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KEYSTONE'S

Canadian Small-Cap Growth Stock Research

Independent Equity Advisors

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CEMATRIX Corporation
Additional Coverage
Price: $0.38
Symbol: CVX: TSX-V
Near Term: ▲ SPEC BUY
Long Term: ▲ SPEC BUY

Summary

CEMATRIX was established in 1998 to introduce and promote an advanced, proprietary cellular concrete technology into Western Canada. The company, through its wholly owned subsidiary, manufactures and supplies technologically advanced cellular concrete products developed from proprietary formulations. This unique cement based material with superior thermal protection, delivers a cost-effective, innovative solution to a broad range of problems facing the infrastructure, industrial (including oil and gas) and commercial markets.

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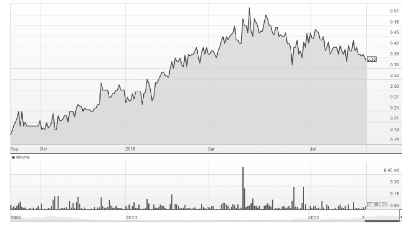
CEMATRIX Corporation (CVX:TSX-V)

Rating: SPEC BUY - Partial Position

Industry: Construction/Infrastructure
Current Price: $0.38

Breakthrough – Additional Coverage



Market Cap: $13,100,878
Shares Outstanding: 34,475,994
Fully Diluted: 36,575,994
Key Management Share Ownership: 7%

Operational Summary

CEMATRIX was established in 1998 to introduce and promote an advanced, proprietary cellular concrete technology into Western Canada. The company, through its wholly owned subsidiary, manufactures and supplies technologically advanced cellular concrete products developed from proprietary formulations. This unique cement based material with superior thermal protection, delivers a cost-effective, innovative solution to a broad range of problems facing the infrastructure, industrial (including oil and gas) and commercial markets.

Expanded Description

Cellular concrete is a cement slurry based product that is combined with air to result in a very lightweight, foamed concrete-like material that has thermal insulating qualities with moderate structural strength. It is generally lighter than water and is used as a replacement for rigid and other types of insulation and as a lightweight fill or a void fill, which includes tunnel grouting. While the U.S. market for cellular concrete is more established and mature, the Canadian market remains in its relative infancy.

The company's current market focus is in the construction market for infrastructure in Western Canada and Ontario and on a selective basis in Quebec, the Northwest Territories and the United States of America (U.S.), and the oil and gas construction projects in Western Canada. The primary focus is on infrastructure – approximately 75% of business in 2016 is expected to be from this segment, a figure that could increase in 2017.

The infrastructure market sector primarily relates to work on public construction projects that are funded by provincial, state and federal governments. Some examples of this type of work are as follows: the insulation of road bases; the protection of permafrost under buildings, utilities, roads and runways; the insulation of shallow utility installations; industrial and commercial floor bases; the replacement of weak and/or unstable soils and soils that are subject to seismic conditions; mechanical structural earth (MSE) panels and retaining wall backfill; grouting; and tunnel backfill. Work in this sector generally requires the prior approval of the company's various products and applications by local regulatory bodies.

The oil and gas sector primarily relates to work on refinery, oil sand facilities and tank base construction projects that are funded by various corporations in this sector. Some examples of the type of work are as follows: the insulation of shallow utilities, facility floors, pile caps, modules and tank bases.

The company's revenue is recognized as CEMATRIX processes and places the cellular concrete on site, based on the number of cubic metres processed and placed.

The nature of the company's sales is usually "one-off" type sales, meaning there is little in the way of carry over in sales from year to year; except to the extent that the company has repeat business related to a specific application or location, or a project is sufficiently large in scope, that it continues from one period into the next. The goal is to increase this type of repeatable and predictable source of revenue.

Work in both market sectors is generally as a sub-contractor to various engineering and construction firms who are awarded the prime contract from the owner of the particular project. The company's primary end customers are the actual engineers who design materials into projects.

Current Financial Picture

	Q2 2016	Q2 2015
Revenues:	$2,755,072	$2,164,286
Income (loss):	($137,809)	($59,901)
Income (loss)/Shr.:	($0.004)	($0.002)
Fully Diluted Income (loss)/Shr.:	($0.004)	($0.002)

Historical Financials

2015 - $15.3 million in revenue and $1.58 million or $0.046 per share in earnings.

