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CEMTREX, Inc. (CETX) – Buy Rating

December 11, 2023

The Environment for Micro Caps Remains Tough, Raising Risk back to 30%, Lowering Price Target from \$23 to \$11

Cemtrex reports the fiscal 4th Quarter December 21, 2023. We look forward to seeing the results and additional guidance. The macro environment for micro-cap companies has become increasingly difficult. The company reported \$5.6M on the balance sheet in the prior quarter and has been burning approximately \$1M per quarter. We believe its prudent to raise the risk rating back up to 30% which effectively lowers our price target from \$23 to \$11.

Investment Highlights

In the prior quarter: Vicon year over year revenues improved 36%, driven by demand from customers for its Roughneck cameras and Valerus video management software solutions. Vicon orders included a follow-up \$1.1 million order from a current large border protection customer in Texas to expand its security technology system with new security solutions, a follow-on to its \$1.5 million order earlier in the year. Increasing modernization of the current security infrastructure is accelerating the growth of the border security market, driven by the rise of geopolitical instabilities and an increase in border threat assessments. In the prior quarter management stated: “We believe revenues for Vicon Industries, based on our current demand, will exceed our earlier expectations of \$28.0 million for fiscal year 2023 given the growing demand for our products and solutions. Additionally, we see further opportunity to grow our Gross Margin Percent in fiscal year 2024.”

Advanced Industrial Services: Revenue for the Industrial services segment, AIS, increased 5% during the quarter mainly due to increased demand for services. Management previously stated: “We believe AIS will continue to expand revenues and may exceed our original 3% target of \$21.8 million for fiscal year 2023 driven by continued strength in the Industrial Services market. The Gross Profit Margin for AIS improved to 36% for the quarter compared to 30% for the prior year quarter driven by lower subcontractor costs. The Gross Margin Percent is expected to maintain or exceed approximately 34% for the fiscal year 2023 for Advanced Industrial Services. Looking ahead, we believe that continued reshoring of manufacturing to the US as well investments in US infrastructure will play a key role in AIS’ long-term growth.”

Heisey Acquisition Update: The acquisition (now closed) adds over \$11.6 million in what is expected to be accretive annual revenues. We note that the company announced a \$1.0 million order through its subsidiary, Advanced Industrial Services (“AIS”), for the Pennsylvania Stewartstown Borough Authority, Stewartstown WWTP Sludge Dewatering improvements project.

Valuation: We project our model out to 2032. Given the difficult of the macro environment we are bumping our risk rating back up to 30% from 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 \$11.0.

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

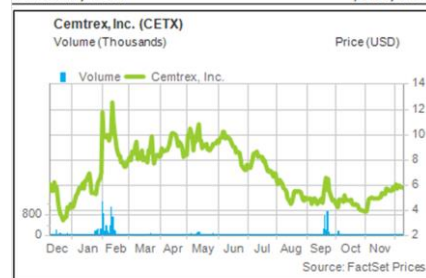
Jason H. Kolbert
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Current Price	\$5.81
Price Target	\$11.00



Source: Cemtrex

Stock Data			
52-Week Range	\$3.15	-	\$14.46
Shares Outstanding (mil.)	762		
Market Capitalization (mil.)	\$4		
Enterprise Value (mil.)	-\$2		
Debt to Capital	0%		
Book Value/Share	\$1,049.27		
Price/Book	0.4		
Average Three Months Trading Volume (K)	73		
Insider Ownership	7.4%		
Institutional Ownership	0.6%		
Short interest (mil.)	3.3%		
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

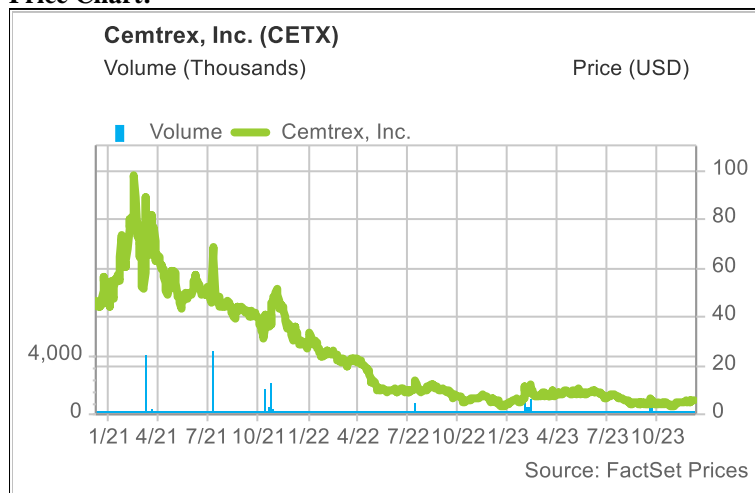
Cemtrex: Income Statement		Sept.																	
YE September	2022A	1Q23A	2Q23A	3Q23A	4Q23E	2023E	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Product sales																			
AIS - Industrial Contracting Services	21,200	4,359	6,200	5,730	8,000	24,290	8,228	8,586	8,944	10,017	35,775	36,491	37,221	37,965	38,724	39,499	40,289	41,095	41,917
Vicon	29,100	7,005	9,873	9,000	7,587	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	14,730	15,042	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	8,249	8,424	32,335	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%	56%	56%	56%	58%	58%	58%	58%	58%	55%	50%	45%	45%	45%	44%	43%	42%
General and Administrative	27,756	5,456	5,318	5,377	9,849	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	-3	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	14,676	18,269	62,535	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	54	(3,227)	(4,719)	(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	35															
Interest Expense	(3,898)	(1,128)	(1,335)	1,254															
Total Other Expense	3,368	(1,145)	(959)	1,289	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Loss	(13,501)	(3,097)	(554)	(1,166)	(3,227)	(4,719)	(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)		(1,185)															
Less loss in non-controlling Interest	(271)	(59)		13															
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)	(1,147)	(3,227)	(11,245)	(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)	(1.28)	(3.59)	(13.84)	(1.35)	(0.30)	(0.30)	(0.34)	(2.29)	(0.49)	0.85	2.53	3.02	3.46	4.41	5.45	6.77
GAAP EPS (dil)	(0.52)	(8.24)	(0.73)	(1.28)	(3.59)	(13.33)	(1.35)	(0.30)	(0.30)	(0.34)	(1.52)	(0.48)	0.82	2.40	2.82	3.18	3.99	4.84	5.92
Wgtd Avg Shrs (Bas)	24,832	762	815	898	899	843	900	4,300	4,347	4,352	3,475	4,384	4,446	4,508	4,572	4,636	4,701	4,767	4,834
Wgtd Avg Shrs (Dil)	24,832	762	815	898	899	843	900	4,300	4,343	4,386	3,482	4,457	4,597	4,741	4,889	5,043	5,201	5,363	5,531

Source: Dawson James

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
 Update Report – Buy – August 11, 2023 – Price Target \$23.0
 Price Target Change – Buy – December 11, 2023 – Price Target \$11

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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 14-Nov-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	61.76%	3	8.80%
Market Perform (Neutral)	13	38.24%	2	5.90%
Market Underperform (Sell)	0	0%	0	0%
Total	34	100%	5	14.70%

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