

## CEMTREX, Inc. (CETX) – Buy Rating

February 6, 2023

### Lowering Our Discount Rate – Raises Price Target \$8.0 to \$23.0

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*We initiated coverage of Centrex just a few weeks ago (Jan. 26<sup>th</sup>) with an \$8.0 price target. The stock has now exceeded that target, forcing us to re-evaluate our valuation (either raise the target or lower our rating). Our target was based on a conservative 30% discount rate. If we revise our discount rate to 15%, our target climbs to \$23.0. The company's market capitalization remains low, and the revenue prospects are high. As such, we believe we have been overly conservative and lowered the discount rate to 15%, which yields a \$23.0 price target.*

### Investment Highlights

**We See Vicon as the Future of Centrex:** Vicon is a global leader in advanced security and surveillance technology designed to safeguard businesses, schools, municipalities, hospitals and cities across the world. The company specializes in engineering complete security solutions that simplify deployment, operation, and ongoing maintenance. A good example is the company's four-in-one camera system that connects with one simple cable. The company today has over 10,000 installations and five decades of experience. The company typically operates in corrections (prisons), education, healthcare, government, law enforcement, property management, and a host of other applications. The Advanced Technologies segment generated approximately \$29M in revenues for fiscal (Sept.) 2022. Management has guided to a 16% growth rate (\$28M in fiscal 2023).

**Advanced Industrial Services;** This business includes rigging and Millwrighting, Process Piping, Electrical Services, Custom Fabrication, Transportation and Warehousing and Project Management. This unit generated approximately \$21M in revenues for the fiscal (Sept.) year 2022. Management guided to nominal growth of 3% this year.

**A History of Reverse Splits has Depressed the Valuation.** In our opinion the company's market capitalization, today at approximately \$8M versus the company's \$50M in annual revenues is in our opinion, too low. The company may achieve break-even late next year or early 2025. Our understanding is that the AIS (industrial rigging and such) is generating free cash flow today and helping to offset expenses associated with Vicon. We see Vicon technology as high value and as its growth builds, we believe the probability of it being acquired by one of the major (deep pockets, large, capitalized competitors) becomes increasingly likely.

**The Most Recent Quarter & Guidance:** The company reported revenues of \$50.3M (Advanced Technologies was \$29.1M and Industrial services was \$21M). This translated into an operating loss of \$13.5M; however, the company has restructured and as a result operating expenses should be lower going forward. We model a loss of just \$2.3M in fiscal 2023, suggesting that the company's cash balance of \$10.6M is sufficient as the company drives towards becoming a cash flow positive operation.

**Valuation:** We project our model out to 2032. We lower our discount rate from 30% to 15%. We apply this in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP) models. We use a fully diluted outyear share count assuming multiple raises. The result is equal-weighted and averaged and rounded to the nearest whole number to derive our 12-month projected price target of \$23.0.

**Risks to our thesis include:** 1. Competitive risks 2. Intellectual Property 3. Economic. Management and Intellectual Capital 4. Reverse stock splits.

Current Price	\$9.79
Price Target	\$23.00



Source: Centrex

Stock Data			
52-Week Range	\$3.15	-	\$27.30
Shares Outstanding (mil.)	794		
Market Capitalization (mil.)	\$8		
Enterprise Value (mil.)	-\$4		
Debt to Capital	0%		
Book Value/Share	\$1,049.27		
Price/Book	0.4		
Average Three Months Trading Volume (K)	3		
Insider Ownership	3.0%		
Institutional Ownership	0.5%		
Short Interest (mil.)	3.1%		
Dividend / Yield	\$0.00/0.0%		



**Valuation:** Our valuation for Cemtrex is based on revenue projections out to 2033. The subsequent revenues then flow to our income statement. To the income statement metrics, we then model a target valuation. We assume the company does raise additional capital, and as such, our valuation math is based on the 2033 fully diluted share count. Our valuation models include Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP). These models all use a 15% discount rate. The result of these three models is then equal-weighted and averaged and rounded to the nearest whole number to provide a 12-month target price.