Forecasts:

2016e Annual: $16-$18 million range in revenues and flat to slightly lower than 2015 – investments in infrastructure to support growth in 2017 and cost increases associated with an energy project will put pressure on short term margins.

2017e Annual: Potential for ~$25 million revenue and the potential for margin improvement in 2017.

KeyStone Comments: These are aggressive targets. If management infrastructure market continues to be solid and the company completes its expansion projects on time and on budget, the potential for growth in 2017 is present. The company has stated that it has a sales pipeline that currently exceeds $120 million – management defines its pipeline as the cumulative total of projects being considered by the engineering world for the use of cellular concrete in 2015 - 2018, 88% of which is infrastructure related.

Growth Outlook

Over the past few years the CEMATRIX has invested in additional staff and equipment in order to prepare for what management believes will be a significant increase in annual sales, as the company's product reaches the "tipping point' for a number of applications. Tipping point refers to the point in time where customers decide that they will use the CEMATRIX's product, as opposed to alternative products, for certain applications (i.e. all bridge abutment work, or all MSE panel backfill or all the insulation of oil sand modules etc.). The cost of this investment, in terms of additional staff and equipment, has negatively affected the financial results over the past few years, however, it has helped to put the company in a better position to achieve sales growth, as it occurs. As an example, with the completion of the new dry mix production unit in 2015 and the new wet mix production unit in early 2016, the company has increased the seasonally adjusted equipment production capacity to increase annual sales volume to approximately 500,000 cubic metres, or up to $88 million in sales.

The company recently announced that its wholly owned subsidiary, CEMATRIX (Canada) Inc., entered into a joint marketing agreement with Lafarge Canada Inc. (Lafarge), a member of LafargeHolcim (the Joint Marketing Agreement). The renewable five-year Joint Marketing Agreement is for the joint development of cellular concrete markets throughout Canada to increase the awareness of the construction challenges which can be solved by cellular concrete solutions and thereby grow sales.

Key Risks **Relative Risk: Moderately High**

In the past, CEMATRIX has been severely impacted by general economic slowdowns. While cellular concrete is gaining acceptance in Canada, the company continues to have to educate the market on its benefits and the sales cycles can be long. If there was to be a pullback in infrastructure spending, business would be materially impacted. The low energy pricing environment continues to materially impact energy related sales – the company's infrastructure segment is the major area of growth, so this should not impact forecasts.

From a near-term perspective there is a risk the company does not complete the construction of the two new dry mix units by the spring of 2017 and volumes are not increased to offset the additional hires. This could impact

2017 revenue and profitability forecasts.

Comments: KeyStone expects infrastructure spending to continue to be relatively strong in North America over the next 12-18 months.

Conclusion

CEMATRIX's 2015 was a record for the company both in terms of revenues and profitability. The company earned $0.046 per share and with its current trading price in the $0.37 range, its trailing PE is a multiple of around 8. Given the growth the company is forecasting in terms of a potential revenue bump to the $25 million range, the stock would appear cheap. Having said this, the revenue growth will not come without near-term costs and the forecasts are not without risk.

To achieve this potential revenue growth and in order to support its Joint Marketing Agreement with Lafarge, the continued growth of cellular concrete markets and the expected additional growth to be generated from this new working relationship the CEMATRIX intends to construct two new dry mix units, at an estimated cost of $2.5 million. The company plans to have this equipment operational by the spring of 2017. The company will also continue to hire, train and carry additional operating staff, as it ramps up to prepare for the additional expected sales growth, which will put pressure on short term margins. We expect the margins to improve in 2017, but there is no guarantee it will not take longer.

In 2015 CEMATRIX proved to the market the business can be significantly profitable. 2016 is a year where we expect solid revenue growth ($15 million in 2015 to $16-$18 million in 2016) and reasonable profitability in the second half of 2016. However, given the near-term pressure on margins, 2016 will likely produce less than the $0.046 per share achieved in 2015. The near-term "pain" is the result of investments for future growth, which management believes will bear fruit as early as 2017.

