

DUG Technology Ltd

July 15, 2024



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DUG Technology Ltd

Equity Analysis

Kapitales Research Rating ★★★★★
Recommendation Speculative Buy
Current Market Price AU\$2.730
Risk High

52 Week Range (AUD)

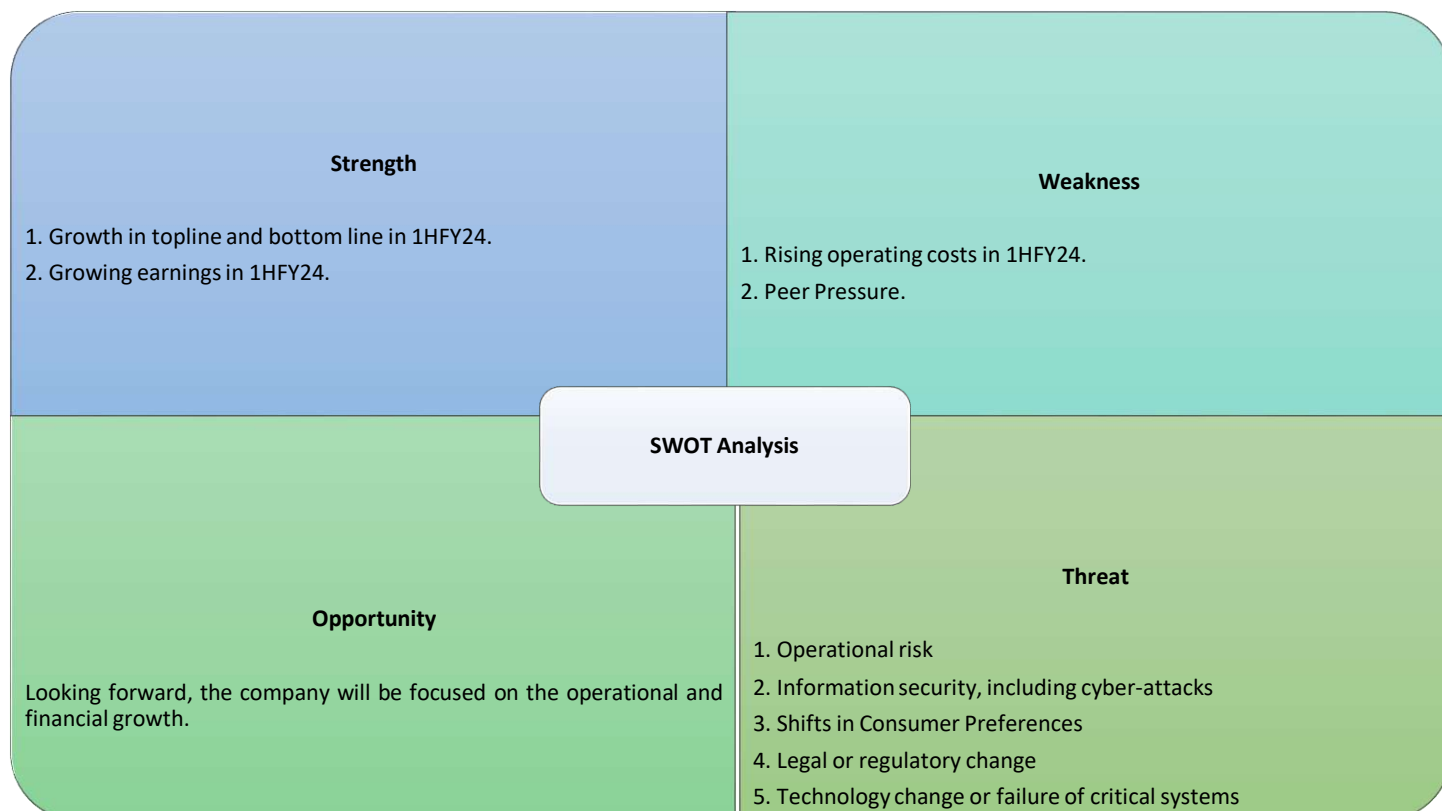


Average volume	0.292 million	52 Week Range (AU\$)	1.275-3.150
Shares outstanding	118.12 million	Dividend amount (AU\$)	-
Free float	86.00 million	Dividend Yield	-
P/E (TTM)	68.74	Ex-date	-
Market cap (AU\$)	316.57 million	Record date	-
EPS (TTM)(AU\$)	0.038	Pay date	-
ROE	26.88%	Franking	-

