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zipMoney (ZML)

Approaching breakeven

Speculative

See key risks on Page 7.
Speculative securities may not be suitable for Retail Clients.

Recommendation

Buy (unchanged)

Price

\$0.65

Valuation

\$1.27 (previously \$1.35)

Risk

Speculative

GICS Sector

Diversified Financials

Expected Return

Capital growth	95.4%
Dividend yield	0.0%
Total expected return	95.4%

Company Data & Ratios

Enterprise value	\$186.6m
Market cap	\$154.8m
Issued capital	238.1m
Free float	68.1%
Avg. daily val. (52wk)	\$240,792
12 month price range	\$0.555 - \$0.955

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.75	0.70	0.85
Absolute (%)	-16.00	-10.00	-25.88
Rel market (%)	-19.41	-13.96	-34.91

Absolute Price



SOURCE: IRESS

Achieving breakeven will be a major catalyst

ZML has reiterated that it is on track to deliver its first cashflow breakeven month before the end of FY18. We believe this will be a major positive catalyst for the stock, particularly given the large market opportunity for the company. There is progress being made on multiple fronts, including in the large Health Services sector, with 700 clinics signed up to zipMoney service. The company also noted much lower cost growth than we were anticipating, however this has been largely muted by the lower revenue growth (versus expectation).

Quarterly highlights

During the September quarter, ZML continued to grow its key revenue drivers (albeit below our estimates), whilst also pinning down additional capital in the form of a \$40m Equity investment from WBC. ZML reported a solid start to the quarter with transaction volumes growth 10.1% QOQ to \$95.1m, with overall transactions growing 23.3% QOQ to 310,936. Other operational highlights from ZML's September quarter update include:

- Gross-receivables reached \$176.4m, increasing by 16.1% for the quarter;
- Merchant numbers reached 5,927, growing 33.6% during the quarter;
- Customer Numbers grew by 103,082, up +34.3% for the quarter, reaching 403,964 active users; and
- Pocketbook users grew 5.5% over the quarter to ~385,000+ users.

Earnings revisions

Following the quarterly update we have upgraded our FY18 underlying EPS by from negative -5.34cps to -3.94cps. Whereas we've downgraded our FY19 and FY20 EPS (FY19 down to 0.5cps from 1.2cps previously, and FY20 down to 3.3cps from 4.0cps previously). The company still anticipate cash flow breakeven with first month in FY18, and we expect the company to be profitable occurring in FY19. Following the changes, our revised Valuation is \$1.27 per share (previously \$1.35 per share).

Earnings Forecast

Year end June 30	2017	2018e	2019e	2020e
Sales revenue (\$m)	17.0	36.1	68.6	103.6
EBITDA (A\$m)	-18.9	-9.4	3.9	14.8
NPAT (reported) (A\$m)	-20.2	-11.6	1.5	10.0
NPAT (adjusted) (A\$m)	-20.2	-11.6	1.5	10.0
EPS (adjusted) (cps)	-7.9	-3.9	0.5	3.3
EPS growth (%)	n/a	n/a	124%	-613%
Adjusted PER (x)	-8.2	-16.5	134.7	19.9
Price/CF (x)	21.2	-3.5	20.1	40.1
EV/EBITDA (x)	n/a	-15.1	36.4	9.6
Dividend (eps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	100.0%
ROE (%)	-174%	-29%	4%	19%
Franking (%)	n/a	n/a	n/a	n/a

