MOELIS & COMPANY

Alexium International Group Ltd

Buy

4C in-line with expectations

Materials / Diversified Chemicals **26 April 2017**

Company Update

Ticker	AJX AU
Stock Price	$0.500
Target Price	$1.000
Forecast Capital Return	102.0%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	102.0%

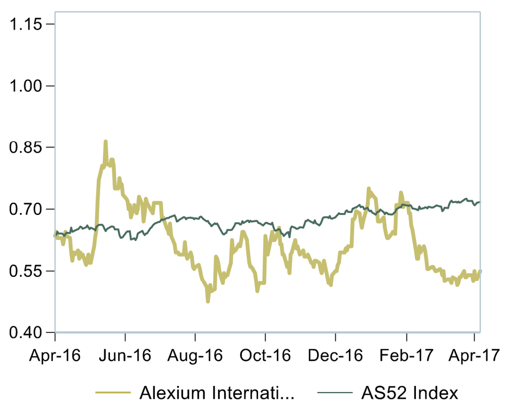
Company market data	
Market Cap.	$147.9m
Free Float (%)	42.9
Enterprise Value	$138.5m
52 Week Range	$0.48 - $0.87
Shares Out.	298.7m
Avg. Daily Value	$0.4m

Estimates changes	2016a	2017e	2018e	2019e
Core NPAT - *old*	(15.4)	(9.8)	0.2	5.0
Core NPAT - *new*	(15.4)	(7.9)	0.2	5.4
% Change	0.0	19.2	0.0	7.6
Core EPS dil. (¢) - *old*	(5.5)	(3.3)	0.1	1.7
Core EPS dil. (¢) - *new*	(5.5)	(2.7)	0.1	1.8
% Change	0.0	19.2	0.0	7.6
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 ending 31 March 2017. Key points:

- Cash receipts A$6.6m, 25% on the pcp.
- Average monthly recurring revenue now exceeds A$2m per month following a rapid increase in sales of Alexicool into the bedding market.
- Cash outlays related to product manufacturing and raw materials increased 88% in preparation for the ramp up of several customer forecasts. The increase in payments reflects a timing difference between acquisition of raw materials and the revenue recognised in the later parts of the quarter.
- Average gross margins on track to exceed 40% in 2017.
- "With increasing revenues and pre purchased raw materials for order fulfilment over the next quarter, combined with growing margins, Alexium's cash generation, reserves and available working capital facilities satisfy current projected cash flow requirements as orders continue to ramp up."
- Cash neutral position remains expected by the end of 2Q CY17 (i.e. June).

Impact

AJX's 4C is in-line with our expectations, however, given it is still in ramp-up phase, we caution annualising one quarter. We have increased our FY17 NPAT by 19% to reflect AJX expects a cash neutral position by the end of 2Q CY17 (i.e. June). The expansion into other industries and markets such as bedding auxiliaries and colour fabrics is very positive for AJX's earnings in FY18 and beyond.

Investment View

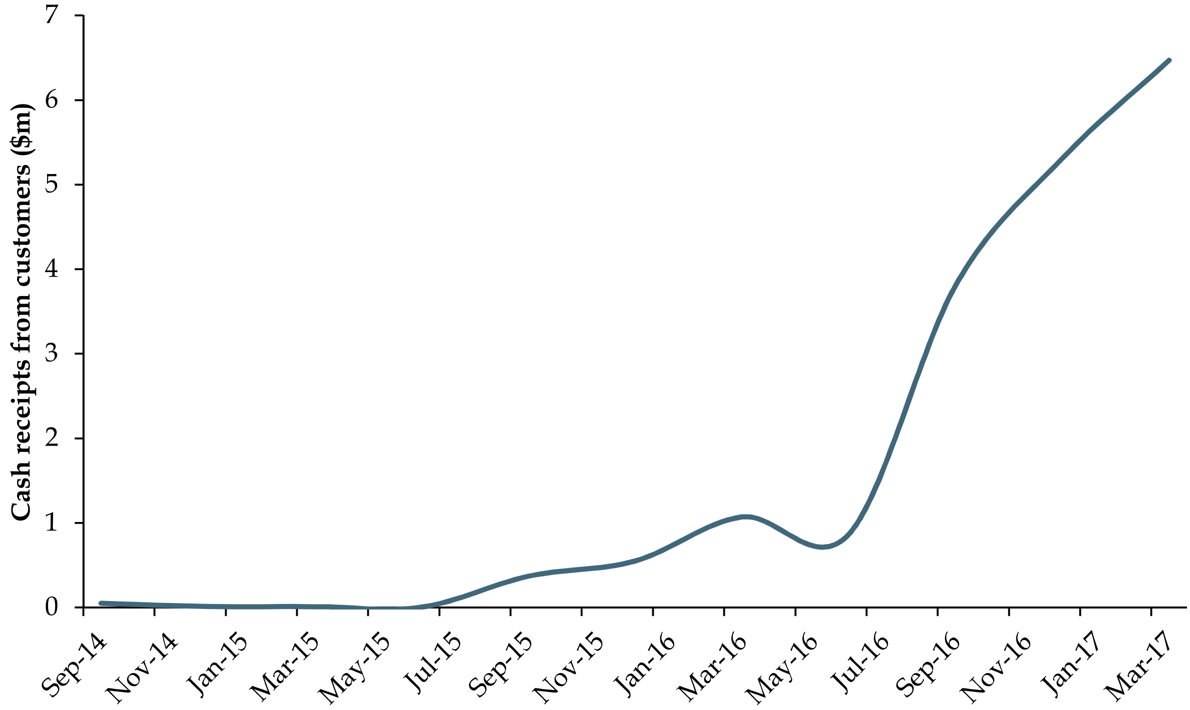
We view AJX as a strategic investment leveraging increased scrutiny on stringent fire safety regulations and banning of toxic and harmful chemicals in the traditional brominated and halogenated flame retardant products.

