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CEMTREX, Inc. (CETX) – Buy Rating

January 26, 2024

Fiscal Full-Year (Sept. 2024): \$59.7M for a \$9.3M Loss

We've updated our model for the reported Fiscal 2023 results. The company reported \$5.3 M (plus \$1M restricted) cash on the balance sheet. We estimate the company is burning approximately \$1M per quarter. We recently raised our risk rating back up to 30% (which lowered our price target from \$23 to \$11). We did this to reflect the increased risk we see for the micro-cap companies in what has been a very tough environment.

Investment Highlights

Vicon year over year revenues have improved, driven by demand in the Security and Industrial segments. Fourth quarter revenues were up sequentially from the prior period, \$16.9M versus \$14.7M. Management explained this was driven by "continued sales execution by Vicon with multiple large orders, and strong demand for AIS products and services". The quarterly loss was just under \$1M in the period. The company closed the quarter with a year plus of operating capital.

Outlook for 2024: (press release): "During the fourth quarter, a large correctional facility, and current end-customer, upgraded its security technology system with new Valerus software and hardware with a \$1.5 million order. As customers seek to modernize their current security infrastructure, Vicon continues to stand out with its advanced technologies and products. Recently Vicon launched a new cloud security platform, called Anavio, that integrates video, access, and intercom in one easy-to-use system, powered by AI and face-based authentication. This new cloud platform allows us to create more value in our business by evolving Vicon into a recurring revenue business model. Additionally, with AI at the core of our roadmap for Anavio, we're excited to layer in new capabilities and benefits for our customers to deliver the most cutting-edge security solutions over the months and years to come. With the launch of Anavio along with continued improvements to our core software platform Valerus, we expect to drive further growth and see additional opportunity to grow gross margin in 2024."

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. Heisey contributed to the reported 18% revenue growth (\$25M for the full year).

Valuation: We project our model out to 2032. Given the difficult of the macro environment we are returned our risk rating 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.

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Current Price \$3.57
Price Target \$11.00



Source: Centrex

Stock Data			
52-Week Range	\$3.46	-	\$14.46
Shares Outstanding (mil.)	762		
Market Capitalization (mil.)	\$3		
Enterprise Value (mil.)	-\$4		
Debt to Capital	0%		
Book Value/Share	\$1,049.27		
Price/Book	0.7		
Average Three Months Trading Volume (K)	14		
Insider Ownership	5.8%		
Institutional Ownership	0.6%		
Short interest (mil.)	0.4%		
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

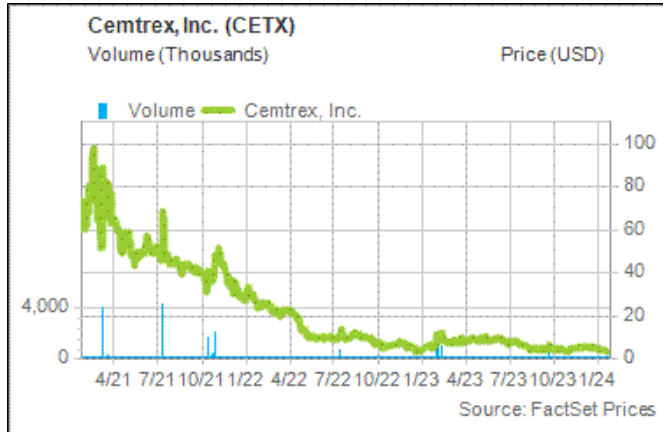
Centrex: Income Statement		Sept.													
YE September	2022A	2023A	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Product sales															
AIS - Industrial Contracting Services	21,200	25,006	8,396	8,761	9,127	10,222	36,506	37,236	37,981	38,741	39,515	40,306	41,112	41,934	42,773
Vicon	29,100	34,700	9,338	9,744	10,150	11,368	40,599	48,313	57,492	67,841	80,052	94,462	111,465	131,528	155,203
Other Subsidiary Contributions															
Total Product Sales	50,275	59,706	15,792	16,479	17,165	19,225	68,662	78,961	90,805	104,426	120,090	138,104	158,819	182,642	210,038
Expenses															
COGS	31,219	33,683	9,159	9,558	9,956	11,151	39,824	43,429	45,403	46,992	54,041	62,147	69,880	78,536	88,216
COGS %	62%	56%	58%	58%	58%	58%	58%	55%	50%	45%	45%	45%	44%	43%	42%
General and Administrative	27,756	26,006	6,580	6,866	7,152	8,010	28,607	31,468	34,615	38,076	41,884	46,072	50,679	55,747	61,322
Research & Development	4,852	3,268	827	863	899	1,007	3,595	3,954	4,350	4,785	5,263	5,789	6,368	7,005	7,706
Goodwill Impairment	3,316														
Total Operating Expenses	67,143	62,957	16,566	17,286	18,006	20,167	72,026	78,851	84,367	89,853	101,187	114,008	126,928	141,289	157,244
Loss from Operations	(16,868)	(3,251)	(774)	(807)	(841)	(942)	(3,364)	110	6,438	14,574	18,903	24,095	31,891	41,353	52,795
Other Expense															
Other Income	7,265	477													
Interest Expense	(3,898)	(4,966)													
Total Other Expense	3,368	(4,490)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Loss	(13,501)	(5,740)	(774)	(807)	(841)	(942)	(3,364)	110	6,438	14,574	18,903	24,095	31,891	41,353	52,795
Fx & or discontinued Ops	(519)														
Less loss in non-controlling Interest	(271)														
Taxes	209	(350)	-	-	-	-	-	-	-	-	1,890	4,819	7,654	11,579	15,838
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	20%	24%	28%	30%
GAAP Net Income (loss)	(13,540)	(9,289)	(774)	(807)	(841)	(942)	(3,364)	110	6,438	14,574	17,012	19,276	24,237	29,775	36,956
GAAP-EPS	(0.52)	(10.68)	(0.86)	(0.19)	(0.19)	(0.22)	(1.46)	0.03	1.45	3.23	3.72	4.16	5.15	6.24	7.64
GAAP EPS (dil)	(0.52)	(10.68)	(0.86)	(0.19)	(0.19)	(0.21)	(0.97)	0.02	1.40	3.07	3.48	3.82	4.66	5.55	6.68
Wgt'd Avg Shrs (Bas)	24,832	870	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
Wgt'd Avg Shrs (Dil)	24,832	870	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: Company reports and 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 \$11.0
 Update Report – Buy – January 26, 2024 – Price Target \$11.0

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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.
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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 18-Jan-24

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	61.76%	4	11.80%
Market Perform (Neutral)	13	38.24%	2	5.90%
Market Underperform (Sell)	0	0%	0	0.00%
Total	34	100%	6	17.70%

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