### Exhibit 1. Free Cash Flow Model

Average	\$	23
Price Target	\$	26
Year		2023

#### DCF Valuation Using FCF (mln):

units ('000)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(2,356)	24	2,454	5,528	11,401	15,322	6,545	27,272	36,074	46,756
Tax Rate	0%	0%	0%	0%	0%	10%	24%	24%	28%	0%
EBIT(1-t)	(2,356)	24	2,454	5,528	11,401	13,789	4,974	20,727	25,974	46,756
CapEx										
Depreciation										
Change in NWC										
FCF	(2,356)	24	2,454	5,528	11,401	13,789	4,974	20,727	25,974	46,756
PV of FCF	(2,356)	21	1,855	3,635	6,518	6,856	2,151	7,792	8,491	13,291
Discount Rate	15%									
Long Term Growth Rate	1%									
Terminal Cash Flow	337,313									
Terminal Value YE2030	95,885									
NPV	130,848									
NPV-Debt	-									
Shares out (thousands)	4,989 2032E									
NPV Per Share	\$ 26.23									

Source: Dawson James estimates

### Exhibit 2. Discounted EPS Model

Current Year	2023
Year of EPS	2032
Earnings Multiple	15
Discount Factor	15%
Selected Year EPS	\$ 5.37
NPV	\$ 22.89

Source: Dawson James estimates

Discount Rate and Earnings Multiple Varies, Year is Constant							
Earnings Multiple	22.9	2032 EPS					
		5%	10%	15%	20%	25%	30%
5		\$17.30	\$11.38	\$7.63	\$5.20	\$3.60	\$ 2.53
10		\$34.61	\$22.77	\$15.26	\$10.41	\$7.21	\$ 5.06
15		\$51.91	\$34.15	\$22.89	\$15.61	\$10.81	\$ 7.59
20		\$69.22	\$45.54	\$30.52	\$20.81	\$14.41	\$ 10.13
25		\$86.52	\$56.92	\$38.16	\$26.01	\$18.02	\$ 12.66
30		\$103.83	\$68.31	\$45.79	\$31.22	\$21.62	\$ 15.19
35		\$121.13	\$79.69	\$53.42	\$36.42	\$25.22	\$ 17.72
40		\$138.44	\$91.08	\$61.05	\$41.62	\$28.82	\$ 20.25

### Exhibit 3. Sum-of-the-Parts Model

Cemtrex	LT Gr	Discount Rate	Yrs. to Mkt Peak	% Success	Peak Sales MM\$	Term Val
AIS - Industrial Contracting Services	1%	15%	5	70%	\$25	\$179
NPV						\$4.98
Vicon	1%	15%	7	70%	\$100	\$714
NPV						\$15.07
Other	1%	30%	7	70%	\$20	\$69
NPV						\$0.62
Net Margin						40%
MM Shrs OS (2032E)						5
Total						\$20

Source: Dawson James estimates

**Risks to our thesis include** 1. Competitive risks 2. Intellectual Property 3. Economic, Management, and Intellectual Capital. 4. We also note the company has a history of reverse stock splits.

1. Competitive Risks

- Most customers come from cyclical industries, resulting in cyclical buying behavior, and therefore may result in significant fluctuations in demand, selling prices, and profitability.
- The barriers to entry into these spaces are not difficult and makes it easy for competition to grow.
- There are many larger competitors who compete directly with Centrex and who have significantly greater financial, technological and research resources. This may serve to severely damage the company's ability to market and sell products at price levels that would allow them to achieve and maintain profit margins and positive cash flow.
- Competition and customer pressures may restrict their ability to increase prices in response to commodity and other input cost increases, which could cause a decrease in profit margin.

2. Intellectual Property

- Centrex heavily relies on its proprietary knowledge to maintain a competitive edge, while only using a combination of trade secrets and know-how to protect its intellectual property.
- Although Centrex has multiple patents and patent claims that it owns, they cannot assure that the various other aspects to their technologies patent applications will result in issued patents, or if patents are issued, that they will provide sufficient protections for technology against competitors.
- There is a low chance that, if needed, Centrex could defend their intellectual property rights against claims.

3. Economic Management and Intellectual Capital

- Due to the long-term nature of investments in acquisitions and other financial needs to support organic growth, including working capital, it is likely that the long-term and working capital needs will periodically exceed the short-term fluctuations in cash flow from operations.
- Growing net losses and substantial debt is expected to continue due to increased product development, sales and marketing and administrative expenses. This will reduce the company's ability to obtain additional financing for working capital.
- Financial success is significantly dependent on the engineering, sales, and marketing experience of Saagar Govil. There is no employment arrangement, and there can be no assurance that Saagar Govil will continue to provide Centrex services.
- As a "controlled company," approximately 90% of the outstanding voting shares, including common stock, are beneficially held by Saagar Govil.