Y/E Jun 30	2016a	2017e	2018e	2019e
EBITDA	(15.3)	(7.2)	1.1	8.4
EV/EBITDA	nm	nm	121.9x	16.5x
Core NPAT	(15.4)	(7.9)	0.2	5.4
Core EPS (Diluted) (¢)	(5.5)	(2.7)	0.1	1.8
P/E	nm	nm	627.9x	27.4x
EPS growth	87.2%	(52.1%)	(103.0%)	2,191.5%
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.

Cash neutral by FY17

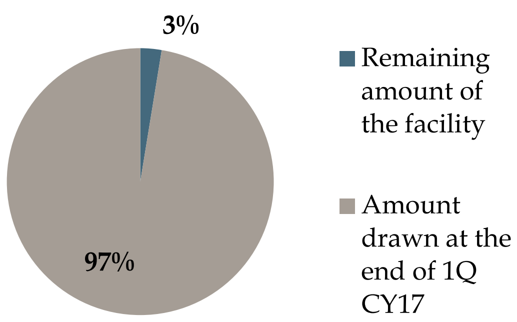
Figure 1: Quarterly cash receipts



Source: Company, Moelis Analysis

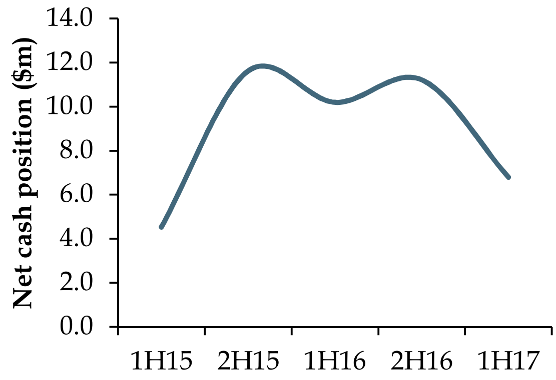
AJX's cash outflows are expected to be $9.746m in 2Q CY17, however, cash receipts may be less as AJX is only likely to be cash neutral by the end of 2Q CY17 i.e. for the month of June.

Figure 2: AJX's financing facility



Source: Company.

Figure 3: AJX's cash balance



Source: Company.

AJX held $6.4m in cash and cash equivalents at the end of 1Q CY17 comprising $3.3m in cash and $3.1m in call deposits. We expect AJX's cash balance to increase in 2Q CY17 given the receipt of revenue was delayed (despite costs being incurred) and contracts continue to ramp up. We note that AJX has utilized 97% of its existing financing facility or $7.2m, however, it has another US$5m facility it can utilize.

