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## CEMTREX, Inc. (CETX) – Buy Rating

February 15, 2023

### Reports the Quarter – Reiterates Positive Guidance

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*Cemtrex reported first quarter 23 results. Top-line revenues were \$11.9M and driven by growth in Vicon (technology) segment at \$7M. Several one-time expenses related to discontinued operations hurt the income statement. Adjusting for these exceptions resulted in a modest net operating loss. Management guided to a respectable 16% growth rate with rising margins. Management noted a single order (border protection services) of \$1.5M. We see the potential for more orders like this to follow, creating a transformative potential to the company.*

### Investment Highlights

**The Most Recent Quarter & Guidance:** The company reported revenues of \$11.9M (Vicon was \$7M) This translated into an operating loss of \$6.3M; however, the financials reflect restructuring expenses. Adjusting for that, the operating loss was closer to \$2M. Management provided guidance:

- **Vicon:** “We continue to believe revenues for Vicon Industries, based on our current demand, should increase by approximately 16% to \$28.0 million for fiscal year 2023 given the launch of its AI based analytics solution, improvements to Valerus and additional sales. Additionally, Gross Profit Margin for Vicon is expected to increase to approximately 48% for fiscal year 2023”.
- **Industrial Services:** “Revenue for our Industrial services segment decreased during the quarter mainly due to products and services revenue recognition timing. We continue to see increasing demand and monetizing opportunities for AIS with the need for predictive maintenance services, reshoring of manufacturing back to the US, and an growing complexity in industrial equipment. We believe AIS will continue to expand revenues by 3% to \$21.8 million for fiscal year 2023 driven by continued strength in the Industrial Services market, and Gross Profit Margin for AIS is expected to improve to approximately 34% for the FY 2023 for Advanced Industrial Services.”

**We See Vicon as the Future of Cemtrex:** 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.

**Advanced Industrial Services;** This business includes rigging and Millwrighting, Process Piping, Electrical Services, Custom Fabrication, Transportation and Warehousing and Project Management.

**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 \$10.23  
Price Target \$23.00



Source: Cemtrex

Stock Data			
52-Week Range	\$3.15	-	\$26.71
Shares Outstanding (mil.)	762		
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)	5		
Insider Ownership	21.8%		
Institutional Ownership	0.6%		
Short Interest (mil.)	3.4%		
Dividend / Yield	\$0.00/0.0%		