SOURCE: BELL POTTER SECURITIES ESTIMATES

Key assumptions

Figure 1 - Key assumptions

Revenue drivers	FY16		1Q17		2Q17		3Q17		4Q17		FY17		1Q18		2Q18e		3Q18e		4Q18e		FY18e		FY19e		FY20e			
Period end	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Jun-18	Sep-17	Dec-17	Mar-18	Jun-18	Jun-18	Sep-17	Dec-17	Mar-18	Jun-18	Jun-18	Jun-19	Jun-20	Jun-20	Jun-20	Jun-20	Jun-20	
Key assumptions																												
Receivables (\$m)																												
New sales (\$m)	51.5	33.0	50.2	61.0	86.4	230.6	95.1	118.7	140.4	166.6	520.8	921.5	1,289.0															
Repayments & other (\$m)	-10.8	-14.0	-22.2	-34.0	-49.1	-78.6	-70.7	-86.6	-104.2	-122.6	-232.2	-428.7	-597.5															
Closing Gross receivables (\$m)	40.7	59.7	87.7	114.7	152.0	152.0	176.4	208.5	244.6	288.6	288.6	492.8	691.5															
Closing provisions for bad debts (\$m)	1.2	1.9	2.6	3.4	4.6	4.6	4.0	5.2	6.1	7.2	7.2	13.3	19.4															
Closing net-receivables (\$m)	38.1	57.8	83.0	108.5	143.8	143.8	168.2	198.3	232.7	274.5	274.5	467.7	655.6															
Average gross receivables (\$m)	21.8	49.5	73.7	101.2	133.4	91.0	164.2	192.4	226.6	266.6	214.0	390.0	592.5															
Receivables attrition rate (%)	-32%	-28%	-30%	-34%	-37%	-32%	-43%	-45%	-46%	-46%	-45%	-46%	-121%															
Revenue (\$m)*	4.3	2.7	3.8	4.6	5.3	16.4	6.6	7.8	9.3	11.1	34.9	66.1	100.7															
Revenue / qtrly transaction values (%)	8.3%	8.2%	7.6%	7.5%	6.2%	7.1%	6.9%	6.6%	6.7%	6.7%	6.7%	7.2%	7.8%															
Revenue / average gross receivables (%)	19.7%	21.8%	20.6%	18.2%	16.0%	18.1%	16.1%	16.3%	16.5%	16.7%	16.3%	16.9%	17.0%															
Other key revenue assumptions																												
New customers per month (No.)	9,948	9,444	18,604	26,323	34,256	88,627	34,361	35,000	35,000	35,000	139,361	130,000	120,000															
Period end customers (No.)	35,000	63,333	119,144	198,113	300,882	300,882	403,964	508,964	613,964	718,964	718,964	1,108,964	1,468,964															
Average number of customers (No.)	20,078	49,167	91,239	158,629	249,498	167,941	352,423	456,464	561,464	666,464	509,923	913,964	1,288,964															
Average Spend Per Customer (\$0.00)	2,565	671	550	385	346	1,373	270	260	250	250	1,021	1,008	1,000															
Transaction Value (\$m)	51.5	33.0	50.2	61.0	86.4	230.6	95.1	118.7	140.4	166.6	520.8	921.5	1,289.0															

* includes establishment fees, merchant fees, monthly account fees, interest payments

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 2 - BDD assumptions

Period end	FY16		1Q17		2Q17		3Q17		4Q17		FY17		1Q18		2Q18e		3Q18e		4Q18e		FY18e		FY19e		FY20e		
Period end	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Jun-18	Sep-17	Dec-17	Mar-18	Jun-18	Jun-18	Sep-17	Dec-17	Mar-18	Jun-18	Jun-18	Jun-19	Jun-20	Jun-20	Jun-20	Jun-20	Jun-20
Provisions and Bad and Doubtful Debts																											
Opening provisions for doubtful debts (\$m)	0.1	1.2	1.9	2.6	3.4	1.2	4.6	4.0	5.2	6.1	4.6	7.2	13.3														
Additional provisions (what's expensed in P&L) \$m	1.4	0.9	1.0	1.2	1.8	4.9	0.3	2.4	2.2	2.8	7.6	16.3	22.4														
Bad-debts written off (\$m)	-0.4	-0.2	-0.3	-0.4	-0.7	-1.5	-0.9	-1.1	-1.3	-1.7	-5.0	-10.2	-16.4														
Closing provisions for doubtful debts (\$m)	1.2	1.9	2.6	3.4	4.6	4.6	4.0	5.2	6.1	7.2	7.2	13.3	19.4														
Bad debts (180 days) %	1.1%	1.3%	1.2%	1.3%	1.9%	1.9%	2.0%	2.1%	2.2%	2.3%	2.3%	2.5%	2.7%														
Provisions as % of total receivables (%)	3.0%	3.2%	3.0%	3.0%	3.0%	3.0%	2.2%	2.5%	2.5%	2.5%	2.5%	2.7%	2.8%														

SOURCE: BELL POTTER SECURITIES ESTIMATES

Business overview

zipMoney (ZML) is a disruptive consumer finance and payments company that was formed in 2013 by co-founders Larry Diamond and Peter Gray. The company uses proprietary software to offer interest free and merchant payment services, acting to assess consumers in real-time and in turn integrating customers into a digital wallet offering. ZML has over 5,900 merchants, with greater than 400,000 customers within its payments division.