Profit and Loss ($m)	2015a	2016a	2017e	2018e	2019e
Revenue	**0.1**	**3.2**	**30.5**	**51.7**	**70.5**
Growth	*(75.6%)*	*5,241.6%*	*864.8%*	*69.4%*	*36.4%*
EBITDA	**(6.4)**	**(15.3)**	**(7.2)**	**1.1**	**8.4**
Growth	*132.8%*	*140.4%*	*(52.6%)*	*(115.7%)*	*640.0%*
Dep'n & Amort	(0.1)	(0.2)	(0.3)	(0.3)	(0.4)
EBIT	**(6.5)**	**(15.5)**	**(7.5)**	**0.8**	**8.0**
Growth	*128.7%*	*138.5%*	*(51.4%)*	*(110.7%)*	*893.3%*
Net Interest Expense	(0.4)	0.0	(0.4)	(0.5)	(0.3)
Profit Before Tax	**(6.9)**	**(15.4)**	**(7.9)**	**0.3**	**7.7**
Tax	0.0	0.0	0.0	(0.1)	(2.3)
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)	**(6.9)**	**(15.4)**	**(7.9)**	**0.2**	**5.4**
Growth	*106.9%*	*125.0%*	*(48.6%)*	*(103.0%)*	*2,191.5%*
One-Off Items	(4.9)	0.0	0.0	0.0	0.0
NPAT (Reported)	**(11.8)**	**(15.4)**	**(7.9)**	**0.2**	**5.4**
EPS (Underlying) (¢)	**(3.0)**	**(5.5)**	**(2.7)**	**0.1**	**1.8**
Growth	*56.8%*	*87.2%*	*(52.1%)*	*(103.0%)*	*2,191.5%*

Balance Sheet ($m)	2015a	2016a	2017e	2018e	2019e
Cash	11.6	11.2	12.1	12.1	19.6
Inventory	0.0	0.0	0.0	0.0	0.0
Current Receivables	0.1	0.2	4.6	5.9	7.9
PPE	0.4	0.8	3.0	3.7	4.7
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**	**21.7**	**23.6**	**34.1**
Current Payables	0.6	2.8	10.2	14.8	19.8
ST Debt	0.0	0.0	0.0	0.0	0.0
LT Debt	0.0	0.0	5.9	3.1	3.1
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**	**16.3**	**18.0**	**23.0**
Net Assets	**11.8**	**11.3**	**5.4**	**5.6**	**11.0**
Equity & Reserves	45.8	60.7	62.8	62.8	62.8
Retained Profits	(34.0)	(49.4)	(57.4)	(57.1)	(51.7)
Shareholders' Equity	**11.8**	**11.3**	**5.4**	**5.6**	**11.0**
Minorities	0.0	0.0	0.0	0.0	0.0
Total Equity	**11.8**	**11.3**	**5.4**	**5.6**	**11.0**

Cashflow ($m)	2015a	2016a	2017e	2018e	2019e
EBITDA	(6.4)	(15.3)	(7.2)	1.1	8.4
Net Interest	(0.1)	0.0	(0.4)	(0.5)	(0.3)
Tax	0.0	0.1	0.0	(0.1)	(2.3)
△ in Working Capital	(6.5)	(15.5)	3.0	3.3	3.0
Other	8.6	20.6	0.1	0.0	0.0
Operating Cash Flow	**(4.3)**	**(10.1)**	**(4.5)**	**3.8**	**8.8**
Growth	*38.7%*	*136.0%*	*(55.2%)*	*(185.3%)*	*129.6%*
Capex	(0.1)	(0.2)	(2.0)	(1.0)	(1.4)
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)**	**(2.0)**	**(1.0)**	**(1.4)**
Equity Raised	11.9	9.5	0.5	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	(0.8)	0.0	6.9	(2.8)	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	**11.1**	**9.5**	**7.4**	**(2.8)**	**0.0**
FX / Non Cash Items	0.7	0.4	0.0	0.0	0.0
Change in Cash	**7.4**	**(0.4)**	**0.9**	**0.0**	**7.4**
Free Cash Flow	**(4.4)**	**(10.3)**	**(6.5)**	**2.8**	**7.4**

Valuation Summary	
Current Mkt Capitalisation	147.9
Shares on Issue	298.7
Last Price	0.500
12 Mth Target Price	**1.000**
Total Estimated 12 Mth Return	102.0%
12 Mth Fwd Capital Return	102.0%
12 Mth Fwd Dividend Yield	0.0%

Valuation Ratios	2015a	2016a	2017e	2018e	2019e
EPS (Underlying) (¢)	**(3.0)**	**(5.5)**	**(2.7)**	**0.1**	**1.8**
Growth	*56.8%*	*87.2%*	*(52.1%)*	*(103.0%)*	*2,191.5%*
P/E (x)	**nm**	**nm**	**nm**	**627.9x**	**27.4x**
Small Industrials (ex Fin's)	0.0x	17.3x	15.3x	13.6x	12.9x
Premium / (Discount)	nm	nm	nm	4,513.2%	111.9%
EV/EBITDA (x)	**nm**	**nm**	**nm**	**121.9x**	**16.5x**
Small Industrials (ex Fin's)	0.0x	10.5x	9.5x	8.8x	13.0x
Premium / (Discount)	nm	nm	nm	1,280.1%	26.3%
DPS (¢)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Growth	-	-	-	-	-
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	5.2	5.5	10.9
NTA/Share ($)	0.05	0.04	0.02	0.02	0.04

