

Integration of Intergrid

5GN has acquired Intergrid, a leading dedicated Cloud provider for a total consideration of \$3m, payable in Cash (\$2.5m) and Scrip (\$0.5m). Intergrid is expected to generate revenue of \$2.5m, normalised EBITDA of \$0.8m and synergies of \$0.5m p.a. over the first 12 months of ownership. Intergrid operates a large cloud network of dedicated servers, with extremely low latency connectivity to all major ISPs and Internet exchange providers, and its online sales and support portal will be further enhanced to enable service provisioning with a 'single click'.

Key points

Firstly, What is Bare Metal?: While data centre operators provide access to a data centre with heating, cooling, server racks, security and a high certainty of service, they generally do not provide servers. Servers are usually provided, installed and operated by the customer. 'Bare Metal' refers to the supply and provisioning of dedicated servers by the data centre operator to customers. These 'Bare Metal' servers allow companies to select and deploy their own choice of operating system, and can be deployed easily and rapidly, which creates both an enjoyable customer experience and quicker revenue generation.

'Bare Metal' Strategy Has Value, Even At Scale: Bare Metal acquisitions are growing in popularity. Equinix, the world's leading digital infrastructure company, bought 'Packet', a leading 'bare metal' automation platform for US\$335m on the 3rd of March 2020 to accelerate "Equinix's strategy to help Enterprises seamlessly deploy hybrid multi-cloud architectures". To quote Equinix: "With a combined Equinix and Packet solution, Enterprises and service providers can gain the agility and flexibility they need to build and deploy low-latency services at the edge ... which leverages as-a-service consumption to reduce CAPEX and resource requirements".

EBITDA & EBITDA Margins the Focus: Strategic improvement of its organic, internal EBITDA mix coupled with targeted acquisitions should see EBITDA more than double to \$15m and EBITDA margins expand +300bps to 16.4% in FY21e.

Forecasts, Valuation: We incorporate Intergrid into our model, which sees our Revenue and EBITDA forecasts increase +2% and +7%, respectively, with operating leverage arising from 5GN's strong history of cost-out and integration efforts. Refreshing our DCF and EBITDA valuation methodologies, our Target Price increases +3% to \$1.96, leaving us to retain our OVERWEIGHT recommendation at this time.

Risks and catalysts

Catalysts: Capitalising on Digital Transformation programs; Better-than-expected synergy realisation/efficiencies from M&A (eg. ColoAU); Successfully improving WebCentral's operations. **Risks:** Covid-19 negatively impacting customers' volumes; Unsuccessful M&A.

Earnings forecasts					
Year-end June (AUD)	FY19A	FY20A	FY21F	FY22F	FY23F
NPAT rep (\$m)	-4.1	-1.3	-3.7	-0.2	2.0
NPAT norm (\$m)	-1.2	0.9	2.3	3.8	6.3
Consensus NPAT (\$m)			1.9	4.4	6.3
EPS norm (cps)	-1.9	1.0	1.6	2.6	4.5
EPS growth (%)	-1448.8	151.7	63.6	63.5	71.5
P/E norm (x)	-67.0	129.5	79.2	48.4	28.2
EV/EBITDA (x)	44.1	21.6	9.3	6.8	5.8
FCF yield (%)	0.4	4.5	4.9	8.6	13.3
DPS (cps)	0.0	2.0	1.0	1.0	1.0
Dividend yield (%)	0.0	1.6	0.8	0.8	0.8
Franking (%)	0	100	100	100	100

Source: Company data, Wilsons estimates, S&P Capital IQ

Wilsons Equity Research

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Recommendation	OVERWEIGHT
12-mth target price (AUD)	\$1.96
Share price @ 17-Mar-21 (AUD)	\$1.27
Forecast 12-mth capital return	53.9%
Forecast 12-mth dividend yield	0.8%
12-mth total shareholder return	54.7%
Market cap	\$145m
Enterprise value	\$142m
Shares on issue	114m
Sold short	
ASX 300 weight	n/a
Median turnover/day	\$1.0m