Three arms to the business

zipMoney – zipMoney is the company's flagship product which offers interest free lines of credit (for a minimum interest free period of three months) for customers in both offline and online environments. The service which integrates directly with merchants is estimated to account for the majority of the company's current TV. The key drivers include:

- Revenues are generated through a combination of interest, merchant, establishment and late fees;
- Targeted towards higher value planned purchases, with slightly lower turnover; and
- Target markets include retail, health, travel & education.

zipPay – zipPay is the company's latest product launched in January this year. The product is a no interest ever offering designed to stimulate consumer purchases targeting higher turnover, lower value market segments:

- zipPay's revenues are generated through merchant fees and monthly fees;
- Products are targeted towards lower value, everyday discretionary higher turnover segments; and
- Target market is mainly retail, food and hospitality segments.

Pocketbook – Pocketbook was acquired by the company in September this year for an upfront consideration of \$6m (with a possible earn-out of \$1.5m). Pocketbook is a leading Australian personal financial management app that is targeted at the next generation, the mobile millennial generation. The application has a strong focus on consumer financial wellbeing and integrates directly to your bank account, providing several core features:

- A holistic understanding of a person's financial profile;
- Provides total visibility and helps users track and manage their bills, spending, and savings; and
- Educates consumers and provides simple tools to better manage their finances and achieve their personal goals.

Figure 3 - Business overview



SOURCE: BELL POTTER SECURITIES ANALYSIS & COMPANY DATA

Interim earnings

Figure 4 - Interim earnings

INTERIM INCOME STATEMENT													
Y/e June 30 (\$m)	2016	1H17	2H17	2017	1H18e	2H18e	2018e	1H19e	2H19e	2019e	1H20e	2H20e	2020e
Total operating revenue	4.5	6.7	10.3	17.0	14.9	21.2	36.1	29.8	38.8	68.6	47.5	56.1	103.6
Operating expenses	3.8	6.4	12.6	19.0	12.7	13.2	25.9	13.9	14.3	28.2	16.1	18.9	35.0
Impairment expenses	1.4	1.9	3.4	5.3	2.6	5.0	7.6	7.7	8.6	16.3	10.7	11.8	22.4
Reported EBITDA	-0.7	-1.7	-5.6	-7.3	-0.4	3.0	2.5	8.2	15.8	24.1	20.8	25.4	46.2
Funding expense	1.5	2.3	9.2	11.5	6.0	6.0	12.0	8.8	11.4	20.2	14.5	16.9	31.4
Adjusted operating EBITDA	-2.2	-4.0	-14.9	-18.9	-6.4	-3.0	-9.4	-0.6	4.5	3.9	6.3	8.5	14.8
Depreciation & Amortisation	0.6	0.5	1.4	1.9	1.1	1.1	2.2	1.2	1.2	2.4	1.3	1.3	2.6
EBIT	-2.7	-4.5	-16.2	-20.7	-7.5	-4.1	-11.6	-1.8	3.3	1.5	5.0	7.2	12.2
Interest earned	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT	-2.7	-4.5	-16.2	-20.7	-7.5	-4.1	-11.6	-1.8	3.3	1.5	5.0	7.2	12.2
Operating income tax expense	0.0	0.0	-0.6	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.2	2.2
Operating NPAT	-2.7	-4.5	-15.7	-20.2	-7.5	-4.1	-11.6	-1.8	3.3	1.5	5.0	5.0	10.0
One-off items	-4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported NPAT	-6.9	-4.5	-15.7	-20.2	-7.5	-4.1	-11.6	-1.8	3.3	1.5	5.0	5.0	10.0
Loan receivables													
Y/e June 30 (\$m)	2016	1H17a	2H17e	2017e	1H18e	2H18e	2018e	1H19e	2H19e	2019e	1H20e	2H20e	2020e
Gross loan receivables	40.7	87.7	152.0	152.0	208.5	288.6	288.6	389.4	492.8	492.8	592.8	691.5	691.5
Closing provisions for bad debts	1.2	2.6	4.6	4.6	5.2	7.2	7.2	10.5	13.3	13.3	16.6	19.4	19.4
Net customer loan receivables	38.1	83.0	143.8	143.8	198.3	274.5	274.5	369.6	467.7	467.7	562.0	655.6	655.6
Total ZML cash used in receivable facility	5.9	1.1	2.9	2.9	29.7	41.2	41.2	37.0	46.8	46.8	56.2	65.6	65.6

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Key Risks

Downside risks to investment thesis

Key risks for the stock include although are not limited to:

- **Cash flows** – ZML is currently cash flow negative from operations. Although the company's aim is to grow and reach profitability (performance shares to this course) there is no guarantee that the business can reach cash flow breakeven;
- **Bad Debt charges** – Although ZML's loan trust currently in place through Victory Park Capital is non-recourse, ZML holds the first loss position within the trust meaning bad debt charges may affect the financial performance of the business. As an unsecured lender, the company's ability to secure further debt funding may be affected by a poorly performing book driving into the future growth prospects of the company;
- **Managing exponential growth** – ZML is currently growing at an exponential rate. At this time the both the fixed and variable cost base of the company is increasing, and remains difficult to forecast. There are operational, financial and cultural risks that are associated with operating a high growth start up;
- **Integration and Application Programming Interface (API) risks with merchant clients** – ZML uses a proprietary credit and secure website portal with every merchant on boarded. The company must integrate their engine within merchant systems incurring costs and possible technical difficulties. The engine does go down at times and unforeseen technical problems may harm the merchant relationship or affect the customer experience at the checkout;
- **Credit availability** – Macro credit factors may be outside of ZML's control and may inhibit access to credit for the purpose of an SPV. The company raised capital in June 16 for a further warehouse facility, and successfully secured an additional debt funding facility in May 17. ZML will continue to require availability of credit as it grows its receivables book;
- **Regulatory environment** – The regulatory environment for certain types of small unsecured personal loans has been a fluid one. ZML as a regulated credit and financial provider is exposed to any future regulatory changes;
- **Capital structure** – ZML has a complex capital structure, with a variety of performance shares, escrows and options all combining to blur the observable and actual market capitalisation and liquidity of the company;
- **Key Management** – Key management of the organisation owns a significant amount of the company and drives both the strategic direction of the company and the day to day operations. This concentration risk manifests itself at both board and management level; and
- **Market risk** – A prolonged recession, economic crisis/shock, or other factors may lead to a sustained weak market environment have the ability to increase the levels of defaults and adversely affect the earnings potential of the company. In addition, being a listed stock, the share price may be subject to volatility and fluctuations in price.

Table 1 – Financial summary

zipMoney (ZML)	Valuation (A\$)	1.27	Share Price (A\$)	0.65
	Recommendation: Buy (Spec)		Market Cap (A\$m)	154.8