Performance Ratios	2015a	2016a	2017e	2018e	2019e
ROA	(54.4%)	(109.1%)	(36.7%)	1.0%	15.8%
ROE	(58.1%)	(137.1%)	(147.1%)	4.2%	48.9%
ROIC	(3,505.7%	(31,626.8	947.1%	(16.7%)	(103.6%)
Net Debt (Cash) ($m)	(11.6)	(11.2)	(6.2)	(9.0)	(16.4)
Net Debt/EBITDA (x)	1.8x	0.7x	0.9x	(7.9x)	(2.0x)
ND/(ND + Equity) (%)	(6,274.0%	(22,907.2	779.6%	267.0%	304.1%
Interest Cover (x)	(15.1x)	(351.8x)	(16.7x)	1.6x	24.1x
Working Capital	(0.5)	(0.9)	(4.0)	(7.2)	(10.3)
Working Capital/Sales (%)	(882.0%)	(29.6%)	(13.0%)	(14.0%)	(14.6%)

Cash Flow Metrics	2015a	2016a	2017e	2018e	2019e
FCF/Share ($)	**(0.02)**	**(0.04)**	**(0.02)**	**0.01**	**0.02**
Price/FCPS (x)	nm	nm	nm	52.5x	19.9x
Free Cash Flow Yield (%)	(3.8%)	(7.5%)	(4.4%)	1.9%	5.0%
Gross Cash Conversion	0.0%	66.4%	56.3%	390.4%	136.3%
Capex/Sales (%)	(199.5%)	(6.6%)	(6.5%)	(2.0%)	(2.0%)
Capex/Depreciation (x)	0.9x	1.0x	6.9x	3.1x	3.4x

Margins	2015a	2016a	2017e	2018e	2019e
EBITDA	(10,743.7	(483.4%)	(23.7%)	2.2%	11.9%
EBIT	(10,970.9	(489.9%)	(24.7%)	1.6%	11.4%
NPAT	(11,595.1	(488.5%)	(26.0%)	0.5%	7.7%

Valuation Methodology	
WACC (%)	10.4%
Discounted Cash Flow Valuation	0.690
Sum-of-the-Parts Valuation	0.000
Average Valuation	0.690
12 Mth Target Price	**1.000**

Source: Company data, IRESS, Moelis & Company research estimates 26-Apr-17

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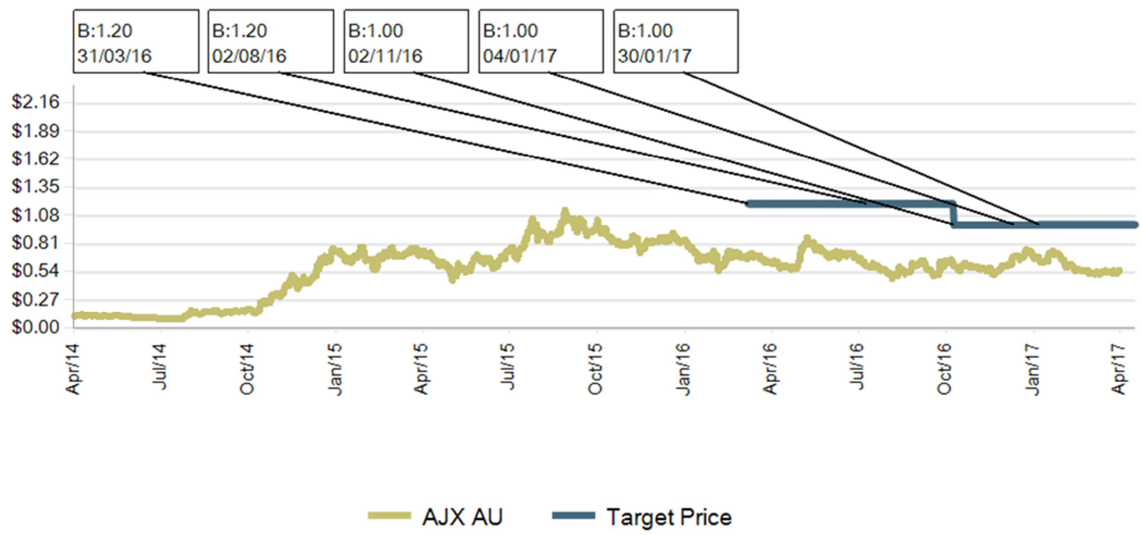
SELL	*HOLD*	*BUY*
1.6%	*38.1%*	*60.3%*

Rating and Price Target History: Alexium International Group Ltd (AJX AU) as of 26/04/2017



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