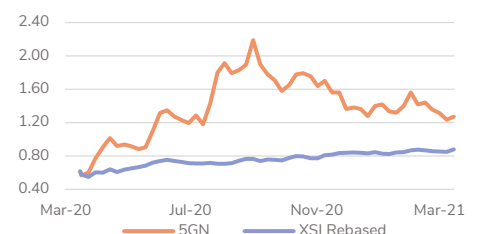
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12-mth price performance (\$)

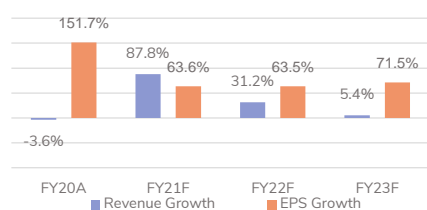


	1-mth	6-mth	12-mth
Abs return (%)	-11.8	-28.7	107.7
Rel return (%)	-12.8	-46.0	65.1

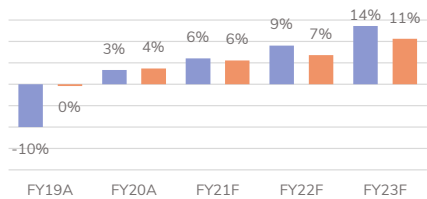
Key changes

		02-Mar	After	Var %
NPAT:	FY21F	1.9	1.9	0.7%
norm	FY22F	3.2	3.4	6.6%
(\$m)	FY23F	5.5	5.9	6.5%
EPS:	FY21F	1.6	1.6	0.9%
norm	FY22F	2.4	2.6	7.1%
(cps)	FY23F	4.2	4.5	6.7%
DPS:	FY21F	1.0	1.0	0.0%
(cps)	FY22F	1.0	1.0	0.0%
	FY23F	1.0	1.0	0.0%
Price target:		1.90	1.96	3.1%
Rating:		O/W	O/W	

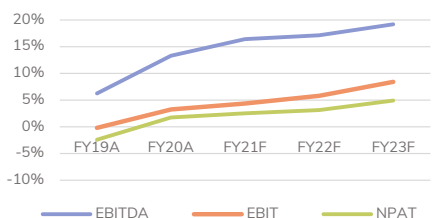
Growth rates



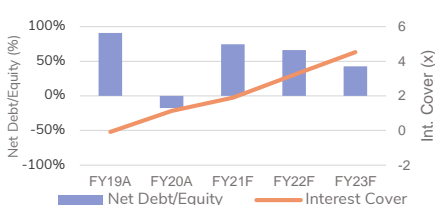
Returns



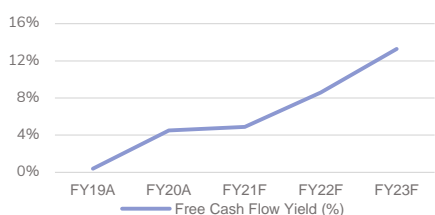
Margin trends



Solvency



Free cash flow yield



Interims (\$m)

	1H20A	2H20A	1H21A	2H21E
Sales revenue	25.4	24.0	37.3	55.4
EBITDA	3.0	3.5	6.9	8.3
EBIT	0.8	0.8	2.4	1.7
Net profit	0.1	0.8	1.6	0.7
Norm EPS	0.1	0.9	1.2	0.4
EBIT/sales (%)	3.0	3.5	6.4	3.0
Dividend (c)	1.0	1.0	0.0	1.0
Franking (%)	100.0	100.0	0.0	100.0
Payout ratio (%)	>500	109.0	0.0	226.5
Adj payout (%)	20.1	0.0	44.1	0.0

Key assumptions

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Revenue Growth (%)		846.3	-3.6	87.8	31.2	5.4
EBIT Growth (%)		-126.3	-1,801.0	164.9	68.2	49.1
NPAT Growth (%)		-2,365.5	-169.4	169.2	64.8	63.8
EPS Growth (%)		-1,448.8	-151.7	63.6	63.5	71.5
EBIT / Sales (%)	7.0	-0.2	3.4	4.8	6.2	8.7
Tax Rate (%)	85.1	0.0	-334.8	0.0	30.0	30.0
ROA (%)	2.8	-0.3	3.0	4.2	5.0	7.1
ROE (%)	0.6	-10.0	3.3	4.2	5.0	7.8
Network and Voice	2.0	6.8	7.4	10.9	12.3	13.5
Data Centres	0.0	4.1	7.7	10.8	13.9	15.2
Hardware and Software	0.6	15.0	7.7	10.0	9.5	9.0
Managed Services	1.4	13.3	12.8	13.0	13.9	14.8
Cloud Services	1.4	12.0	13.7	48.0	71.9	75.5

