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CEMTREX, Inc. (CETX) – Buy Rating

February 16, 2024

Cemtrex Reports First Quarter Results: \$16.9M in Revenues

Cemtrex reported strong first quarter revenues of \$16.9M ahead of our estimates. Security revenues were \$9.2M and Industrial services was \$7.7M. These revenues translated to a loss of \$1.2M. The company closed the period with \$4M in cash and equivalents. Multiple new products are supporting growth across both operating groups in the company.

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Investment Highlights

Business Outlook for 2024: (corporate press release- adapted):

Security segment: *Vicon orders reflected repeat business, a customer with a recent \$0.8 million second phase order from a current school district customer in New Jersey to develop its security technology system with new solutions, expanding on the customer's previous order. Schools and universities are increasingly utilizing security platforms in their facilities to protect the safety of students and staff. Vicon's award-winning Roughneck cameras and Valerus video management software solutions are being chosen to meet the unique challenges in locations ranging from border protection, correction facilities and schools that require an advanced solution of technologies to monitor people and protected areas. 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 the company to create more value in its business by evolving Vicon into a recurring revenue business model.** With the launch of Anavio along with continued improvements to the company's core software platform Valerus, management expects to drive further growth and see margin expansion.*

Industrial services segment: *AIS, continues to see strong growth, highlighted by the recent announcement of \$3.8 million in new orders for two projects, including a \$2.2 million order for a geothermal system update for a Northeastern School District, and a \$1.6 million order for the fabrication of a key component for a motion control technologies company. With its expanded capabilities from the acquisition of Heisey Mechanical Ltd, AIS continues to build profitable revenue growth with additional wins in new government and industrial verticals in a variety of service industries and new geographies.*

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.

Current Price \$3.19
Price Target \$11.00



Source: Cemtrex

Stock Data			
52-Week Range	\$2.91	-	\$11.45
Shares Outstanding (mil.)	762		
Market Capitalization (mil.)	\$2		
Enterprise Value (mil.)	-\$2		
Debt to Capital	0%		
Book Value/Share	\$1,049.27		
Price/Book	0.7		
Average Three Months Trading Volume (K)	2		
Insider Ownership	5.8%		
Institutional Ownership	0.5%		
Short interest (mil.)	0.3%		
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

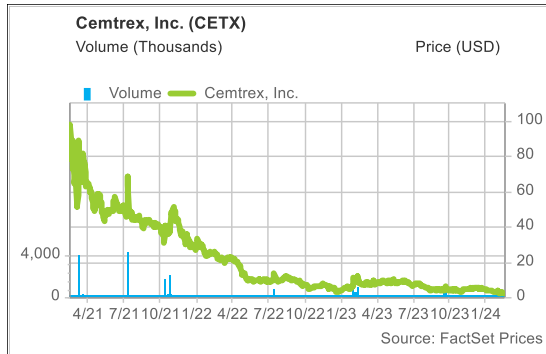
Centrex: Income Statement		Sept.													
YE September	2022A	2023A	1Q24A	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Product sales															
AIS - Industrial Contracting Services	21,200	24,669	9,200	8,679	9,040	9,243	36,162	36,885	37,623	38,375	39,143	39,926	40,724	41,539	42,369
Vicon	29,100	34,700	7,678	9,744	10,150	13,027	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	59,369	16,878	16,386	17,068	17,942	68,274	78,515	90,292	103,836	119,411	137,323	157,922	181,610	208,851
Expenses															
COGS	31,219	33,683	9,795	9,509	9,906	10,412	39,622	43,183	45,146	46,726	53,735	61,795	69,485	78,092	87,718
COGS %	62%	57%	58%	58%	58%	58%	58%	55%	50%	45%	45%	45%	44%	43%	42%
General and Administrative	27,756	23,929	6,962	6,317	6,581	6,462	26,322	28,955	31,850	35,035	38,538	42,392	46,632	51,295	56,424
Research & Development	4,852	3,268	849	863	899	985	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	60,880	17,606	16,689	17,385	17,859	69,539	76,092	81,346	86,546	97,537	109,977	122,485	136,392	151,847
Loss from Operations	(16,868)	(1,512)	(728)	(304)	(316)	82	(1,265)	2,423	8,946	17,290	21,875	27,346	35,436	45,218	57,004
Other Expense															
Other Income	7,265	477	78												
Interest Expense	(3,898)	(4,966)	(584)												
Total Other Expense	3,368	(4,490)	(505)	-	-	-	-	-	-	-	-	-	-	-	-
Net Loss	(13,501)	(6,001)	(1,233)	(304)	(316)	82	(1,265)	2,423	8,946	17,290	21,875	27,346	35,436	45,218	57,004
Fx & or discontinued Ops	(519)														
Less loss in non-controlling Interest	(271)		10												
Taxes	209		(71)	-	-	-	(71)	-	-	-	2,187	5,469	8,505	12,661	17,101
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	20%	24%	28%	30%
GAAP Net Income (loss)	(13,540)	(9,197)	(1,197)	(304)	(316)	82	(1,735)	2,423	8,946	17,290	19,687	21,877	26,931	32,557	39,903
GAAP-EPS	(0.52)	(10.94)	(1.14)	(0.07)	(0.07)	0.02	(1.27)	0.55	2.01	3.83	4.30	4.72	5.73	6.83	8.25
GAAP EPS (dil)	(0.52)	(10.94)	(1.14)	(0.07)	(0.07)	0.02	(0.49)	0.54	1.95	3.65	4.03	4.34	5.18	6.07	7.21
Wgt'd Avg Shrs (Bas)	24,832	870	1,047	4,300	4,347	4,352	3,511	4,384	4,446	4,508	4,572	4,636	4,701	4,767	4,834
Wgt'd Avg Shrs (Dil)	24,832	870	1,047	4,300	4,343	4,386	3,519	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
 Update Report – Buy – February 1, 2024 – Price Target \$11.0
 Update Report – Buy – February 16, 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 30-Jan-24

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	20	58.82%	4	11.80%
Market Perform (Neutral)	14	41.18%	2	5.90%
Market Underperform (Sell)	0	0%	0	0.00%
Total	34	100%	6	17.70%

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