

Zip Co

Delivering against expectations

Z1P's Mar-18 qtrly report delivered well against our expectations. Positive operating cash flow for the qtr of \$1.06m was a +\$2.8m improvement qoq, despite the receivables balance growing only 15% qoq (we expect 20% growth in receivables in Jun-18 qtr). A strong run rate for the month of March bodes well for a strong underlying sales number in the Jun-18 qtr. We estimate that Z1P facilitates ~2.3% of online sales in Australia, having grown its number of customers by 216% over the last 12 mths. We maintain our ACCUMULATE rating for Z1P and a target price of \$0.90ps, implying a 12 mth TSR of 6%.

Mar-18 qtrly

Z1P's Mar-18 qtrly performance was broadly in line with our estimates. Transaction volume of \$136.1m was 1% below our \$138.2m expectations, and the closing receivables balance of \$265.5m was also 1% below our forecast. . As a result, qtrly revenue of \$11.2m was in line with our expectations (OML \$11.3m). Returning customer numbers continue to increase, reaching 80% in the Mar-18 qtr. Pleasingly, bad debts of 2.62% were lower than our estimate (2.70%), whilst the company continues to expect this number to trend towards 3.0% over time as the receivables book matures. Operating cash flow for the qtr was +\$1.06m, and after adjusting for bad debt write offs we estimate this was an outflow of around \$1.3m (or an out flow of ~\$300k on a mthly basis for Mar-18). This puts the company on track for operating cash flow break even (post bad debt write offs) in ~Jun-18, excluding the expected one off rebranding cost of ~\$600k which has been flagged by the company.

Valuation

Our target price of \$0.90ps is based on our DCF valuation using a WACC of 10.3% and a terminal growth rate of 3.5%.

Key risks

The key risks to our investment thesis include: 1) credit risk, 2) growth in underlying sales / receivables, 3) competition risk, and 4) regulatory risks.

Key Financials					
Year-end June (A\$)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue (\$m)	2.9	16.4	40.1	74.0	103.1
EBITDA (\$m)	(4.3)	(16.2)	(17.3)	(3.0)	8.0
EBIT (\$m)	(4.8)	(18.1)	(20.5)	(7.1)	2.8
Reported NPAT (\$m)	(9.0)	(20.3)	(23.9)	(11.2)	(2.8)
Reported EPS (c)	(4.3)	(6.9)	(7.7)	(3.7)	(0.9)
Normalised NPAT (\$m)	(4.8)	(17.5)	(20.5)	(6.8)	2.0
Normalised EPS (c)	(2.6)	(6.6)	(6.9)	(2.3)	0.7
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
EV/EBITDA (X)	-	-	-	-	29.6
Normalised P/E (x)	-	-	-	-	127.1
Normalised ROE (%)	-	-	-	-	7.5

Source: OML, Iress, Zip Co

Last Price

A\$0.86

Target Price

A\$0.90 (Previously A\$0.88)

Recommendation

Accumulate

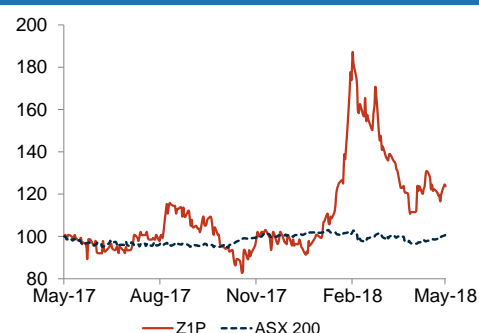
Risk

Higher

Financials

ASX Code	Z1P
52 Week Range (A\$)	0.58 - 1.30
Market Cap (\$m)	266.0
Shares Outstanding (m)	309.3
Av Daily Turnover (\$m)	0.0
3 Month Total Return (%)	-33.8
12 Month Total Return (%)	23.7
Benchmark 12 Month Return (%)	1.0
NTA FY18E (¢ per share)	7.3
Net Cash FY18E (A\$m)	18.0

Relative Price Performance



Source: FactSet

Consensus Earnings

	FY18E	FY19E
NPAT (C) (\$m)	(22.3)	(3.5)
NPAT (OM) (\$m)	(20.5)	(6.8)
EPS (C) (c)	(7.6)	(1.2)
EPS (OM) (c)	(6.9)	(2.3)

