



9 Spokes International Ltd (9SP)

Royal Bank of Canada (RBC) Provides Launchpad into North America

Event:

- Royal Bank of Canada (LOI), updated financials and valuation.

Investment Highlights:

- 9SP business development sales pipeline is accelerating.** Recently, 9SP signed a LOI to provide a white-label version of the 9 Spokes platform to RBC, which was introduced and facilitated by IBM. Notably there has been increased interest from North American and Australasian banks with increased interest in the 9SP platform, following Barclays having gone 'live'. The sales pipeline has been accelerated with two relationships, IBM in North America and another vendor in the Asia Pacific region. We note that 9SP is in a much stronger negotiating position today than when they signed Barclays and we are optimistic that the financials of any contract will be more favourable.
- Adoption rate of end-users improving, with Barclays promotional roll-out ongoing.** Previously, 9SP announced that more than 6k SMB's have signed up to its platform. Based on prior run-rate, 9SP users would be c.38.5k by Jun-18 (2.5k users added per mth x 13 mths + 6k subscribers today). However, it is possible that the run-rate can double, with Barclays having ramped up marketing initiatives. We believe 41k end users by Dec-17 is feasible (5k users added per mth x 7 mths + 6k subscribers today) across all channels; including 9 Spokes Black, its direct platform.
- As Barclays sign paying end users, 9SP is able to benefit financially from the uplift in subscribers.** Today, 9 Spokes is receiving c.NZ\$200k per mth from Barclays (c.NZ\$2.4m per year). This equates to c.28.5k end users, if 1 app is utilised (NZ\$0.2m x 12)/(NZ\$35 per app x 12 months x 20% commission). We anticipate an uplift in licence revenues from Barclays in Q418e to be possible.
- As at 30th June, our estimate of 9SP's cash balance is approximately NZ\$9.2m.** With cash receipts from all channels of NZ\$0.750m forecasted in Q1 and expected cash outflows in the quarterly of NZ\$5.2m, 9SP's cash burn is NZ\$4.5m. 9SP has historically conservatively over-estimated spend each quarter, for this reason we would not be surprised to see cash burn around NZ\$4.2m. Future cash burn excludes any one-off revenues that may occur from signing any new customers, such as a North American or Australasian bank.

Recommendation, Earnings Revision and Price Target:

- We maintain our BUY recommendation and have revised our share price target to A\$0.45/share (previously A\$0.47/share).** Given the breadth of the business development pipeline and progress that 9SP has made on a range of large prospects over the last quarter, we are confident that the company is likely to succeed in winning at least two channel partners in the near-term. We have updated our 2018e financial forecasts, which do not take into account any new contract wins or variable upside from Barclays.
- Catalysts for the share price include:** 1) acceleration of end-user customer adoption, 2) additional channels in existing jurisdictions; and 3) additional channels in new jurisdictions.

Recommendation	BUY
Previous	BUY
Price Target	\$ 0.45
Previous	\$ 0.47
Share Price (A\$)	\$ 0.14
ASX Code	9SP
52 week low - high (A\$)	0.12-0.21
Valuation	\$0.45/share
Methodology	Risked DCF
Risk	Very High
Capital structure	
Shares on Issue (M)	403.0
Options (M)	53.5
Undiluted Market Cap (A\$m)	56.4
Net Debt/(Cash) (A\$m)	-9.0
EV (A\$m)	47.4
12mth Av Daily Volume ('000)	388

Shareholders	
Adrian Grant	20.4%
Mark Estall	20.4%
Harrogate	7.3%

Board	
Paul Reynolds	Non Executive Chairman
Mark Estall	Executive Director & CEO
Thomas Power	Non Executive Director
Wendy Webb	Non Executive Director

Share Price Graph



Analyst: Darren Odell +61 2 9993 8121
darren.odell@fostock.com.au
The analyst does not own 9SP securities

Foster Stockbroking was the sole lead manager to the IPO of 125 million shares at \$0.20 per share to raise \$25m and received fees for this service