

2 February 2018

Alexium International (AJX)

BUY

Share Price: A\$0.31

Beating the house in Las Vegas

Target Price: A\$0.80

Alexium have had another well received and commercially successful trip to the semi-annual Las Vegas market textile show (28 Jan – 1 Feb). As per our recent discussions with management on-the-ground (VP of sales), several Alexium chemistries were contained on bedding products, on different stands around the show. Interest levels towards these customers/manufacturers were excellent, and remained high for 3 days. There was a solid mix of US (60%) and international (40%) manufacturers present. Although not specifically marketed as “Alexium” chemistry, sales staff of the different brands were trained in the features, and seen to promote the cooling effects for foam mattresses, inner spring mattresses and pillows. One particular mattress manufacturer, who had previously undertaken some small preliminary testing with AJX products (in H118) were so impressed they have already placed a sample order, and have moved to expedite the (usual) 6-12m timeframe for trials, to potentially have these on their bedding product line by May '18 (Spring selling season). We remind that in H217, sales volumes following this textile show improved +700%. In addition, a recently (1/1) appointed industry specialist is actively providing AJX additional mattress industry inroads. We believe the market will continue to focus on delivery against key KPI's in (1) bedding (2) military and (3) Alexiflam NF, however positioning now can capture significant potential upside, in our view. Buy maintained, >100% upside to our \$0.80 target price.

Why BUY now?

- Specialty chemistry sales have shown a remarkable rebound in January, with the company shipping their 3rd highest ever volume of chemistry in what is a traditionally quieter month (winter). This puts Jan '18 sales at **c6x the volume of sales from Jan-17**.
- H118 we believe was the darkness before the dawn. With low quality sales now removed from the mix, GP margins, cash flows and profitability should improve markedly from this point. Sales volumes are rebounding as expected and sales should lift considerably from this point.
- Following discussions with Management, we retain our confidence in FY18/19 revenue forecasts. Although there is still work to do in H218, the rebound from late 2017 is clearly strong and very real.
- We wait for contract updates on (1) bedding (2) Military and (3) Alexiflam NF. Any of these would be a very strong share price catalyst, in our view.

Company Data

Shares – ordinary (M)	349.3
Dilution (M)	9.1
Total (fully diluted) (M)	358.4
Market capitalisation (\$M)	108.3
12 month low/high (\$)	30.0 / 76.5
Average monthly turnover (\$M)	7.4
Index	All Ordinaries
GICS Industry	Industrials

Financial Summary (fully diluted/normalised)

Year end June	FY16	FY17	FY18F	FY19F	FY20F
Revenue (\$M)	3.0	24.0	30.1	49.9	66.2
Costs (\$M)	(18.5)	(35.2)	(33.3)	(42.3)	(50.6)
EBITDA (\$M)	(15.5)	(11.2)	(3.2)	7.6	15.6
NPAT (\$M)	(15.7)	(12.2)	(5.3)	5.3	13.3
EPS (¢ps)	(4.4)	(3.4)	(1.5)	1.5	3.8
EPS Growth (%)	n/a	22.5%	56.2%	-202.2%	150.2%
PER (x)	(7.0)	(9.0)	(20.7)	20.2	8.1
Free Cashflow (\$M)	(3.8)	(8.1)	10.8	0.5	11.0
FCFPS (¢ps)	(1.1)	(2.3)	3.1	0.1	3.2
PFCFPS (x)	nm	nm	0.1	2.3	0.1
Enterprise Value (\$M)	95.9	109.9	105.3	104.9	93.9
EV / EBITDA (x)	(6.2)	(9.8)	(33.4)	13.8	6.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Dividends (¢ps)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0

AJX – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was Broker for AJX's Placement to raise \$12M at \$0.35/share on 7 December 2017, for which a fee was received.