Source: OML, Iress, Zip Co

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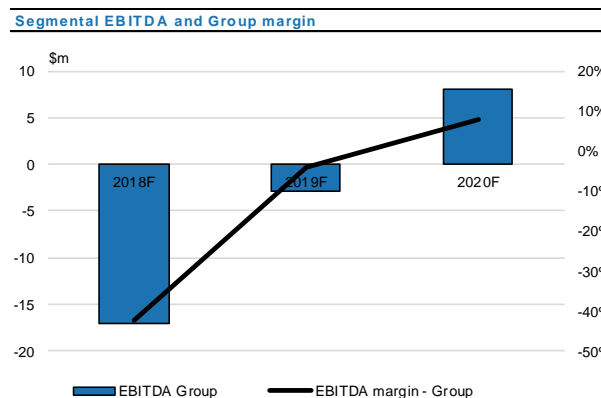
Figure 1: Z1P – Financial summary

Capital Profile	
Number of shares, dil (m)	309
Market capitalisation (A\$m)	263
Enterprise value (A\$m)	239

DCF Valuation		
Segments	A\$m	A\$ps
ZipCo	278	0.90
Division valuation	278	0.90
Net debt	18	0.06
Corp costs	-17	-0.06
Valuation	279	0.90
Premium		0%
Target price		0.90
P/NPV		0.94

Current share price trading multiples		
Implied PE	FY20	125.6
Implied EV/EBITDA	FY20	29.9

Valuation segment split	Valuation inputs	
	Rf rate	5.0%
	MRP	6.0%
	Equity beta	1.38
	Ke	13.3%
	Kd	5.0%
	Gearing	30%
	Tax rate	30%
	WACC	10.3%
	DCF (A\$)	0.90
	Prem/disc	0%
	Target (A\$)	0.90



June year end (A\$m)	2017A	2018F	2019F	2020F
NPAT Reported (A\$m)	-20.3	-23.9	-11.2	-2.8
NPAT Normalised (A\$m)	-17.5	-20.5	-6.8	2.0
EPS (A€)	-6.8	-6.9	-2.3	0.7
CFPS (US¢)	-41.0	-61.4	-52.9	-46.6
DPS (US¢)	0.0	0.0	0.0	0.0
DPS (A€)	0.0	0.0	0.0	0.0
P/E (x)	-12.6	-12.2	-36.8	125.6
P/CF (x)	-2.1	-1.4	-1.6	-1.8
EV/EBITDA (x)	-15.0	-14.1	-80.1	29.9
EPS Growth	nm	3%	-67%	-129%
Yield (%)	0.0%	0.0%	0.0%	0.0%
Sales segmentals	2017A	2018F	2019F	2020F
Sales - Zip	16.6	40.3	74.0	103.1
Sales - Group	16.6	40.3	74.0	103.1
EBITDA segmentals	2017A	2018F	2019F	2020F
EBITDA - Zip Co	-15.1	-15.6	-13	9.8
EBITDA Corporate	-0.9	-1.5	-1.7	-1.8
EBITDA Group	-16.0	-17.1	-3.0	8.0
EBITDA margin - Zip Co	-91%	-39%	-2%	10%
EBITDA margin - Corporate	n.a.	n.a.	n.a.	n.a.
EBITDA margin - Group	-97%	-42%	-4%	8%
Profit & Loss (A\$m)	2017A	2018F	2019F	2020F
Sales revenue	16.4	40.1	74.0	103.1
Revenue	16.4	40.1	74.0	103.1
Cost of sales	-18.0	-31.2	-46.6	-61.0
Gross profit	-1.6	8.9	27.3	42.0
Other revenue	0.0	0.0	0.0	0.0
Operating costs	-14.6	-26.2	-30.3	-34.0
EBTDA	-16.2	-17.3	-3.0	8.0
Depreciation & Amort	-1.9	-3.2	-4.2	-5.2
EBIT	-18.1	-20.5	-7.1	2.8
Net interest benefit / (expense)	0.0	0.0	0.0	0.0
Pre-tax profit	-18.1	-20.5	-7.1	2.8
Tax benefit / (expense)	0.6	0.0	0.4	-0.8
Profit after tax	-17.5	-20.5	-6.8	2.0
Minorities	0.0	0.0	0.0	0.0
NPAT (underlying)	-17.5	-20.5	-6.8	2.0
Significant items	-2.8	-3.4	-4.5	-4.8
NPAT (reported)	-20.3	-23.9	-11.2	-2.8
Profitability Analysis (%)	2017A	2018F	2019F	2020F
EBIT margin	-110%	-51%	-10%	3%
EBITDA margin	-99%	-43%	-4%	8%
Effective tax rate	-3%	0%	-5%	-30%
ROA - EBIT / (total assets - cash)	-12%	-6%	-1%	0%
ROE - NPAT / equity	-15%	-94%	-23%	7%
Cashflow	2017A	2018F	2019F	2020F
EBITDA	-16.2	-17.3	-3.0	8.0
Operating cashflow	-7.6	-2.0	14.5	29.4
Capex	-2.5	-6.2	-3.1	-3.2
Free cashflow (post all capex)	-10.1	-8.2	11.4	26.2
Investing cashflow	-117.6	-184.1	-172.4	-169.1
Financing cashflow	137.3	185.3	166.0	137.0
Net Change in cash	12.1	-0.8	8.1	-2.7
Balance Sheet Analysis	2017A	2018F	2019F	2020F
Debt	159.3	306.0	472.0	609.0
Equity	11.6	32.3	25.5	27.5
Assets	174.6	347.5	512.4	656.0
Cash	19.2	18.5	26.5	23.8
Net debt	-19.2	-18.5	-26.5	-23.8
Gearing - net debt/equity	-165%	-57%	-104%	-87%
Net debt / EBITDA (x)	12	1.1	9.0	-3.0
Free cashflow yield	-5%	-4%	6%	13%

