



## TopBeta Holdings Ltd (TBH)

*A disappointing 1Q17 with drop in active users and revenue.*

### Event:

- 1Q17 update.

### Investment Highlights:

- TBH released 1Q17 active users and revenue figures on 10th October.** The number of active users, defined as customers who transacted with cash, dropped by 9% in 1Q17 compared to the previous quarter. Total revenue, including wagering, tournaments, contents and other also dropped by 9% during the same period. Only wagering and tournaments turnover showed growth and lifted by 8% to \$12.1M in 1Q17 from \$11.2M in 4Q16.
- The 1Q17 results are below our expectations, even though it was expected to be a slow quarter.** We had estimated that TBH will add 500 new active users each month, growing its active user base by at least 1500 during the quarter. The drop in active users adversely impacted total revenue. The positive takeaway from the result was the growth in wagering and tournaments turnover, which is an early sign that existing users are increasing the amount they are spending on the website.
- In 1Q17 there was not much activity except for the footballs finals.** TBH management didn't spend any budget on marketing during the quarter and relied on organic growth, which didn't materialize. This is the first quarter where TBH has witnessed a drop in active users, partly due to seasonality and business not meeting expectations. We have lowered our growth estimates for active user growth and revenue.
- We now expect 9.5k active users by the end of FY17e.** Previously we had anticipated 12k active users by the end FY17e based on 500 new active users per month. We have lowered our forecast and are only expecting 300 new active users each month during FY17e.
- The 2Q17 will include the key Spring Carnival racing season. TBH will launch a marketing campaign during the racing season.** We believe that business performance during this key quarter will be key a factor in determining whether 1Q17 numbers were only seasonal or a concern.

### Earnings and Valuation:

- We are lowering our revenue growth estimate for FY17e, FY18e and FY19e pending the outcome of the Spring Carnival racing season and 2Q17.** We now expect revenue of \$7.4M, \$10.8M and \$12.5M below our previous estimate of \$8.8M, \$12.7M and \$13.1M. The NPAT forecast has also been lowered for FY17e, FY18e and FY19e to \$1.8M, \$2.5M and \$3.1M from \$2.6M, \$3.6M and \$3.7M previously.
- We have revised our valuation mostly due to lower revenue growth assumptions for FY17e, FY18e and FY19e.** We value TBH at \$0.30/share, from \$0.35/share previously.

### Recommendation:

- We maintain our SPECULATIVE BUY rating on TBH with a price target of \$0.30 in line with our valuation.** Catalysts are Spring Carnival racing season and 2Q17 results.
- We believe that at the current depressed market cap, TBH share price appears attractive relative to valuation.**

Rating	Speculative Buy
Previous	Speculative Buy
Price Target (A\$)	
Price Target	0.30
Previous	0.35
Share price	A\$ 0.135
ASX Code	TBH
52 week low - high (A\$)	0.125-0.25

Capital Structure	
Shares on Issue (M)	110.8
<b>Market Cap (A\$M)</b>	<b>15.0</b>
Net Debt (cash) (A\$M)	-5.0
<b>EV (A\$M)</b>	<b>9.9</b>
Options on issue (M)	28.7
Performance shares	0.0
<b>Fully diluted mkt cap (A\$M)</b>	<b>18.8</b>
1mth Av Daily Volume ('000)	116

Y/e Jun (A\$M)	2016a	2017e	2018e	2019e
Revenues \$M	3.5	7.4	10.8	12.5
EBITDA \$M	-4.6	2.4	3.6	4.4
<b>NPAT \$M</b>	<b>-4.5</b>	<b>1.8</b>	<b>2.5</b>	<b>3.1</b>
<b>EPS c</b>	<b>-5.6</b>	<b>1.3</b>	<b>1.8</b>	<b>2.2</b>
<b>PER x</b>	<b>N/A</b>	<b>10.6</b>	<b>7.5</b>	<b>6.1</b>
EV/EBITDA x	N/A	4.2	2.8	2.3

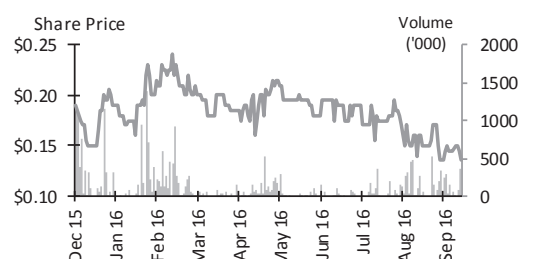
### Board of Directors

Nicholas (Nick) Chan	Chairman
Simon Dulhunty	Director
Matthew Cain	Director
Todd Buckingham	Managing Director

### Major Shareholders

RBW Nominees	8.9%
J P Morgan Nominees Australia Limited	6.5%

### Share Price Graph



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**Foster Stockbroking was the lead manager to TBH's \$6M IPO (30M shares at \$0.20) in December 2015 for which it earned fees**