Financial ratios

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
PE (x)	903.0	-67.0	129.5	79.2	48.4	28.2
EV/EBITDA (x)	229.6	44.1	21.6	9.3	6.8	5.8
Dividend yield (%)	0.0	0.0	1.6	0.8	0.8	0.8
FCF yield (%)	-0.5	0.4	4.5	4.9	8.6	13.3
Payout ratio (%)	0.0	0.0	203.9	62.3	38.1	22.2
Adj payout (%)	0.0	0.0	8.9	13.8	9.2	5.9

Profit and loss (\$m)

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Sales revenue	5.4	51.2	49.3	92.6	121.6	128.2
EBITDA	0.6	3.2	6.6	15.3	20.9	24.6
Deprn & amort	0.2	3.3	5.0	11.2	13.8	13.9
EBIT	0.4	-0.1	1.6	4.0	7.1	10.8
Net interest expense	0.0	1.1	1.4	2.1	2.2	2.4
Tax	0.3	0.0	-0.6	0.0	1.5	2.5
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	0.1	-1.2	0.8	1.9	3.4	5.9
Abns/exts/signif	-0.4	-2.9	-2.1	-5.6	-3.6	-3.8
Reported net profit	-0.3	-4.1	-1.3	-3.7	-0.2	2.0

Cash flow (\$m)

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
EBITDA	0.6	3.2	6.6	15.3	20.9	24.6
Interest & tax	0.0	1.1	1.4	2.1	2.2	2.4
Working cap/other	-1.3	-3.4	-0.5	-8.1	-7.9	-4.9
Operating cash flow	-0.7	0.9	7.5	9.3	15.2	22.1
Maintenance capex	-0.1	-0.4	-1.0	-2.2	-2.7	-2.9
Free cash flow	-0.8	0.6	6.5	7.1	12.4	19.2
Dividends paid	0.0	0.0	-0.6	-1.0	-1.1	-1.1
Growth capex	-0.2	-0.8	-2.3	-5.2	-6.4	-6.7
Invest/disposals	-3.1	-2.6	-4.1	-6.5	0.0	0.0
Oth investing/finance flows	-0.9	-1.6	-3.1	-3.4	0.0	0.0
Cash flow pre-financing	-4.9	-4.4	-3.5	-9.1	4.9	11.3
Funded by equity	7.6	8.5	21.4	38.8	0.0	0.0
Funded by debt	0.4	-0.8	-1.4	-44.7	0.0	0.0
Funded by cash	-3.1	-3.3	-16.5	14.9	-4.9	-11.3

Balance sheet summary (\$m)

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Cash	3.4	6.7	23.5	7.2	12.1	23.4
Current receivables	1.1	4.0	2.8	10.2	12.7	13.3
Current inventories	0.0	0.0	0.0	0.0	0.0	0.0
Net PPE	1.1	19.3	21.4	34.3	33.0	32.2
Intangibles/capitalised	7.0	14.0	18.6	73.2	72.8	72.4
Total assets	13.5	45.8	67.8	146.0	151.7	162.5
Current payables	0.8	3.6	6.7	23.7	23.2	23.9
Total debt	0.3	21.6	17.2	38.1	41.1	44.1
Total liabilities	5.0	29.4	32.1	104.6	108.1	114.1
Shareholder equity	8.5	16.4	35.7	41.4	43.7	48.4
Total funds employed	8.8	38.0	52.9	79.5	84.7	92.5



Target Price, Valuation, and Recommendation

Forecast Changes

Incorporating Intergrid into our estimates, we assume a ~3mth. contribution in FY21 before annualising in FY22.