Source: Company data, OML

Z1P quarterly update summary

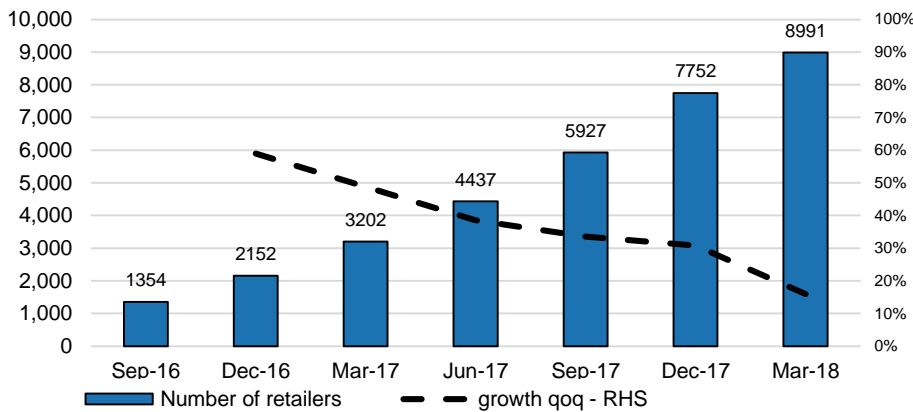
- **Underlying sales volume** for the qtr of \$136.1m, were broadly in line with our estimate (1% below our \$138.2m estimate). Z1P have indicated that the transaction volume for the month of Mar-18 was ~\$50m, which was “close to December ’17 peak levels” (Dec is peak shopping mth) which bodes well for sales momentum into the Jun-18 qtr.
- Z1P’s **number of integrated merchants** is now ~8,991, in line with our 9,002 estimate, adding 1,239 merchants in the qtr.
- Z1P’s **customer base** is now over 627k, adding over 98k in the Mar-18 qtr, ~2% below our expectations.
- Z1P’s **receivables balance** stands at \$265.5m as at qtr end, in line with our expectations.
- **Revenue** of \$11.2m was 2% below our expectations, and up 25% qoq (owing to the growth in the receivables balance).
- **Revenue yield** of 17.9%, slightly below our estimate of 18.2%.
- **Bad debts** were 2.62% for the qtr, slightly below our 2.70% estimate – the company expects to see bad debts continue to trend up towards 3% over time.
- **Repeat customers** have now reached 80% of all underlying transactions (by value) in the Mar-18 qtr (up from 75% in Dec-17 qtr).
- **Funding:** At the end of the qtr the company has \$133.5m of funding headroom.
- **Pocketbook:** User base has grown to >490k users (adding 50k in the Mar-18 qtr)