4. Centrex has a history of reverse stock splits

- Dec 28, 2004 – 2/1 split
- August 21, 2007 – 52/1 split
- April 15, 2015 – 6/1
  - While common stock was traded on the OTCBB
- June 13, 2019 – 8/1
  - Primarily intended to bring Company into compliance with the minimum average closing share price requirement
- January 22, 2023 - 35:1 reverse stock split

**Exhibit 4. Income Statement**

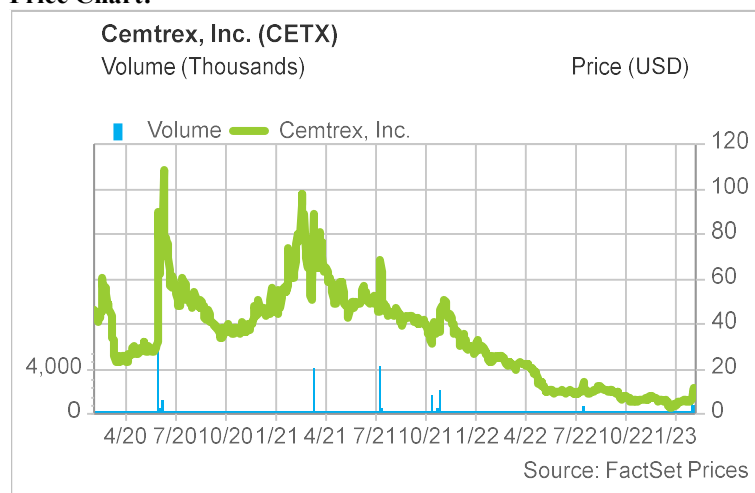
Cemtrex: Income Statement	Dec.	March	June	Sept.	Sept.														
YE September	1Q22A	2Q22A	3Q22A	4Q22A	2022A	1Q23E	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<b>Product sales</b>	-	-																	
AIS - Industrial Contracting Services	4,730	5,088	5,300	6,082	21,200	4,974	5,190	5,406	6,055	21,624	22,056	22,498	22,948	23,407	23,875	24,352	24,839	25,336	25,843
Vicon	6,200	6,400	6,800	9,700	29,100	7,697	8,032	8,366	9,370	33,465	39,154	46,593	55,446	65,426	77,203	91,100	107,498	126,847	149,680
Other Subsidiary Contributions	1,200	1,240	1,531																
<b>Total Product Sales</b>	<b>10,672</b>	<b>12,728</b>	<b>13,631</b>	<b>15,782</b>	<b>50,275</b>	<b>13,298</b>	<b>13,876</b>	<b>14,454</b>	<b>16,189</b>	<b>57,816</b>	<b>66,489</b>	<b>76,462</b>	<b>87,931</b>	<b>101,121</b>	<b>116,289</b>	<b>133,732</b>	<b>153,792</b>	<b>176,861</b>	<b>203,390</b>
<b>Expenses</b>																			
COGS	6,803	8,676	7,754	7,986	31,219	7,713	6,938	7,227	8,094	29,972	33,244	37,466	42,207	45,504	52,330	60,180	67,669	76,050	85,424
COGS %	64%	68%	57%	51%	62%	58%	50%	50%	50%	52%	50%	49%	48%	45%	45%	45%	44%	43%	42%
General and Administrative	6,612	6,757	6,949	7,438	27,756	5,980	6,240	6,500	7,280	26,000	28,600	31,460	34,606	38,067	41,873	46,061	50,667	55,733	61,307
Research & Development	1,312	1,115	1,048	1,377	4,852	966	1,008	1,050	1,176	4,200	4,620	5,082	5,590	6,149	6,764	7,441	8,185	9,003	9,903
Goodwill Impairment				3,316	3,316														
<b>Total Operating Expenses</b>	<b>14,727</b>	<b>16,548</b>	<b>15,752</b>	<b>20,117</b>	<b>67,143</b>	<b>14,659</b>	<b>14,186</b>	<b>14,777</b>	<b>16,550</b>	<b>60,172</b>	<b>66,464</b>	<b>74,008</b>	<b>82,403</b>	<b>89,720</b>	<b>100,967</b>	<b>113,681</b>	<b>126,520</b>	<b>140,787</b>	<b>156,634</b>
Loss from Operations	(4,055)	(3,819)	(2,121)	(6,874)	(16,868)	(1,361)	(310)	(323)	(362)	(2,356)	24	2,454	5,528	11,401	15,322	20,052	27,272	36,074	46,756
<b>Other Expense</b>																			
Other Income	930	335	2,072	3,928	7,265														
Interest Expense	(1,405)	(1,318)	(931)	(244)	(3,898)														
