

zipMoney (ZML)

Rating: Buy | Risk: High | Price Target: \$1.20

Potential ASIC Review Welcomed + Significant Win with Kogan.com

Key Information

Current Price (\$ps)	0.65
12m Target Price (\$ps)	1.20
52 Week Range (\$ps)	0.58 - 0.90
Target Price Upside (%)	84.6%
TSR (%)	84.6%
Reporting Currency	AUD
Market Cap (\$m)	157.0
Sector	Information Technology
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0.01%

Fundamentals

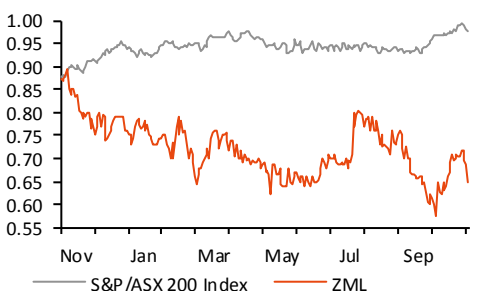
YE 30 Jun (AUD)	FY17A	FY18E	FY19E	FY20E
Sales (\$m)	17.0	50.4	95.0	153.5
NPAT (\$m)	(20.2)	1.5	3.3	6.1
EPS (cps)	(6.9)	0.5	1.1	2.0
EPS Growth (%)	(91.4%)	106.9%	122.9%	87.7%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	

Ratios

YE 30 Jun	FY17A	FY18E	FY19E	FY20E
P/E (x)	(9.4)	nm	61.4	32.7
EV/EBITDA (x)	(21.1)	12.5	(18.1)	(31.1)
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	2.7%	(17.5%)	(21.3%)	(37.5%)
Absolute (%)	4.8%	(13.3%)	(18.2%)	(26.1%)
Benchmark (%)	2.1%	4.2%	3.1%	11.4%



Major Shareholders

Larry Diamond (CEO & MD)	21.0%
Westpac Bank	17.1%
Peter Gray (COO & ED)	6.9%

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Event

ZML has responded to a press article has suggested that ASIC is preparing to review the consumer finance space, including 'buy now, pay later' operators like ZML. In short, ZML is well prepared for this level of scrutiny and welcomes any review.

Highlights

• **ASIC are (apparently) interested in how these companies make money, their level to disclosure to customers, credit approval processes, late payment fees.** It is important to address each of these issues separately with respect to ZML:

- How does ZML make money? Predominantly from merchant fees and customer fees, and to a much smaller extent, establishment fees and interest. Late fees are a long distant #5 source of revenue.
- What are ZML's credit approval processes? Shaw and Partners believes ZML's credit approval processes are the tightest in the industry. Why?
 - Bad debts remain well below industry benchmarks at below 3% despite having over 400,000 customers transacting \$95m in volumes in 1Q18.
 - ZML is fully compliant with two ASIC issued licences: (1) Australian Credit Licence (for the provision of credit); and (2) Australian Financial Services Licence (AFLS) (for the provision of non-consumer related products). No breaches to date have been recorded.
 - It is also salient to note that ZML now has strong strategic and operational relationships with two major banks (NAB/WBC) who have given the tick of approval post rigorous due diligence and painstaking reviews of ZML's credit policies, systems, people and processes.
 - ZML not only credit check every single applicant, but also decline a significant number of applicants.
- How important are late payment fees to ZML? Insignificant. Most of ZML's revenues are derived from merchant and customer fees (e.g. monthly account fees). **Shaw and Partners estimates late fees as 1-2% of ZML's revenues at best. In comparison, Afterpay Touch (ASX:APT) derives a much higher 21% of its revenues in late fees. In its FY17 results "other income" (late fees) was \$6.1m vs. merchant revenue of \$22.9m. ASIC is more likely to focus on these types of providers in our view.**

• **ASIC are potentially looking to kick off the review in 1H18, with the aim of determining if consumers are protected enough, if tighter regulation is required, and whether more licensing more various players is required.** This is normal procedure for ASIC, rather than ASIC going all out and punishing any particular player/s or product/s. ZML are well prepared for any review and in Shaw and Partners's view, offer 'best-in-class' transparency, systems, checks and ethical behaviour (ZML are very strong advocates of consumer protection – after all, a sustainable and recurring business and revenue model is critical).

• **As an aside, good win also for ZML with Kogan.com (ASX:KGN) joining the platform.** KOG generates revenues of over \$285m with >1m customers (including this analyst!) and is Australia's largest pure-play online retail website with >70,000 products available, in addition to entering other verticals (travel mobile and insurance products).

Recommendation

Retain BUY. FY18 should be a cracker for ZML: with significant (potential) upside from the Pocketbook acquisition, lower cost NAB facility (and now \$40m/17% WBC investment), further monetising the large recent wins (like Kogan.com, eWays, Catch, Solahart, Shopify, LUX, Quest, etc.), Pocketbook acquisition, and pushing into NZ to thereby accelerate the company's growth profile. We believe that ZML is "best of breed" in this space - the company is clearly enunciating a strategy of differentiating itself qualitatively, strategically and visibly vs. what we consider to be its lower quality peers like Openpay, PartPay, FuturePay, Ourpay, Oxipay and Afterpay, which all offer a homogenous platform with little distinction.