Figure 2: Z1P – Mar-18 qtrly business update – Snapshot of key stats

Z1P Qtrly snapshot	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Ords	QoQ	vs pcp	v Ords
	QTR	QTR	QTR	QTR	Actuals	Estimate			
Sales volume									
Transaction volume (\$m)	61.0	86.4	95.1	140.2	136.1	138.2	-3%	123%	-1.5%
Net increase qoq	10.8	25.4	8.7	45.1	-	4.1			
Receivables									
Receivables balance (\$m)	114.7	152.0	176.4	231.3	265.5	266.9	15%	131%	-1%
Net increase qoq	27.0	37.3	24.4	54.9	34.2				
Merchants									
Merchants	3,202	4,437	5,927	7,752	8,991	9,002	16%	181%	-0%
Net increase qoq	1,050.0	1,235.0	1,490.0	1,825.0	1,239.0				
Customers									
Customers	198,113	300,882	403,964	529,326	627,843	639,000	19%	217%	-2%
Net increase qoq	78,969	102,769	103,082	125,362	98,517				
Financials	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Ords	QoQ	vs pcp	v Ords
Portfolio income									
Revenue Yield	18.2%	16.4%	16.6%	17.4%	17.9%	18.2%	3%	-2%	-2%
Net increase qoq	-2.0%	-1.8%	0.2%	0.9%	0.5%				
Revenue									
Revenue (\$m)	4.6	5.5	6.8	8.9	11.2	11.3	25%	142%	-2%
Net increase qoq	0.9	0.9	1.4	2.1	2.3				
Bad debts									
Bad debts (%)	0.95%	1.28%	1.98%	2.28%	2.62%	2.70%	15%	176%	-0.08%
Net increase qoq	0.15%	0.33%	0.70%	0.30%	0.34%				

