018e | 2019e |
|------------------------|--------|---------|----------|--------|
| EBITDA | (15.3) | (6.2) | 2.9 | 7.4 |
| EV/EBITDA | nm | nm | 65.7x | 25.9x |
| Core NPAT | (15.4) | (6.5) | 1.7 | 4.9 |
| Core EPS (Diluted) (€) | (5.5) | (2.2) | 0.6 | 1.7 |
| P/E | nm | nm | 114.5x | 40.4x |
| EPS growth | 87.2% | (60.7%) | (126.8%) | 183.4% |
| 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.

1H17 Results Expectations

Figure 1: AJX - Income Statement

| A\$m | 1H16A | FY16A | FY16A | Moelis estimates | | |
|-------------------------------|--------------|--------------|---------------|------------------|--------------|--------------|
| | | | | 1H17E | 2H17E | FY17E |
| Total Sales | 1.0 | 2.2 | 3.2 | 11.0 | 19.6 | 30.6 |
| Grant income | 0.3 | 0.0 | 0.3 | 0.2 | 0.0 | 0.2 |
| Total revenue | 1.2 | 2.2 | 3.4 | 11.2 | 19.6 | 30.9 |
| Gross Profit | (0.1) | (0.1) | (0.2) | 3.4 | 7.4 | 10.8 |
| <i>GP Margin</i> | -7% | -6% | -6% | 31% | 38% | 35% |
| EBITDA | (8.9) | (6.4) | (15.3) | (2.7) | (3.5) | (6.2) |
| <i>EBITDA to Sales Margin</i> | -918% | -290% | -483% | -25% | -18% | -20% |
| D & A | (0.1) | (0.1) | (0.2) | (0.1) | (0.1) | (0.3) |
| EBIT | (9.0) | (6.5) | (15.5) | (2.8) | (3.6) | (6.5) |
| <i>% chg</i> | 264% | 61% | 139% | -68% | -44% | -58% |
| Net interest income/(expense) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less income tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT Underlying | (9.0) | (6.4) | (15.4) | (2.8) | (3.6) | (6.5) |

Source: Company, Moelis Analysis

| Profit and Loss (\$m) | 2015a | 2016a | 2017e | 2018e | 2019e |
|-----------------------------|---------------|---------------|--------------|-------------|-------------|
| Revenue | 0.1 | 3.2 | 30.6 | 47.8 | 62.0 |
| <i>Growth</i> | (75.6%) | 5,241.6% | 869.3% | 55.9% | 29.7% |
| EBITDA | (6.4) | (15.3) | (6.2) | 2.9 | 7.4 |
| <i>Growth</i> | 132.8% | 140.4% | (59.4%) | (147.0%) | 153.9% |
| Dep'n & Amort | (0.1) | (0.2) | (0.3) | (0.5) | (0.4) |
| EBIT | (6.5) | (15.5) | (6.5) | 2.4 | 7.0 |
| <i>Growth</i> | 128.7% | 138.5% | (58.3%) | (137.8%) | 185.2% |
| Net Interest Expense | (0.4) | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit Before Tax | (6.9) | (15.4) | (6.5) | 2.5 | 7.0 |
| Tax | 0.0 | 0.0 | 0.0 | (0.7) | (2.1) |
| <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 |
| NPAT (Underlying) | (6.9) | (15.4) | (6.5) | 1.7 | 4.9 |
| <i>Growth</i> | 106.9% | 125.0% | (58.2%) | (126.8%) | 183.4% |
| One-Off Items | (4.9) | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT (Reported) | (11.8) | (15.4) | (6.5) | 1.7 | 4.9 |
| EPS (Underlying) (€) | (3.0) | (5.5) | (2.2) | 0.6 | 1.7 |
| <i>Growth</i> | 56.8% | 87.2% | (60.7%) | (126.8%) | 183.4% |

| Balance Sheet (\$m) | 2015a | 2016a | 2017e | 2018e | 2019e |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Cash | 11.6 | 11.2 | 16.5 | 20.0 | 27.4 |
| Inventory | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Receivables | 0.1 | 0.2 | 3.3 | 4.2 | 5.5 |
| PPE | 0.4 | 0.8 | 2.7 | 3.7 | 5.1 |
| Intangibles | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 |
| Other | 0.3 | 1.8 | 1.8 | 1.8 | 1.8 |
| Total Assets | 12.6 | 14.2 | 24.4 | 29.9 | 40.0 |
| Current Payables | 0.6 | 2.8 | 12.9 | 16.6 | 21.9 |
| ST Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| LT Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Provisions | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Liabilities | 0.8 | 2.9 | 13.0 | 16.7 | 22.0 |
| Net Assets | 11.8 | 11.3 | 11.4 | 13.1 | 18.0 |
| Equity & Reserves | 45.8 | 60.7 | 67.2 | 67.3 | 67.3 |
| Retained Profits | (34.0) | (49.4) | (55.9) | (54.1) | (49.2) |
| Shareholders' Equity | 11.8 | 11.3 | 11.4 | 13.1 | 18.0 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Equity | 11.8 | 11.3 | 11.4 | 13.1 | 18.0 |