<b>Total Other Expense</b>	<b>(475)</b>	<b>(983)</b>	<b>1,141</b>	<b>3,684</b>	<b>3,368</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Loss</b>	<b>(4,530)</b>	<b>(4,802)</b>	<b>(980)</b>	<b>(3,189)</b>	<b>(13,501)</b>	<b>(1,361)</b>	<b>(310)</b>	<b>(323)</b>	<b>(362)</b>	<b>(2,356)</b>	<b>24</b>	<b>2,454</b>	<b>5,528</b>	<b>11,401</b>	<b>15,322</b>	<b>20,052</b>	<b>27,272</b>	<b>36,074</b>	<b>46,756</b>
Fx	59	(200)	(201)	(178)	(519)														
Less loss in non-controlling Interest	(52)	(81)	(51)	(88)	(271)														
Taxes			248	(39)	209	-	-	-	-	-	-	-	-	-	1,532	4,010	6,545	10,101	14,027
<b>Tax Rate</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>24%</b>	<b>28%</b>	<b>30%</b>
<b>GAAP Net Income (loss)</b>	<b>(4,418)</b>	<b>(5,082)</b>	<b>(983)</b>	<b>(3,056)</b>	<b>(13,540)</b>	<b>(1,361)</b>	<b>(310)</b>	<b>(323)</b>	<b>(362)</b>	<b>(2,356)</b>	<b>24</b>	<b>2,454</b>	<b>5,528</b>	<b>11,401</b>	<b>13,789</b>	<b>16,041</b>	<b>20,727</b>	<b>25,974</b>	<b>32,729</b>
<b>GAAP-EPS</b>	<b>(0.19)</b>	<b>(0.21)</b>	<b>(0.04)</b>	<b>(0.08)</b>	<b>(0.52)</b>	<b>(1.71)</b>	<b>(0.11)</b>	<b>(0.11)</b>	<b>(0.13)</b>	<b>(2.07)</b>	<b>0.01</b>	<b>0.85</b>	<b>1.89</b>	<b>3.84</b>	<b>4.58</b>	<b>5.25</b>	<b>6.69</b>	<b>8.27</b>	<b>10.27</b>
GAAP EPS (dil)	(0.19)	(0.21)	(0.04)	(0.08)	(0.52)	(1.71)	(0.08)	(0.08)	(0.09)	(0.77)	0.01	0.61	1.33	2.67	3.13	3.53	4.42	5.37	6.56
Wgt'd Avg Shrs (Bas)	23,097	24,089	25,778	26,300	24,832	794	2,794	2,825	2,828	2,310	2,849	2,889	2,930	2,971	3,013	3,055	3,098	3,141	3,185
Wgt'd Avg Shrs (Dil)	23,097	24,089	25,778	26,300	24,832	794	3,794	3,832	3,836	3,064	3,898	4,020	4,146	4,276	4,410	4,548	4,691	4,838	4,989

Source: Dawson James estimates, company reports

Companies mentioned in this report:

**Important Disclosures:**

**Price Chart:**



**Price target and ratings changes over the past three years:**

Initiated – Buy – January 26, 2023 – Price Target \$8.0

Price Target Change – Buy – February 6, 2023 – Price Target \$8.0 to \$23.0

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- 1) **Buy:** The analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months.
- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months.
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

The following chart reflects the range of current research report ratings for all companies, followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

Current as of 26-Jan-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	70%	1	4%
Market Perform (Neutral)	9	27%	2	22%
Market Underperform (Sell)	1	3%	0	0%
Total	33	100%	3	9%

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