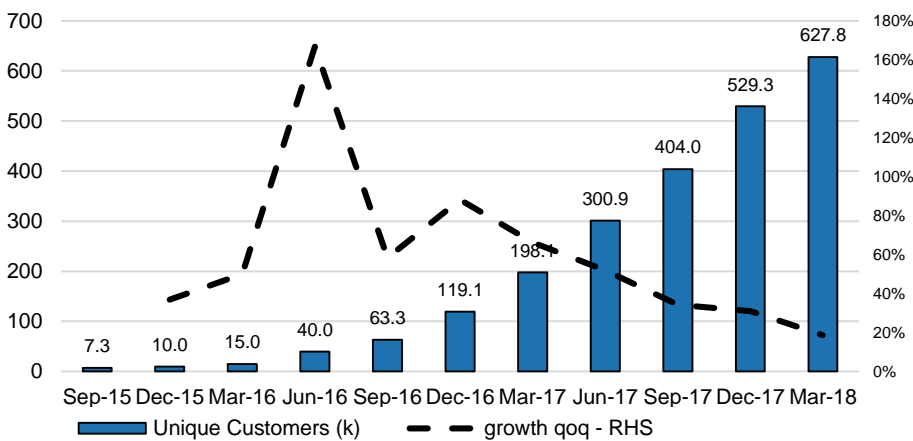
Source: Company data, OML

Figure 3: Z1P's Retail merchants



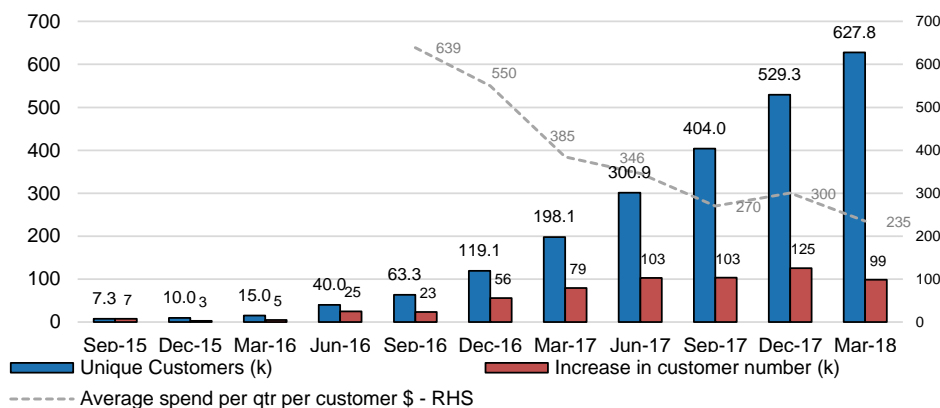
Source: Company data, OML

Figure 4: Z1P's Customers



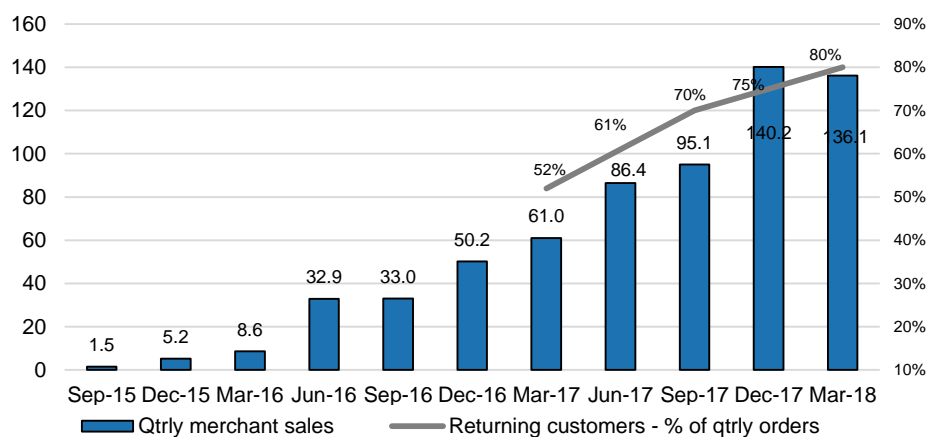
Source: Company data, OML

Figure 5: Z1P's customer growth, and per customer spend



Source: Company data, OML

Figure 6: Z1P's underlying retail sales vs returning customers



Source: Company data, OML

Changes to our forecasts

We have made slight revisions to our earnings forecasts in FY18-20, on the back of the recent qtrly report. Our valuation and target price has increased 2% after slightly increasing our longer term revenue yield assumption.

Figure 7: Changes to our earnings forecasts and valuation

Changes to	2018A	2019A	2020A	Val (\$ ps)	Target price (\$ ps)
Normalised NPAT (A\$m) - revised	-20.5	-6.8	2.0	0.90	0.90
Normalised NPAT (A\$m) - previous	-20.9	-6.4	16	0.88	0.88
Change (A\$m)	0.4	-0.3	0.4	0.0	0.03
Change (%)	-2%	5%	27%	3%	3%