| Cashflow (\$m) | 2015a | 2016a | 2017e | 2018e | 2019e |
|----------------------------|--------------|---------------|--------------|--------------|--------------|
| EBITDA | (6.4) | (15.3) | (6.2) | 2.9 | 7.4 |
| Net Interest | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax | 0.0 | 0.1 | 0.0 | (0.7) | (2.1) |
| Δ in Working Capital | (6.5) | (15.5) | 7.1 | 2.8 | 4.0 |
| Other | 8.6 | 20.6 | 0.0 | 0.0 | 0.0 |
| Operating Cash Flow | (4.3) | (10.1) | 0.9 | 5.0 | 9.3 |
| <i>Growth</i> | 38.7% | 136.0% | (108.7%) | 466.9% | 86.8% |
| Capex | (0.1) | (0.2) | (2.1) | (1.4) | (1.9) |
| Acquisitions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Divestments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing Cash Flow | (0.1) | (0.2) | (2.1) | (1.4) | (1.9) |
| Equity Raised | 11.9 | 9.5 | 0.0 | 0.0 | 0.0 |
| Dividends Paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Borrowings | (0.8) | 0.0 | 6.5 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing Cash Flow | 11.1 | 9.5 | 6.5 | 0.0 | 0.0 |
| FX / Non Cash Items | 0.7 | 0.4 | 0.0 | 0.0 | 0.0 |
| Change in Cash | 7.4 | (0.4) | 5.3 | 3.5 | 7.4 |
| Free Cash Flow | (4.4) | (10.3) | (1.3) | 3.5 | 7.4 |

| Valuation Summary | |
|-------------------------------|--------------|
| Current Mkt Capitalisation | 198.2 |
| Shares on Issue | 295.8 |
| Last Price | 0.670 |
| 12 Mth Target Price | 1.000 |
| Total Estimated 12 Mth Return | 49.3% |
| 12 Mth Fwd Capital Return | 49.3% |
| 12 Mth Fwd Dividend Yield | 0.0% |

| Valuation Ratios | 2015a | 2016a | 2017e | 2018e | 2019e |
|------------------------------|--------------|--------------|--------------|---------------|--------------|
| EPS (Underlying) (€) | (3.0) | (5.5) | (2.2) | 0.6 | 1.7 |
| <i>Growth</i> | 56.8% | 87.2% | (60.7%) | (126.8%) | 183.4% |
| P/E (x) | nm | nm | nm | 114.5x | 40.4x |
| Small Industrials (ex Fin's) | 0.0x | 17.3x | 15.3x | 13.6x | 12.9x |
| Premium / (Discount) | nm | nm | nm | 741.0% | 212.4% |
| EV/EBITDA (x) | nm | nm | nm | 65.7x | 25.9x |
| Small Industrials (ex Fin's) | 0.0x | 22.4x | 10.8x | 9.8x | 8.8x |
| Premium / (Discount) | nm | nm | nm | 572.2% | 192.5% |
| DPS (€) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Growth</i> | - | - | - | - | - |
| Yield (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Payout Ratio (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Franking (%) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| NTA | 11.6 | 11.1 | 11.2 | 12.9 | 17.8 |
| NTA/Share (\$) | 0.05 | 0.04 | 0.04 | 0.04 | 0.06 |

| Performance Ratios | 2015a | 2016a | 2017e | 2018e | 2019e |
|---------------------------|------------|-------------|----------|---------|---------|
| ROA | (54.4%) | (109.1%) | (26.5%) | 5.8% | 12.3% |
| ROE | (58.1%) | (137.1%) | (56.8%) | 13.2% | 27.2% |
| ROIC | (3,505.7%) | (31,626.8%) | 126.6% | (24.8%) | (51.8%) |
| Net Debt (Cash) (\$m) | (11.6) | (11.2) | (16.5) | (20.0) | (27.4) |
| Net Debt/EBITDA (x) | 1.8x | 0.7x | 2.7x | (6.9x) | (3.7x) |
| ND/(ND + Equity) (%) | (6,274.0%) | (22,907.2%) | 322.5% | 289.9% | 291.1% |
| Interest Cover (x) | (15.1x) | (351.8x) | (227.2x) | 88.4x | 204.8x |
| Working Capital | (0.5) | (0.9) | (8.0) | (10.8) | (14.7) |
| Working Capital/Sales (%) | (882.0%) | (29.6%) | (26.1%) | (22.6%) | (23.8%) |

| Cash Flow Metrics | 2015a | 2016a | 2017e | 2018e | 2019e |
|--------------------------|---------------|---------------|-------------|-------------|-------------|
| FCF/Share (\$) | (0.02) | (0.04) | 0.00 | 0.01 | 0.03 |
| Price/FCPS (x) | nm | nm | nm | 56.0x | 26.7x |
| Free Cash Flow Yield (%) | (2.8%) | (5.5%) | (0.6%) | 1.8% | 3.7% |
| Gross Cash Conversion | 0.0% | 66.4% | (14.3%) | 196.1% | 154.0% |
| Capex/Sales (%) | (199.5%) | (6.6%) | (7.0%) | (3.0%) | (3.0%) |
| Capex/Depreciation (x) | 0.9x | 1.0x | 8.3x | 3.1x | 4.4x |

| Margins | 2015a | 2016a | 2017e | 2018e | 2019e |
|---------|-------------|----------|---------|-------|-------|
| EBITDA | (10,743.7%) | (483.4%) | (20.2%) | 6.1% | 11.9% |
| EBIT | (10,970.9%) | (489.9%) | (21.1%) | 5.1% | 11.3% |
| NPAT | (11,595.1%) | (488.5%) | (21.1%) | 3.6% | 7.9% |

| Valuation Methodology | |
|--------------------------------|--------------|
| WACC (%) | 10.9% |
| Discounted Cash Flow Valuation | 0.871 |
| Sum-of-the-Parts Valuation | 0.000 |
| Average Valuation | 0.871 |
| 12 Mth Target Price | 1.000 |

RESEARCH & SALES RESPONSIBILITIES

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| SELL | HOLD | BUY |
|------|-------|-------|
| 0.0% | 32.2% | 67.8% |

Rating and Price Target History: Alexium International Group Ltd (AJX AU) as of 30/01/2017



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