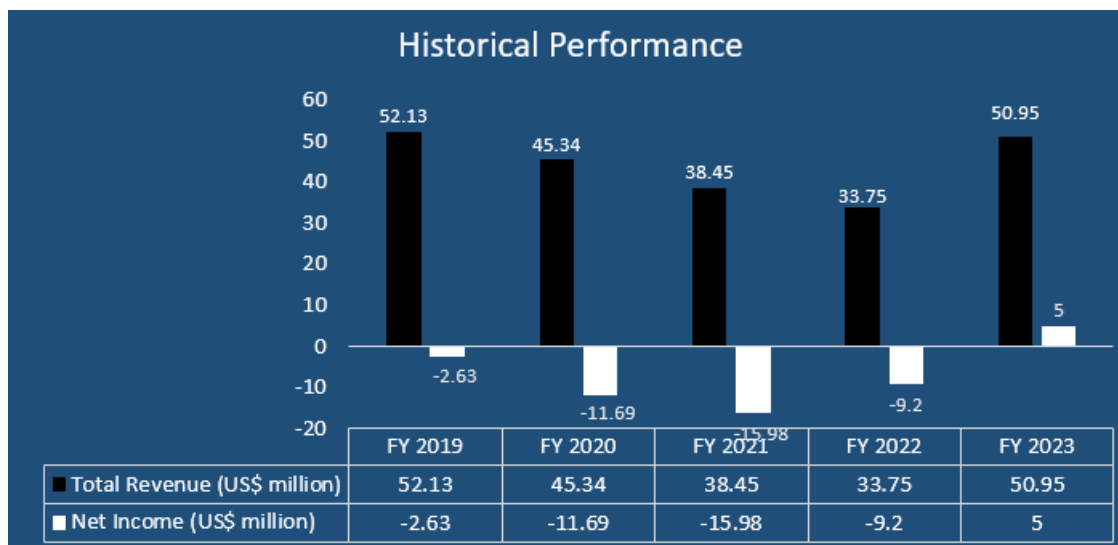
Source: (ASX and Koyfin), Analysis by Kapitales Research

DUG Technology Ltd (ASX: DUG) is an Australia-based technology company. It specializes in analytical software development and high-performance computing (HPC). The Company designs, owns, and operates a network of the greenest supercomputers. It operates in three segments: HPCaaS, Services, and Software. The HPCaaS segment allows clients to connect to the Company’s HPC and storage in a complete HPC environment. It also provides software and algorithm support and development. The Services segment provides clients with two types of services, such as data loading, quality control and management, and scientific data analysis.