Source: Company data, OML

Zip Co

PROFIT & LOSS (A\$m)	2016A	2017A	2018E	2019E	2020E
Revenue	2.9	16.4	40.1	74.0	103.1
Operating costs	(7.2)	(32.6)	(57.4)	(76.9)	(95.1)
Operating EBITDA	(4.3)	(16.2)	(17.3)	(3.0)	8.0
D&A	(0.6)	(1.9)	(3.2)	(4.2)	(5.2)
EBIT	(4.8)	(18.1)	(20.5)	(7.1)	2.8
Net interest	-	-	-	-	-
Pre-tax profit	(9.0)	(20.9)	(23.9)	(11.6)	(1.9)
Net tax (expense) / benefit	-	0.6	-	0.4	(0.8)
Significant items/Adj.	(4.2)	(2.8)	(3.4)	(4.5)	(4.8)
Associate NPAT	-	-	-	-	-
Normalised NPAT	(4.8)	(17.5)	(20.5)	(6.8)	2.0
Reported NPAT	(9.0)	(20.3)	(23.9)	(11.2)	(2.8)
Normalised dil. EPS (cps)	(2.6)	(6.6)	(6.9)	(2.3)	0.7
Reported EPS (cps)	(4.3)	(6.9)	(7.7)	(3.7)	(0.9)
Effective tax rate (%)	-	3.1	-	5.0	30.0
DPS (cps)	-	-	-	-	-
DPS (cps)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	208.2	292.8	309.3	307.5	307.5
CASH FLOW (A\$m)	2016A	2017A	2018E	2019E	2020E
EBITDA incl. adjustments	(4.3)	(16.2)	(17.3)	(3.0)	8.0
Income tax paid	0.3	-	-	(0.2)	0.0
Operating Cash Flow	(2.0)	(23.3)	(29.4)	(25.8)	(23.0)
Capex	(0.0)	(0.6)	(4.9)	(3.1)	(3.2)
Acquisitions	29.1	(2.7)	-	-	-
Other investing items	-	-	-	-	-
Investing Cash Flow	29.1	(3.3)	(4.9)	(3.1)	(3.2)
Inc/(Dec) in equity	15.9	10.9	40.5	-	-
Inc/(Dec) in borrowings	(0.7)	126.4	144.8	166.0	137.0
Dividends paid	(0.3)	-	-	-	-
Other financing items	-	-	-	-	-
Financing Cash Flow	14.9	137.3	185.3	166.0	137.0
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	42.0	110.7	151.0	137.1	110.8
BALANCE SHEET (A\$m)	2016A	2017A	2018E	2019E	2020E
Cash	7.1	19.2	18.5	26.5	23.8
Receivables	38.2	144.2	314.9	472.3	621.4
Inventory	-	-	-	-	-
Other current assets	-	-	-	-	-
PP & E	0.1	0.5	3.8	4.3	4.9
Intangibles	1.5	10.6	10.3	8.8	6.2
Other non-current assets	-	-	-	-	-
Total Assets	46.9	174.6	347.5	512.4	656.0
Short term debt	-	-	-	-	-
Payables	3.9	2.6	8.2	13.9	18.6
Other current liabilities	-	-	-	-	-
Long term debt	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-
Total Liabilities	35.4	162.9	315.8	487.5	629.1
Total Equity	11.5	11.6	32.3	25.5	27.5
Net debt (cash)	(14.3)	(3.7)	(18.0)	(11.2)	(15.0)

Accumulate

DIVISIONS	2016A	2017A	2018E	2019E	2020E
Zip	(2.1)	(15.1)	(15.6)	(1.3)	9.8
Corporate	(0.7)	(0.9)	(1.5)	(1.7)	(1.8)
Total -	(2.8)	(16.0)	(17.1)	(3.0)	8.0

KEY METRICS (%)	2016A	2017A	2018E	2019E	2020E
Revenue growth	-	462.7	144.0	84.5	39.4
EBITDA margin	-	-	-	-	7.8
EBIT margin	-	-	-	-	2.7
Return on assets	-	-	-	-	0.3
Return on equity	-	-	-	-	7.5

VALUATION RATIOS (x)	2016A	2017A	2018E	2019E	2020E
Reported P/E	-	-	-	-	-
Normalised P/E	-	-	-	-	127.1
Price To Free Cash Flow	-	-	-	-	-
Price To NTA	17.9	247.5	11.8	15.6	12.2
EV / EBITDA	-	-	-	-	29.6
EV / EBIT	-	-	-	-	83.7

LEVERAGE	2016A	2017A	2018E	2019E	2020E
ND / (ND + Equity) (%)	519.7	(47.1)	(125.4)	(78.3)	(120.7)
Net Debt / EBITDA (%)	336.1	23.0	103.9	379.5	(187.9)

SUBSTANTIAL HOLDERS	m	%
Larry Diamond, CEO and MD	61.1	19.8%
Westpac	49.4	16.0%
Peter Gray, COO	20.0	6.5%

VALUATION	
Target Price Method	DCF
Target Price (\$)	0.90
Valuation disc. / (prem.) to share price (%)	4.9

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Guide to Ord Minnett Recommendations

SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.

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