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CEMTREX, Inc. (CETX) – Buy Rating

June 9, 2023

Cemtrex Adds \$11M in Annual Revenues with an Acquisition in the Industrials Division – Water Treatment Plus

Cemtrex announced a definitive agreement to acquire a service contractor – steel fabricator specializing in the water treatment markets. Management stated that the acquisition brings over \$11.6 million in annual revenue and approximately \$775K in adjusted EBITDA. Cemtrex will acquire the company for \$2.4 million in cash and a note and the real estate the business occupies is also being purchased for \$1.5M, subject to customary closing adjustments.

Investment Highlights

Advanced Industrial Services: This existing 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. Growth appears to be picking up with \$6.2M in revenues reported in the period, excluding the current acquisition. This acquisition strengthens the company.

What did Cemtrex Acquire? An Industrial Service Contractor. The company was founded in 1988 in Central Pennsylvania and is focused on steel fabrication and contracting primarily to the commercial and industrial water treatment industry, as well as other service industries. The company provides the water treatment industry with a variety of fabricated vessels and equipment including ASME pressure vessels, heat exchangers, mix tanks, reactors, and other specialized fabricated equipment. Additionally, the contracting team assists with installation and service of fabricated items. The company has over 33,000 square feet of manufacturing floor space in its facility and an experienced staff of fabricators, welders, and field mechanics.

How Much? Cemtrex will acquire the company for \$2.4 million in cash and a note and the real estate the business occupies is also being purchased for \$1.5M, subject to customary closing adjustments. Cemtrex will fund the transaction with existing cash on hand and through bank financing from Fulton Bank. The acquisition is expected to close in June 2023, subject to customary closing conditions, and is expected to be accretive beginning in Q4 FY2023.

The Company's Adjusted EBITDA

Non-GAAP Reconciliation	Last 4 Calendar Year Avg.
Revenue	\$ 11,612,199
Operating Income	\$ 356,958
+ Depreciation	\$ 237,402
+ Seller's Expenses	\$ 183,046
= Adjusted EBITDA	\$ 777,405

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.

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Current Price \$9.76
 Price Target \$23.00



Source: Cemtrex

Stock Data			
52-Week Range	\$3.15	-	\$17.96
Shares Outstanding (mil.)	762		
Market Capitalization (mil.)	\$7		
Enterprise Value (mil.)	\$0		
Debt to Capital	0%		
Book Value/Share	\$1,049.27		
Price/Book	0.4		
Average Three Months Trading Volume (K)	11		
Insider Ownership	4.7%		
Institutional Ownership	0.6%		
Short interest (mil.)	2.3%		
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

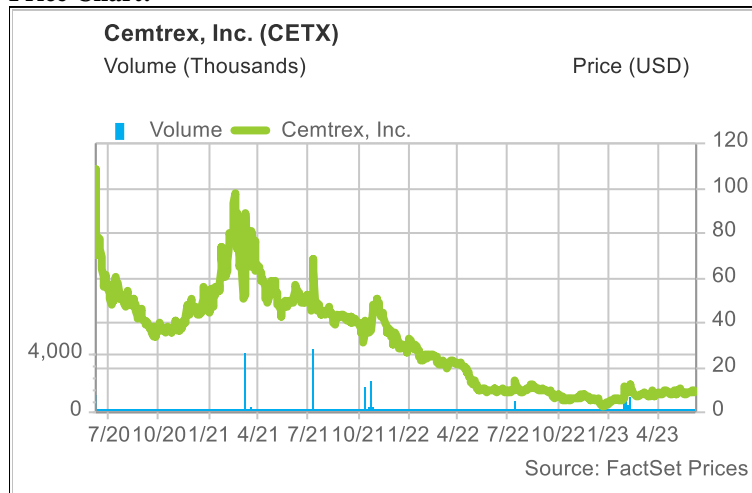
Cemtrex: Income Statement		Sept.																	
YE September	2022A	1Q23A	2Q23A	3Q23E	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Product sales																			
AIS - Industrial Contracting Services	21,200	4,359	6,200	6,500	8,000	25,059	8,409	8,775	9,140	10,237	36,561	37,292	38,038	38,798	39,574	40,366	41,173	41,997	42,837
Vicon	29,100	7,005	9,873	8,366	8,221	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	16,073	14,454	15,318	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	8,735	7,855	8,325	31,842	8,870	9,255	9,641	10,798	38,563	42,054	43,966	45,504	52,330	60,180	67,669	76,050	85,424
COGS %	62%	58%	54%	54%	54%	55%	58%	58%	58%	58%	58%	55%	50%	45%	45%	45%	44%	43%	42%
General and Administrative	27,756	5,456	5,318	6,500	8,726	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	1,615	1,050	-4	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	15,669	15,405	17,047	62,042	16,510	17,228	17,946	20,099	71,783	78,596	84,162	89,720	100,967	113,681	126,520	140,787	156,634
Loss from Operations	(16,868)	(1,951)	405	(951)	(1,729)	(4,226)	(1,218)	(1,271)	(1,324)	(1,483)	(5,295)	(2,134)	3,769	11,401	15,322	20,052	27,272	36,074	46,756
Other Expense																			
Other Income	7,265	(17)	377																
Interest Expense	(3,898)	(1,128)	(1,335)																
Total Other Expense	3,368	(1,145)	(959)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Loss	(13,501)	(3,097)	(554)	(951)	(1,729)	(4,226)	(1,218)	(1,271)	(1,324)	(1,483)	(5,295)	(2,134)	3,769	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)	(595)	(951)	(1,729)	(9,551)	(1,218)	(1,271)	(1,324)	(1,483)	(5,295)	(2,134)	3,769	11,401	13,789	16,041	20,727	25,974	32,729
GAAP-EPS	(0.52)	(8.24)	(0.73)	(0.34)	(0.62)	(9.93)	(0.44)	(0.45)	(0.47)	(0.52)	(1.88)	(0.75)	1.30	3.88	4.63	5.31	6.77	8.36	10.39
GAAP EPS (dil)	(0.52)	(8.24)	(0.73)	(0.25)	(0.45)	(4.16)	(0.32)	(0.33)	(0.34)	(0.38)	(1.37)	(0.54)	0.92	2.69	3.15	3.56	4.46	5.41	6.62
Wgtd Avg Shrs (Bas)	24,832	762	815	2,793	2,796	1,791	2,799	2,801	2,832	2,835	2,817	2,856	2,896	2,937	2,978	3,020	3,063	3,105	3,149
Wgtd Avg Shrs (Dil)	24,832	762	815	3,800	3,804	2,295	3,808	3,846	3,884	3,923	3,865	3,986	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 Report – Buy – March 23, 2023 – Price Target \$23.0
 Update Report – Buy – May 12, 2023 – Price Target \$23.0
 Update Report – Buy – June 9, 2023 – Price Target \$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.

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Current as of 25-May-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	6%
Market Perform (Neutral)	10	28%	1	3%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

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