



9 Spokes International Ltd (9SP)

Growing pains

Event:

- FY18a annual report; revised assumptions.

Investment Highlights:

- The company announced its preliminary final report for the year ended 31 March 2018.** Highlights include reported revenue growth of 474% YoY to NZ\$6.7M for FY18a (FSBe NZ\$5.3M). The company reported a NZ\$17.4M loss for FY18a (FSBe NZ\$16.4M loss), down 24% YoY. The company achieved its annualised recurring revenue (ARR) of NZ\$6-7M (inclusive of government grants).
- Strong user growth: user base has grown 50-fold over FY18a and the company ended the year with 50,000 users,** driven by the Barclays and RBC partnerships.
- Impressive revenue growth, too,** while the company has split out platform access fee revenue for the first time. The company earned NZ\$4.1M from platform access revenue in FY18a, up 402% YoY. Implementation revenue was NZ\$1.7M, up 411% YoY. FY18a revenue was supplemented by NZ\$0.8M other revenue including NZ\$0.5M of government grants.
- More work to do in reducing cash burn; 'finalising funding plans' with a view to accessing funding from multiple sources.** We believe the company will need to continue to manage costs and reduce cash burn even as it is growing its user base. A key upcoming catalyst is an update on its funding plans, and receipt of funds. We keenly anticipate updates to the market on this front.

Earnings and Valuation

- We have **revised near term assumptions** and now forecast 23% QoQ revenue growth through FY19e, driven by user growth to 110k subscribers at FY19e end (previously 95k). We have moderated outer year assumptions for revenue growth and assumed continued cost inflation, where we had previously been too aggressive, and now forecast revenue in FY20e and FY21e of NZ\$24.8M and NZ\$30.5M (NZ\$23.0M, NZ\$33.3M) and a loss of NZ\$1.9M and NPAT of NZ\$2.2M (previously NZ\$1.2M, NZ\$12M profit).
- Additionally, we now **assume an equity raise of NZ\$10M at a 15% discount** to the last traded price, equivalent to 337M additional shares.
- We have **reduced our valuation to \$0.035/share from \$0.20/share** as a result of the assumed equity raise and moderated growth rates in outer years. Provided it can secure funding, we still hold the view there is **upside potential** if 9SP can achieve cash flow breakeven and grow revenue. We keenly anticipate any news to demonstrate further progress, especially cash burn reduction and funding.

Recommendation and Price Target:

- We have changed **our recommendation to Hold (previously Buy) and a reduced price target of \$0.035/share** (\$0.20/share), in line with our DCF valuation.
- We note the company acknowledges the **need to shore up funding** in the near term, and we assume the company will require an equity raise to bolster the balance sheet. The company believes it is in the stages of finalising funding plans which it believes it can access from a number of different sources.
- Catalysts** for the share price include: 1) funding updates; 2) continued reduction in cash burn and increase in receipts to achieve cash flow break even; 3) acceleration of end-user customer adoption, 4) additional channels in existing jurisdictions; and 5) additional channels in new jurisdictions.

Recommendation	Hold
Previous	Buy
Risk	High
Price Target (A\$)	\$ 0.035
Previous (A\$)	\$ 0.20
Share Price (A\$)	\$ 0.032
ASX Code	9SP
52 week low - high (A\$)	0.032-0.15
Methodology	DCF
Capital structure	
Shares on Issue (M)	495.3
Options (M)	14.6
Undiluted Market Cap, A\$M	15.8
Net Cash/(Debt), A\$M	8.3
EV (A\$m)	7.6
12mth Av Daily Volume ('000)	717

Forecasts, NZ\$M	2018a	2019e	2020e	2021e
Revenue	6.7	15.0	24.8	30.5
EBITDA	-17.4	-9.9	-2.0	2.1
NPAT	-17.2	-9.8	-1.9	2.2
EPS, cps, NZD	-3.8	-1.3	-0.3	0.3
EV/Sales, x	1.2	0.5	0.3	0.3

Shareholders	
Adrian Grant	16.6%
Mark Estall	10.4%
Harrogate	5.9%

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

Share Price Graph



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The analyst does not own 9SP securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) owns 5,530,769 9SP shares and 5.4M options in 9SP.

Cranport Pty Ltd owns 3,023,925 shares in 9SP.

Refer to end of report for details.

Foster Stockbroking was the co-manager to the placement of 92.1M shares at \$0.13 per share to raise \$12M in July 2017 and received fees for this service.