SWOT Analysis



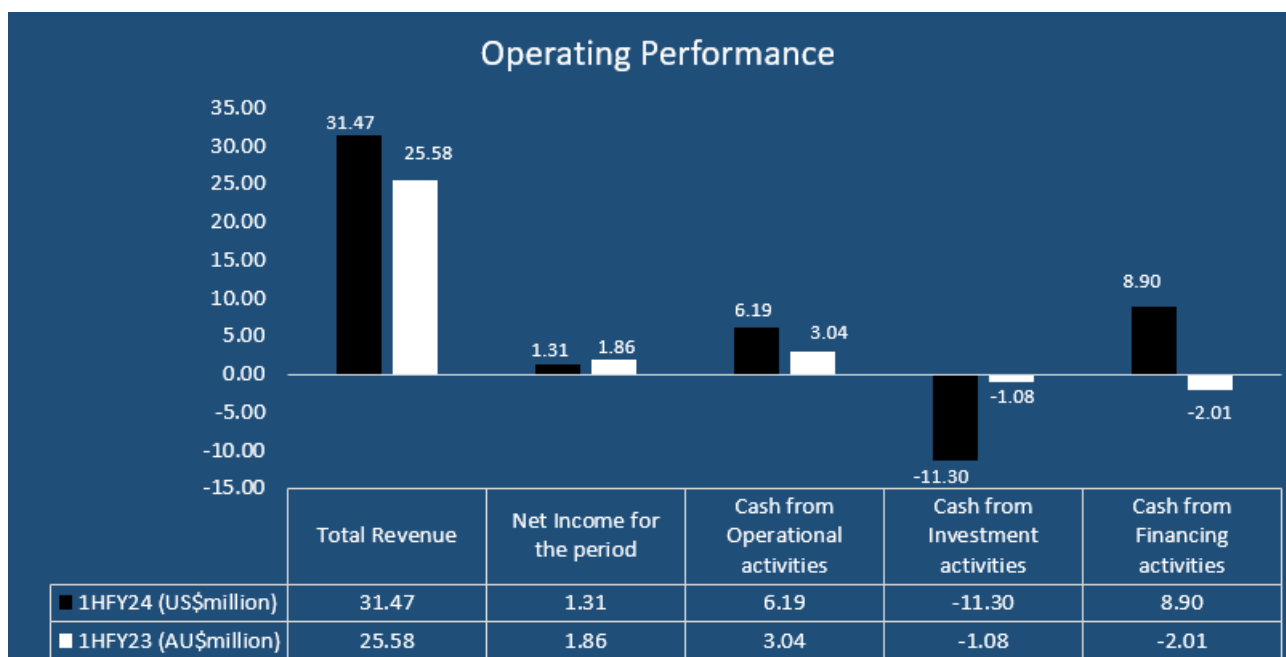
Historical Performance



Source: Koyfin, Analysis by Kapitaless Research

Between FY2019 and FY2023, the company saw an ~1% drop in revenue, from AU\$52.13 million to AU\$50.95 million.

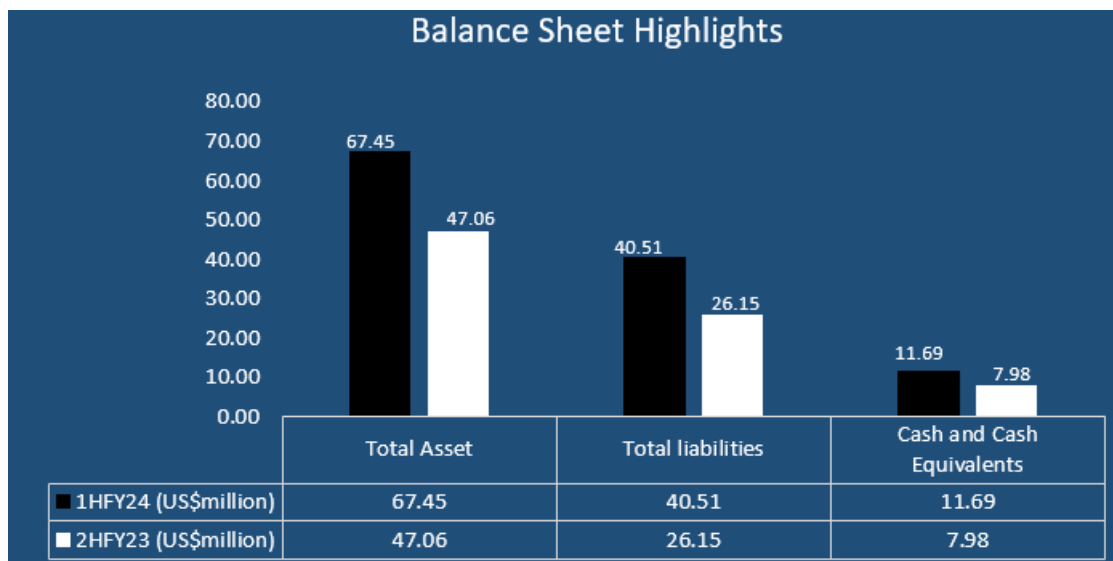
Operating Performance (period ended 31 December 2023)