If the management team is successful in its execution of this strategy and the infrastructure market continues to accept the company's product, then 2017 sets up as a "breakthrough" year for CEMATRIX. As we stated, the company is positioned to post earnings in the second half of 2016 that will be below the second half of 2015. This will likely be an opportunity to accumulate shares if the market is disappointed in the numbers and takes a short-term view on the stock. Additionally, the company's business has seasonally been stronger and more profitable in the second half of its year. As such, we see an opportunity to purchase shares on potential weakness over the next 6-months to position ourselves for the potential growth in the second half of 2017.

As such, we believe CEMATRIX is only suitable for risk capital and only for those investors who are comfortable with an above average level of risk for a potentially strong return. As near-term CAPEX spending and hires will depress near-term profitability we are monitoring the company for entry points over the next 6-months to a year. **Patient investors could start a quarter or half position in the stock at current prices with the intention of filling a full position over the course of the next 3-12 months to benefit from a potential profit breakthrough in 2017. As such, we initiate coverage with a SPEC BUY – Half Position and place the company in our Additional Coverage.**

BV (BV/Share): Book value (book value per share)
Book value per common share calculated as total shareholder's equity less preferred equity, and divided by the number of common shares outstanding. Should the company decide to dissolve, the book value per common share indicates the dollar value remaining for common shareholders after all assets are liquidated and all creditors are paid.

D/E: Debt-to-equity ratio
A measure of a company's financial leverage calculated by dividing long term debt by shareholders equity. It indicates what proportion of equity and debt the company is using to finance its assets.

Current ratio
One of many ratios designed to evaluate short-term liquidity of a company. Calculated as current assets divided by current liabilities, this ratio gauges the level of cash resources relative to current liabilities as a measure of cash obligations.

EBITDA
Earnings before interest, taxes, depreciation, and amortization. EBITDA is calculated as revenue minus expenses (excluding tax, interest, depreciation, and amortization).

EPS: Earnings per share
A company's earnings available to common shareholders, also known as net income or net profit, divided by the number of shares outstanding.

EV: Enterprise value
Enterprise value is calculated as market capitalization less cash and equivalents, plus debt. Evaluation of EV relative to the company's trailing EBITDA is used in identifying potential takeover targets.

FCF: Free cash flow
Capital expenditures are subtracted from cash flow from operating activities to arrive at free cash flow, which intends to measure the cash available to a company after making all cash outlays necessary to maintain existing productive capacity (as measured by capital expenditures on a company's cash flow statement).

Net working capital
A measure of the company's ability to carry on its normal business comfortably and without financial stringency, to expand its operations without the need of new financing, and to meet emergencies and losses. Calculated by deducting current liabilities from the current assets.

P/B: Price-to-book ratio
Calculated as a stock's market value (current closing price) divided by its latest quarter's book value. While a lower P/B ratio could mean that the stock is undervalued, it could also serve as a sign of weak fundamentals, and as with most ratios, this varies a fair amount by industry.

PEG ratio
The price/earnings to growth, or PEG ratio is calculated as P/E ratio divided by a company's annual EPS growth. The PEG ratio is used to determine a stock's value while taking into account earnings growth.

P/FCF: Price-to-free cash flow ratio
Calculated as a company's current share price divided by its free cash flow per share (i.e., free cash flow divided by the number of company's shares outstanding) over the last four quarters (called "TTM," or "trailing 12 months" calculation). It is a measure of the market's expectations regarding a firm's future financial health.

P/S: Price-to-sales ratio
It is calculated as a stock's current market price divided by its sales (revenue) per share. When calculating this ratio, we use the company's revenue from its latest four quarters, or on a TTM basis.

ROE: Return on equity
A measure of a corporation's profitability, calculated as net income divided by shareholder's equity. ROE is often useful in comparing the profitability of a company to other firms in the same industry.

Featured companies in KeyStone's Small-Cap Stock Report are evaluated on a scale of 1 to 5 on each of the following criteria:

Value: 1 - poor investment value
5 - excellent investment value

Growth: 1 - poor growth potential
5 - excellent growth potential

Risk/Liquidity: 1 - high exposure to liquidity concerns
5 - low exposure to liquidity concerns

Overall: 1 - poor fundamental characteristics
5 - excellent fundamental characteristics

Disclosure					
Stock Holding				Other	
Companies	KeyStone	KeyStone Employees	Related Companies	Investment Banking Client	Related Company Business Relationship
CEMATRIX Corporation	YES	NO	NO	NO	NO

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