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Analysis

Alexium International Group Ltd

Year end 30 June (A\$m)

MARKET DATA	
Recommendation	BUY
Price	\$ 0.31
Price target (12-month)	\$ 0.80
52 week high / low	\$ 0.38 - 0.90
Market capitalisation (fully diluted)	\$m 107.1
Shares on issue (basic)	no. 345.5
Options / rights	no. 9.1
Other equity	no. 0.0
Shares on issue (diluted)	no. 354.6

INVESTMENT FUNDAMENTALS		FY16	FY17	FY18F	FY19F	FY20F
Reported NPAT	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3
NPAT normalised	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3
Reported EPS (undiluted)	¢	(4.4)	(3.4)	(1.5)	1.5	3.7
EPS normalised (undiluted)	¢	(4.4)	(3.4)	(1.5)	1.5	3.8
...Growth	%	n/a	23%	56%	(202%)	150%
PER normalised/undiluted	x	(7.0)	(9.0)	(20.7)	20.2	8.1
Operating cash flow per share	¢	(4.6)	(3.8)	(2.5)	0.3	3.4
Free cash flow per share	¢	(1.1)	(2.3)	3.1	0.1	3.2
Price to free cash flow per share	x	nm	nm	0.1	2.3	0.1
FCF yield	%	(353.3%)	(756.5%)	1011.0%	43.0%	1027.9%

Dividend	¢	0.0	0.0	0.0	0.0	0.0
Payout	%	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0.0	0.0	0.0	0.0	0.0

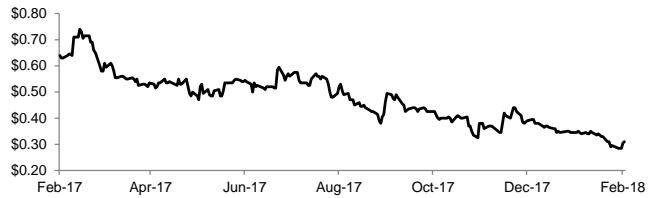
Enterprise value	\$m	95.9	109.9	105.3	104.9	93.9
EV/EBITDA	x	(6.2)	(9.8)	(33.4)	13.8	6.0
EV/EBIT	x	(6.1)	(9.5)	(29.4)	14.7	6.2
Price to book (NAV)	x	9.5	487.9	8.0	5.7	3.4
Price to NTA	x	9.7	2,634.8	13.0	8.0	4.0

KEY RATIOS		FY16	FY17	FY18F	FY19F	FY20F
EBITDA margin	%	nm	nm	nm	15.2%	23.5%
EBIT margin	%	nm	nm	nm	14.3%	22.8%
NPAT margin	%	nm	nm	nm	10.6%	20.0%
ROE	%	nm	nm	nm	28.3%	41.5%
ROA	%	nm	nm	nm	16.1%	25.2%
Net tangible assets per share	¢	0.0	0.0	0.1	0.1	0.2
Net debt / (cash)	\$m	(11.2)	2.8	(1.8)	(2.2)	(13.2)
Interest cover (EBIT / net interest)	x	nm	19.8	2.1	(3.9)	(8.2)
Gearing (net debt / EBITDA)	x	0.7	nm	0.6	nm	nm
Leverage (net debt / (net debt + equity))	x	nm	0.9	nm	nm	nm

DUPONT ANALYSIS		FY16	FY17	FY18F	FY19F	FY20F
Net Profit Margin	%	(522.9)	(50.6)	(17.7)	10.6	20.0
Asset Turnover	x	0	2.5	0.9	1.1	1.1
Return on Assets	%	(111)	(126.0)	(15.8)	12.0	22.2
Financial Leverage	x	1.3	44.0	2.5	2.4	1.9
Return on Equity	%	(139)	(5,538.4)	(39.7)	28.3	41.5

INTERIM SUMMARY		H118	H218	H119	H219
Total revenue	\$M	8.8	21.3	22.9	27.0
Operating expenses	\$M	(11.8)	(21.5)	(20.6)	(20.8)
EBITDA	\$M	(3.0)	(0.1)	2.4	6.2
Depreciation & amortisation	\$M	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	\$M	(3.2)	(0.4)	2.1	6.0
Net interest	\$M	(0.7)	(1.0)	(0.7)	(1.1)
Pretax profit	\$M	(3.9)	(1.4)	1.4	4.9
Tax expense	\$M	0.0	0.0	0.0	0.0
Minorities/preference dividend	\$M	0.0	0.0	0.0	0.0
Operating NPAT	\$M	(3.9)	(1.4)	1.4	4.9
Significant items	\$M	0.0	0.0	0.0	0.0
Reported NPAT	\$M	(3.9)	(1.4)	1.4	4.9
Reported EPS (diluted)	¢	(1.1)	(0.4)	0.4	1.4
Normalised EPS	¢	(1.1)	(0.4)	0.4	1.4