Source: Company Reports, Chart Prepared by Kapitaless Research

DUG’s revenue grew 23% to US\$31.47 million relative to H1 FY23. Services revenue grew 28% to US\$25.58 million, Software revenues grew 9% to US\$2.6 million compared to H1 FY23 and HPCaaS revenues declined 7% to US\$2.0 million compared to H1 FY23, mainly due to one off projects in the prior period. The Company recorded EBITDA of US\$ 7.1 million. For the first time it incurred third party compute costs; these costs are expected to cease when the compute upgrade is complete. It has been significantly more expensive to purchase third party compute than it is for DUG to provide its own.

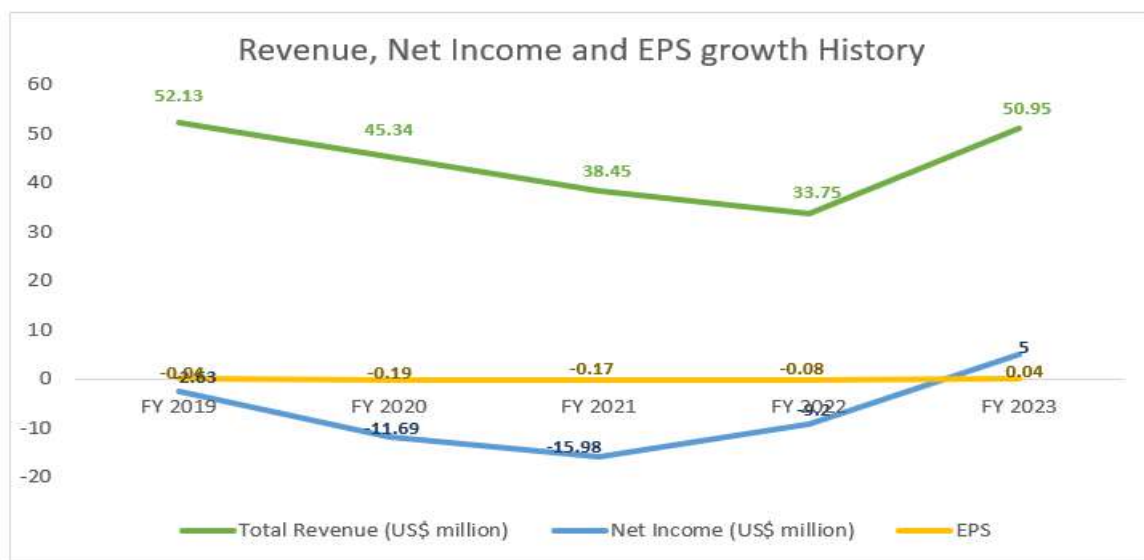
Balance Sheet Highlights (period ended 31 December 2023)



Source: Company Reports, Chart Prepared by Kapitaless Research

In contrast to the figures reported as of June 30, 2023, the company experienced a rise of 43.33% in total assets, a 54.91% rise in total liabilities and 46.49% growth in cash & cash equivalents by December 31, 2023.

Revenue, Net Income and EPS growth History



Source: Koyfin, Analysis by Kapitaless Research

Fiscal Years	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Growth Trend
Total Revenue (US\$ million)	52.13	45.34	38.45	33.75	50.95	█ █ █ █ █
Net Income (US\$ million)	-2.63	-11.69	-15.98	-9.2	5	█ █ █ █ █
EPS	-0.04	-0.19	-0.17	-0.08	0.04	█ █ █ █ █