**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 1. Income Statement**

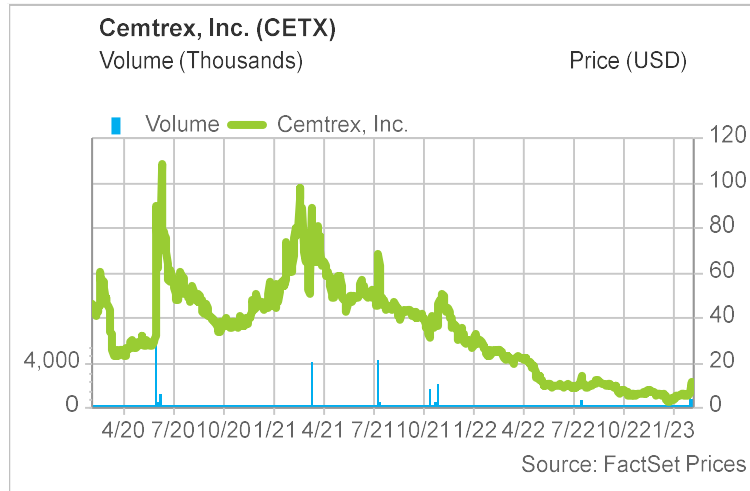
Centrex: Income Statement		Sept.																		
YE September	2022A	1Q23A	2Q23E	3Q23E	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	
Product sales																				
AIS - Industrial Contracting Services	21,200	4,359	5,190	5,406	6,669	21,624	5,073	5,294	5,514	6,176	22,056	22,498	22,948	23,407	23,875	24,352	24,839	25,336	25,843	
Vicon	29,100	7,005	8,032	8,366	10,062	33,465	9,005	9,397	9,789	10,963	39,154	46,593	55,446	65,426	77,203	91,100	107,498	126,847	149,680	
Other Subsidiary Contributions		606																		
Total Product Sales	50,275	11,970	13,876	14,454	17,516	57,816	15,292	15,957	16,622	18,617	66,489	76,462	87,931	101,121	116,289	133,732	153,792	176,861	203,390	
Expenses																				
COGS	31,219	6,928	6,938	7,227	8,758	29,851	7,646	7,979	8,311	9,308	33,244	37,466	42,207	45,504	52,330	60,180	67,669	76,050	85,424	
COGS %	62%	58%	50%	50%	50%	52%	50%	50%	50%	50%	50%	49%	48%	45%	45%	45%	44%	43%	42%	
General and Administrative	27,756	5,456	6,240	6,500	7,804	26,000	6,578	6,864	7,150	8,008	28,600	31,460	34,606	38,067	41,873	46,061	50,667	55,733	61,307	
Research & Development	4,852	1,538	1,008	1,050	604	4,200	1,063	1,109	1,155	1,294	4,620	5,082	5,590	6,149	6,764	7,441	8,185	9,003	9,903	
Goodwill Impairment	3,316																			
Total Operating Expenses	67,143	13,922	14,186	14,777	17,166	60,051	15,287	15,951	16,616	18,610	66,464	74,008	82,403	89,720	100,967	113,681	126,520	140,787	156,634	
Loss from Operations	(16,868)	(1,951)	(310)	(323)	350	(2,234)	6	6	6	7	24	2,454	5,528	11,401	15,322	20,052	27,272	36,074	46,756	
Other Expense																				
Other Income	7,265	(17)																		
Interest Expense	(3,898)	(1,128)																		
Total Other Expense	3,368	(1,145)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Loss	(13,501)	(3,097)	(310)	(323)	350	(2,234)	6	6	6	7	24	2,454	5,528	11,401	15,322	20,052	27,272	36,074	46,756	
Fx & or discontinued Ops	(519)	(3,240)																		
Less loss in non-controlling Interest	(271)	(59)																		
Taxes	209	-	-	-	-	-	-	-	-	-	-	-	-	-	1,532	4,010	6,545	10,101	14,027	
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	20%	24%	28%	30%	
GAAP Net Income (loss)	(13,540)	(6,277)	(310)	(323)	350	(6,560)	6	6	6	7	24	2,454	5,528	11,401	13,789	16,041	20,727	25,974	32,729	
GAAP-EPS	(0.52)	(8.24)	(0.11)	(0.12)	0.13	(8.35)	0.00	0.00	0.00	0.00	0.01	0.86	1.91	3.88	4.63	5.31	6.77	8.36	10.39	
GAAP EPS (dil)	(0.52)	(8.24)	(0.08)	(0.08)	0.09	(2.16)	0.00	0.00	0.00	0.00	0.01	0.62	1.34	2.69	3.15	3.56	4.46	5.41	6.62	
Wgtd Avg Shrs (Bas)	24,832	762	2,762	2,793	2,796	2,278	2,798	2,801	2,832	2,835	2,817	2,856	2,896	2,937	2,978	3,020	3,062	3,105	3,149	
Wgtd Avg Shrs (Dil)	24,832	762	3,762	3,800	3,804	3,032	3,808	3,846	3,884	3,923	3,865	3,966	4,111	4,240	4,373	4,510	4,651	4,797	4,947	

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  
 Update – Buy – February 15, 2023 – Price Target \$23.0

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- 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.

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Current as of 13-Feb-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	22	67%	1	5%
Market Perform (Neutral)	10	30%	2	20%
Market Underperform (Sell)	1	3%	0	0%
Total	33	100%	3	9%

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