Our Revenue estimates increase ~2% and our EBITDA ~7%, as we expect 5GN to gain an incremental \$2.5m in annual revenue, organic growth in Intergrid, and pick up >\$1.4m in EBITDA from ongoing consolidation and synergy gains.

Our Organic assumptions for the 5GN "core" remain unchanged.

We continue to expect a 2H'21e organic revenue growth contribution of ~6% (FY21e ~3%).

Figure 1 – Forecast Changes

5GN Forecast Changes Y/E: 30 Jun (A\$m)	2021E				2022E				2023E			
	New	Old	(\$ Diff)	(% Diff)	New	Old	(\$ Diff)	(% Diff)	New	Old	(\$ Diff)	(% Diff)
Revenue	96.4	95.9	0.5	0%	124.3	121.8	2.6	2%	130.9	128.1	2.8	2%
EBITDA (norm.)	15.3	15.1	0.2	1%	20.9	19.5	1.4	7%	24.6	23.0	1.6	7%
EBIT (norm.)	4.0	4.0	0.1	1%	7.1	6.6	0.5	7%	10.8	10.0	0.7	7%
NPAT (norm.)	1.9	1.9	0.0	1%	3.4	3.2	0.2	7%	5.9	5.5	0.4	7%
Diluted EPS (norm) (cps.)	1.6	1.6	0.0	1%	2.6	2.4	0.2	7%	4.5	4.2	0.3	7%

Source: Wilsons estimates

Figure 2 – Operating Revenue Decomposition

Segment	FY20a	Acquisitive	Organic	FY21e
Network & Voice	7.4			10.9
Data Centres	7.7			10.8
Hardware & Software	7.7	42.1	1.2	10.0
Managed Services	12.8			13.0
Cloud Services	13.7			48.0
Total	49.3			92.6
... Growth (total)	(4%)	85%	3%	88%

Source: Wilsons estimates

Valuation Methodology

Including Intergrid in our model, our target price increases to \$1.96 (3% increase). We continue to derive our fair value for 5GN based off a DCF valuation, with an EBITDA multiple serving as a cross-check. Given the ~55% upside to our price target, we retain our OVERWEIGHT recommendation.

Figure 3 – Valuation Methodology

Valuation Methodology	\$/share	% weight	Comment
DCF	\$1.96	100%	Primary valuation
EV/EBITDA	\$2.07		Cross-Check
Target Price	\$1.96		

Source: Wilsons estimates, Refinitiv



Figure 4 – Comparables Table

5GN Comparables Table		EV/Revenue			EV/Gross Profit			EV/EBITDA			P/E			FCF Yield		
Company Name	Market Cap.	FY+1	FY+2	FY+3	FY+1	FY+2	FY+3	FY+1	FY+2	FY+3	FY+1	FY+2	FY+3	FY+1	FY+2	FY+3
ASX Cloud peers ~\$1bn. Mcap																
Spirit Technology Solutions Ltd	197	1.9x	1.6x	1.5x	NM	NM	NM	16.0x	10.7x	9.6x	32.7x	18.9x	18.0x	NM	NM	NM
Over The Wire Holdings Ltd	242	2.4x	2.1x	1.9x	6.0x	5.1x	4.7x	10.8x	8.6x	7.8x	21.9x	17.0x	14.6x	7.0%	11.1%	11.7%
MNF Group Ltd	431	1.7x	1.6x	1.5x	4.0x	3.7x	3.4x	10.2x	9.1x	8.3x	23.6x	20.0x	17.8x	4.3%	4.4%	5.0%
Macquarie Telecom Group Ltd	1,012	4.0x	3.6x	3.1x	NM	NM	NM	17.1x	13.6x	10.9x	92.6x	NM	55.1x	-10.2%	-5.0%	-2.7%
Uniti Group Ltd	1,605	10.3x	8.0x	7.2x	13.7x	10.7x	9.6x	22.2x	14.4x	12.9x	30.4x	22.5x	20.1x	5.2%	8.8%	6.2%
Domestic Median		2.4x	2.1x	1.9x	6.0x	5.1x	4.7x	16.0x	10.7x	9.6x	30.4x	19.5x	18.0x	4.7%	6.6%	5.6%
Domestic Average		4.1x	3.4x	3.0x	7.9x	6.5x	5.9x	15.3x	11.3x	9.9x	40.2x	19.6x	25.1x	1.6%	4.8%	5.1%
5G Networks Ltd	141	1.4x	1.1x	1.0x	2.6x	1.9x	1.8x	8.6x	6.3x	5.3x	NM	NM	NM	0.8%	3.9%	4.7%