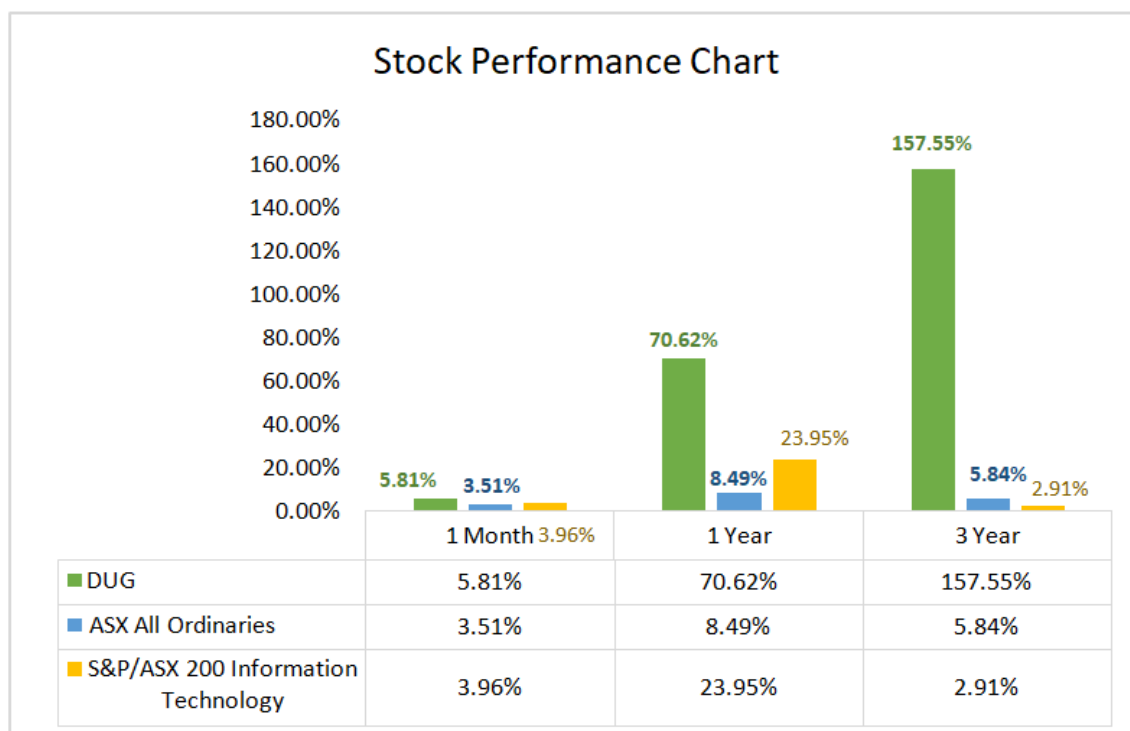
Source: Koyfin, Analysis by Kapitaless Research

Ratio Analysis

Fiscal Years	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Return on Assets	3.61%	0.50%	-9.30%	-7.98%	12.61%
Return On Equity %	-19.63%	-418.03%	-652.81%	-68.22%	26.88%
Return on Total Capital	4.53%	0.61%	-10.94%	-9.49%	15.71%
EBITDA Margin %	18.72%	16.91%	-8.64%	-2.12%	25.49%
Gross Profit Margin %	43.59%	36.50%	23.95%	28.96%	48.31%
Net Income Margin %	-5.05%	-25.79%	-41.57%	-27.26%	9.82%
Asset Turnover	1.2	0.8	0.7	0.7	1.2
Inventory Turnover (Average Inventory)	-	-	-	-	-
Current Ratio	1.5	0.8	0.6	1.0	1.2
Days Sales Outstanding (Average Receivables)	78.5	75.1	68.5	64.5	51.5
Days Payable Outstanding (Avg)	42.1	36.6	10.3	8.4	16.7
Cash Conversion Cycle (Average Days)	-	-	-	-	-

Source: Koyfin, Analysis by Kapitaless Research

Price Performance



Source: Investing.com, Analysis by Kapitaless Research

When assessing DUG shares against both ordinary shares and sector performance, DUG shares exhibited robust performance in 1 month, 1 year, and 3 years’ timeframe. Notably, DUG shares delivered noteworthy return of 5.81%, 70.62% and 157.55% indicating a positive and consistently strong performance.

Business Update

Revenue of US\$17.6 million was up 39% compared to Q3 FY23. EBITDA of US\$4.6 million was up 24% on Q3 FY23, including the cost of third-party compute of US\$2.6 million in the quarter. Cash inflows from operating activities were US\$6.4 million in Q3 FY24 compared to US\$4.9 million in Q3 FY23.