INCOME STATEMENT						VALUATION DATA					
Y/e June 30 (\$m)	2016	2017	2018e	2019e	2020e	Y/e June 30 (\$m)	2016	2017	2018e	2019e	2020e
Total operating revenue	4.5	17.0	36.1	68.6	103.6	Adjusted NPAT (\$m)	-2.7	-20.2	-11.6	1.5	10.0
Operating expenses	3.8	19.0	25.9	28.2	35.0	Adjusted EPS (c)	-1.9	-7.9	-3.9	0.5	3.3
Impairment expenses	1.4	5.3	7.6	16.3	22.4	EPS growth (%)	n/a	n/a	n/a	112%	575%
Funding expense	1.5	11.5	12.0	20.2	31.4	Adjusted P/E ratio (x)	-35.0	-8.2	-16.5	134.7	19.9
Adjusted operating EBITDA	-2.2	-18.9	-9.4	3.9	14.8	EV/Sales (x)	31.5	8.3	3.9	2.1	1.4
Depreciation & Amortisation	0.6	1.9	2.2	2.4	2.6	CFPS (c)	-5.3	3.1	-18.6	3.2	1.6
EBIT	-2.7	-20.7	-11.6	1.5	12.2	Price/CF (x)	na	21.2	-3.5	20.1	40.1
Interest earned	0.0	0.0	0.0	0.0	0.0	DPS (c)	0.0	0.0	0.0	0.0	0.0
EBT	-2.7	-20.7	-11.6	1.5	12.2	Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Operating income tax expense	0.0	-0.6	0.0	0.0	2.2	Franking (%)	100%	100%	100%	100%	100%
Operating NPAT	-2.7	-20.2	-11.6	1.5	10.0	EV/EBITDA (x)	-65.3	-7.5	-15.1	36.4	9.6
One-off items	-4.2	0.0	0.0	0.0	0.0	Price/book (x)	8.2	12.9	4.5	4.5	3.6
Reported NPAT	-6.9	-20.2	-11.6	1.5	10.0	NTA/share (\$)	0.07	0.00	0.11	0.11	0.14
CASHFLOW						PROFITABILITY RATIOS					
Y/e June 30 (\$m)	2016	2017	2018e	2019e	2020e	Y/e June 30 (\$m)	2016	2017	2018e	2019e	2020e
EBITDA	-0.7	-18.9	-9.4	3.9	14.8	EBIT/sales (%)	-61%	-122%	-32%	2%	12%
Working capital change	-7.2	14.7	-42.1	5.4	-8.0	Return on assets (%)	-6%	-12%	-4%	0%	1%
Change in provisions	0.1	0.2	0.3	0.0	0.0	Return on equity (%)	-23%	-174%	-29%	4%	19%
Interest earned	0.1	0.1	0.0	0.0	0.0	Dividend cover (x)	na	na	na	na	na
Tax paid	0.0	0.0	0.0	0.0	-2.2	Effective tax rate (%)	30%	-3%	0%	0%	18%
Other	7.0	10.9	0.0	0.0	0.0	LIQUIDITY AND LEVERAGE RATIOS					
Operating cashflow	-14.9	7.1	-51.2	9.3	4.7	Y/e June 30 (\$m)	2016	2017	2018e	2019e	2020e
Capex	-1.4	-2.7	-2.2	-2.4	-2.6	Net debt/(cash) (\$m)	-13	-4	-33	-34	-44
Investments	0.0	-1.9	0.0	0.0	0.0	Net debt/(cash) (ex SPV)*	-7	-19	-5	-12	-14
Asset sales	0.2	0.0	0.0	0.0	0.0	Net debt/equity (%)	-112%	-32%	-81%	-82%	-85%
Other	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	2.9	16.3	2.2	9.0	11.1
Investing cashflow	-1.2	-4.5	-2.2	-2.4	-2.6	INTERIMS					
Equity raised	14.9	10.2	43.1	0.0	0.0	Half end December 31 (\$m)	1H16	1H17	1H18e	1H19e	1H20e
Dividends paid	0.0	0.0	0.0	0.0	0.0	Operating revenue	0.8	6.4	14.4	28.6	46.1
Other	0.8	7.1	0.0	0.0	0.0	EBIT	-2.0	-4.5	-7.5	-1.8	5.0
Financing cashflow	14.9	17.3	43.1	0.0	0.0	Pre tax profit	-2.0	-4.5	-7.5	-1.8	5.0
Net change in cash	-1.2	19.8	-10.3	6.9	2.0	Adjusted profit	-2.0	-4.5	-7.5	-7.5	-1.8
Cash at end of period	7.1	19.2	5.4	12.3	14.4	One-off items	-3.0	0.0	0.0	0.0	0.0
BALANCE SHEET						Reported profit	-5.0	-4.5	-7.5	-1.8	5.0
Y/e June 30 (\$m)	2016	2017	2018e	2019e	2020e	Interim DPS (cents)	0.0	0.0	0.0	0.0	0.0
Cash	7.1	19.2	5.4	12.3	14.4	Interim Adjusted EPS (cents)	-1.8	-1.8	-2.7	-0.6	1.6
Loan receivables	38.1	143.8	274.5	467.7	655.6	Gross loan book					
Other receivables	0.1	0.4	0.4	0.4	0.4	Y/e June 30 (\$m)	2016	2017	2018e	2019e	2020e
PPE	0.1	0.5	0.5	0.5	0.5	Gross loan receivables	40.7	114.7	176.4	288.6	389.4
Intangibles	1.5	10.6	10.6	10.6	10.6	Allowance for impairment	1.2	3.4	4.0	7.2	10.5
Other	1.2	0.0	0.0	0.0	0.0	Net loans receivable	38.1	108.5	168.2	274.5	369.6
Total assets	48.1	174.6	291.4	491.5	681.4	Share count					
Payables	3.9	2.6	3.0	3.0	3.0	Y/e June 30 (no.)	2016	2017	2018e	2019e	2020e
Funding facility	32.3	159.3	247.4	446.0	625.9	W/A shares on issue	145.1	255.6	295.2	307.5	307.5
Interest bearing liabilities (ex SPV)	0.0	0.0	0.0	0.0	0.0	W/A fully diluted shares	145.1	255.6	295.2	307.5	307.5
Provisions	0.2	0.6	0.6	0.6	0.6	*Net debt ex SPV represents total interest bearing liabilities-cash					
Other	0.2	0.4	0.4	0.4	0.4						
Total liabilities	36.6	162.9	251.4	450.0	629.9						
Net assets	11.5	11.6	40.0	41.5	51.5						
Contributed equity	19.4	37.1	77.1	77.1	77.1						
Total shareholders funds	11.5	11.6	40.0	41.5	51.5						

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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Lafitani Sotiriou owns 5000 shares in ZML.

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