Source: Wilsons, Refinitiv

5G Networks Limited (5GN)

Business description

5G Networks “(5GN)” is an emerging telecommunications carrier that operates its own nationwide high-speed data network with points of presence in all major Australian capital cities. 5GN is increasingly becoming a one-stop shop for SMEs and smaller enterprises alike by offering high-speed internet connectivity, access to data centres either owned by 5GN (Sydney, Melbourne & Adelaide) or 3rd party providers, cloud services and managed services to optimise customers’ IT and network environments.

Investment thesis

Our Overweight recommendation is predicated on the following: i) Robust short-and longer-term demand with SMEs and enterprises alike looking to accelerate existing, or create new, plans for a Digital Transformation strategy due to Covid-19; ii) Improving revenue quality with contracted and recurring revenue to increase from 71% of revenue to ~85% in FY20; and iii) 5GN has acquired six companies since listing in Nov-17, realising synergies but also creating a broad-based ICT offering. We also expect ongoing organic growth in its core recurring revenue services supplemented by the turnaround in progress at WCG.

Revenue drivers

Short Term Revenue Drivers include: Covid-19, where “COVID continues to shift enterprise spending patterns, resulting in increased demand for various cloud-based services, including telephony, messaging and conferencing”; ii) Increasing migration to the ‘Cloud’; iii) 5GN’s SME’s looking for comprehensive ICT solutions; and iv) Stronger wholesale channel sales following the ColoAU acquisition.

Longer Term Revenue Drivers include: i) Ongoing and accelerated Digital Transformation programmes; ii) Enterprises in search of cost efficiencies continue to switch from Capex to Opex; and iii) Complexity of SMEs’ ICT needs, with sophisticated security becoming an increasingly integral part of a service offering.

Margin drivers

- Pivoting the business away from lower margin segments (Hardware & Software) towards higher margin segments (Cloud, Network & Voice)
- Creating scale and limited growth in Employee Benefits Expense

Key issues/catalysts

Capitalising on the opportunities presented from Covid-19, including the acceleration of Digital Transformation programs

Insulating customer growth from SME’s negatively impacted by Covid-19

Synergy realisation from announced acquisitions

Ongoing extraction of operating benefits from acquisitions

Leveraging the ColoAU acquisition to add sophistication to its wholesale provisioning

Risk to view

Covid-19 has resulted in significant volatility where 5GN customers operations could be interrupted, suspended or cease

Key Personnel Risk, particularly Founder & CEO Joe Demase

The telecommunications industry is highly competitive regarding both organic and acquisitive growth.

M&A risks include not executing properly, synergies not being achieved, heightened competition for target acquisitions bidding pricing up and any historical litigation at acquired companies

Other risks include: access to suitable capital, breach of privacy laws, and brand & reputation risk from infrastructure and/or technology failure of obsolescence and other general risks associated with investments in 5GN shares.

Balance sheet

- 1H21 Net Cash of \$2.8m
-

Board

- Albert Cheok, Independent, Non-Executive Chairman
- Joseph (Joe) Demase, CEO & Managing Director
- Jason Ashton, Independent, Non-Executive Director
- Joe Gangi, Independent, Non-Executive Director

Management

Joe Demase, Chief Executive Officer & Managing Director

Glen Dymond, Chief Financial Officer & Company Secretary

Garry White, Sales Director

Glenn Flower, Chief Marketing Officer

Chris Demase, National Program Manager, Chief Strategy Officer

Marco Mattiuzzo, Chief Technical Manager

Joel Bruce, National MIT Manager

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Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/Dislosures.

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