DUG has received delivery of the 1,500 AMD EPY CTM Genoa machines announced on 2 February 2024. As a result of the RAM upgrades to its existing machines, the purchase of the 600 Intel® Xeon® CPU Max Series machines and the new AMD machines, DUG is no longer incurring third-party compute costs.

Outlook

DUG's Services order book grew by 45% to US\$40.5 million compared to 30 June 2023, underpinning revenue for H2 FY24 and beyond. The outlook for software looks strong growing by 9% to \$2.6 million, with new opportunities being pursued outside renewals from existing clients.

Key Risks and Uncertainties

- Operational risk
- Market Volatility
- Regulatory and Legal Risk
- Intellectual Property Risk
- Shifts in Consumer Preferences

Technical Analysis



Source: TradingView, Analysis by Kapitales Research

Company Name	Ticker	Sector	CMP (AU\$)	Advisory Date	Rating	Target 1 (AU\$)	Target 2 (AU\$)	Stop Loss (AU\$)
DUG Technology Ltd	DUG	Information Technology	2.730	15 July 2024	Speculative Buy	3.140	3.420	2.340

The stock of DUG settled at AU\$2.730 on 15 July 2024 after a surge of nearly 1.87% from the previous day's closing. It is currently trading near its 52-weeks high price level.

The stock is trading above the significant exponential moving averages (EMA) of 20, 50, and 200 weeks on a weekly time frame, indicating bullishness for the midterm. The stock is trading above the pivot resistance R1 (AU\$2.520), holding a bullish momentum on a weekly time frame chart.

Based on these facts, buying can be initiated at the current market price (CMP) level for the potential targets of AU\$3.140 (pivot resistance R2) and AU\$3.420 (~25% upside) in the coming days. Investors can book either full or partial profits at target one and wait for the stock to achieve target two (depending on their risk appetite).

Investors are advised to keep a strict stop loss at or below AU\$2.340 (previous swing support) to protect their investments in case of an unfavourable movement in the stock due to any uncertain event.

Please Note: It would be in the best interest of investors to trail their stop-loss upward if the stock is moving in our favourable direction.

Investment Summary

DUG has received credit approval to finance the 1,500 new machines under the existing Master Lease Agreement with First National Capital LLC. The Group expects to continue supporting all planned activities through its balance sheet with support of asset financing for new compute and storage along with cash generated from operations. Hence, after considering the facts mentioned above, investors are advised to have a "Speculative Buy" rating on the stock of DUG at the closing price of AU\$2.730 on 15 July 2024.

Note: Kapitaless Research Rating Star has been decided over the quantitative analysis of the stock. Maximum number of stars can be 5, with 5 for the top rating and 1 for the lowest rating.

Technical Indicators Defined:

EMA: Exponential Moving Average is the moving average that puts more weight on the most recent data points. $EMA = \text{Closing price} * \text{multiplier} + EMA(\text{previous day}) * (1 - \text{multiplier})$. For a 200-day exponential moving average, the multiplier can be calculated with the formulae i.e. $[2/(200+1)] = 0.0095$.

RSI: Momentum indicator, Relative Strength Index is used to evaluate the overbought or oversold nature of an asset by measuring the magnitude of its recent price changes.

Bollinger Band: A technical analysis tool that uses two parameters i.e. period (default is 20) and standard deviations, forming a kind of price envelope depicting a range of upper price band and lower price band. This price band shifts according to the volatility swings, and it helps in identifying whether the underlying asset is in the overbought zone or oversold zone.

Support: This is a level or zone where the stock finds good demand indicating the buyer's strength.

Resistance: This is a level or zone where the stock finds a good supply indicating the seller's strength.

Stop-loss: This is the level from where the investors should exit their positions to prevent any further losses in case of unfavorable movement in the stock prices.

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Disclosure: The information mentioned above has been sourced from the company reports and a third-party database, i.e., Koyfin. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

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