12-MONTH RELATIVE SHARE PRICE PERFORMANCE



PROFIT AND LOSS		FY16	FY17	FY18F	FY19F	FY20F
Total revenue	\$m	3.0	24.0	30.1	49.9	66.2
Costs (COGS & opex)	\$m	(18.5)	(35.2)	(33.3)	(42.3)	(50.6)
EBITDA	\$m	(15.5)	(11.2)	(3.2)	7.6	15.6
Depreciation & amortisation	\$m	(0.2)	(0.4)	(0.4)	(0.5)	(0.5)
EBIT	\$m	(15.7)	(11.6)	(3.6)	7.1	15.1
Net interest	\$m	0.0	(0.6)	(1.7)	(1.8)	(1.8)
Non-operating income	\$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3
Tax expense	\$m	0.0	0.0	0.0	0.0	0.0
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Operating NPAT	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3
Significant items	\$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m	(15.7)	(12.2)	(5.3)	5.3	13.3

GROWTH PROFILE		FY16	FY17	FY18F	FY19F	FY20F
Operating revenue	%	n/a	700.8	25.3	65.7	32.7
EBITDA	%	n/a	90.6	(5.6)	27.2	19.7
EBIT	%	n/a	26.3	69.0	(298.7)	111.6
Operating NPAT	%	n/a	22.5	56.2	(199.5)	150.2
Normalised EPS	%	n/a	22.5	56.2	(202.2)	150.2
DPS	%	n/a	n/a	n/a	n/a	n/a

BALANCE SHEET		FY16	FY17	FY18F	FY19F	FY20F
Cash/(overdraft)	\$m	11.2	3.4	14.2	14.7	25.7
Receivables	\$m	0.2	1.4	4.7	8.7	10.5
Inventory	\$m	1.7	2.1	6.8	12.7	15.3
Other	\$m	0.1	0.1	0.1	0.1	0.1
Current	\$m	13.2	7.0	25.8	36.3	51.6
Prop. plant & equip	\$m	0.8	2.4	2.8	2.8	3.0
Other	\$m	0.2	0.2	5.2	5.2	5.2
Non current	\$m	1.0	2.6	7.9	8.0	8.2
Total assets	\$m	14.2	9.7	33.7	44.3	59.8
Accounts Payable	\$m	2.8	1.8	6.0	11.2	13.4
Borrowings	\$m	0.0	6.2	12.5	12.5	12.5
Other	\$m	0.1	1.4	1.9	1.9	1.9
Total liabilities	\$m	2.9	9.4	20.3	25.6	27.8
Net assets	\$m	11.3	0.2	13.4	18.7	32.0
Equity	\$m	51.6	52.8	67.8	67.8	67.8
Retained earnings/other	\$m	(40.4)	(52.6)	(54.4)	(49.1)	(35.9)
Shareholder's equity	\$m	11.3	0.2	13.4	18.7	32.0

CASH FLOW		FY16	FY17	FY18F	FY19F	FY20F
EBITDA	\$m	(15.5)	(11.2)	(3.2)	7.6	15.6
Change in provisions	\$m	0.0	0.0	0.0	0.0	0.0
Change in working capital	\$m	(0.5)	(2.6)	(3.8)	(4.8)	(2.1)
Net interest	\$m	0.0	(0.9)	(1.7)	(1.8)	(1.8)
Tax paid	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.0	1.5	0.0	0.0	0.0
Operating cash flow	\$m	(16.0)	(13.2)	(8.7)	1.0	11.7
Stay in business capital expenditure	\$m	(2.0)	(1.1)	(0.8)	(0.5)	(0.7)
Acquisitions/divestment/other	\$m	(0.3)	(0.6)	0.0	0.0	0.0
Investing cash flow	\$m	(2.3)	(1.7)	(0.8)	(0.5)	(0.7)
Equity	\$m	6.0	0.0	13.7	0.0	0.0
Increase / (decrease) in borrowings	\$m	0.0	5.9	6.6	0.0	0.0
Dividend/other	\$m	8.5	1.0	0.0	0.0	0.0
Financing cash flow	\$m	14.5	6.9	20.3	0.0	0.0
Free cash flow	\$m	(3.8)	(8.1)	10.8	0.5	11.0

Source: Petra Capital



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