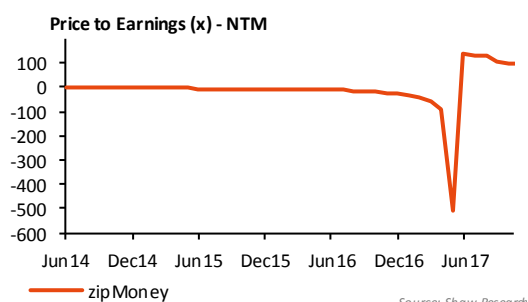
zipMoney Information Technology

FactSet: ZML-AU / Bloomberg: ZML AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.65
Target Price (\$ps)	1.20
52 Week Range (\$ps)	0.58 - 0.90
Shares on Issue (m)	241.6
Market Cap (\$m)	157.0
Enterprise Value (\$m)	43.5
TSR (%)	84.6%
Valuation NPV	Data
Beta	1.40
Cost of Equity (%)	13.7%
Risk Free Rate (%)	5.3%
Terminal Growth (%)	3.0%
WACC (%)	13.7%

Company Description

zipMoney Ltd. engages in the providing of consumer financing and payment processing services. The company was founded on June 24, 2013 and is headquartered in Sydney, Australia.



Financial Year End: 30 June

Investment Summary (AUD)	FY16A	FY17A	FY18E	FY19E	FY20E
EPS (Reported) (cps)	(3.6)	(6.9)	0.5	1.1	2.0
EPS (Underlying) (cps)	(3.6)	(6.9)	0.5	1.1	2.0
EPS (Underlying) Growth (%)	86.0%	(91.4%)	106.9%	122.9%	87.7%
PE (Underlying) (x)	(17.2)	(9.4)	nm	61.4	32.7
EV / EBIT (x)	(20.2)	(16.9)	28.2	(25.6)	(38.0)
EV / EBITDA (x)	(22.0)	(21.1)	12.5	(18.1)	(31.1)
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(1.8%)	(7.2%)	0.2%	0.3%	(1.1%)
Profit and Loss (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	3.2	17.0	50.4	95.0	153.5
Sales Growth (%)	693.4%	436.3%	196.3%	88.6%	61.5%
Other Operating Income	0.0	0.0	0.0	0.0	0.0
EBITDA	(6.5)	(7.5)	3.5	6.6	10.7
EBITDA Margin (%)	nm	(43.9%)	6.9%	7.0%	7.0%
Depreciation & Amortisation	(0.6)	(1.9)	(1.9)	(1.9)	(1.9)
EBIT	(7.0)	(9.3)	1.5	4.7	8.8
EBIT Margin (%)	nm	(55.0%)	3.1%	4.9%	5.7%
Net Interest	(1.9)	(11.4)	0.0	0.0	0.0
Pretax Profit	(9.0)	(20.7)	1.5	4.7	8.8
Tax	0.0	0.6	(0.1)	(1.4)	(2.6)
Tax Rate (%)	0.0%	(2.7%)	(4.9%)	(30.0%)	(30.0%)
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	(9.0)	(20.2)	1.5	3.3	6.1
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(9.0)	(20.2)	1.5	3.3	6.1
Cashflow (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
EBIT	(7.0)	(9.3)	1.5	4.7	8.8
Payments to Suppliers	(3.9)	(15.0)	(34.9)	(56.7)	(91.8)
Receipts from Customers	3.3	17.0	62.3	143.9	233.6
Tax Paid	0.0	0.0	0.0	0.0	0.0
Net Interest	(1.9)	(11.4)	0.0	0.0	0.0
Change in Working Capital	0.0	0.0	0.0	0.0	0.0
Depreciation & Amortisation	0.6	1.9	1.9	1.9	1.9
Other	7.7	11.2	(1.6)	(6.1)	(11.4)
Operating Cashflow	(1.9)	(7.6)	27.3	85.8	139.2
Capex	(1.4)	(3.3)	(1.5)	(1.4)	(4.1)
Acquisitions and Investments	0.0	0.0	0.0	0.0	0.0
Disposal of Fixed Assets/Investments	0.2	0.0	0.0	0.0	0.0
Other	(35.0)	(114.3)	(59.5)	(59.5)	(59.5)
Investing Cashflow	(36.1)	(117.6)	(61.0)	(60.9)	(63.5)
Free Cashflow	(2.7)	(12.8)	0.5	0.6	(2.1)
Equity Raised / Bought Back	15.2	8.2	4.5	9.0	9.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Change in Debt	(4.0)	0.0	0.0	0.0	0.0
Other	32.8	129.1	154.1	129.1	129.1
Financing Cashflow	44.0	137.3	158.6	138.1	138.1
Exchange Rate Effect	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	6.1	12.1	124.9	163.1	213.8
Balance Sheet (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	7.1	19.2	144.2	307.2	521.0
Accounts Receivable	0.1	0.4	1.0	2.0	4.0
PPE	0.1	0.5	0.5	0.5	0.5
Goodwill & Intangibles	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	39.6	154.4	425.6	516.8	618.1
Total Assets	46.9	174.6	571.2	826.6	1,143.5
Accounts Payable	3.9	2.6	2.7	2.9	3.0
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Income Taxes Payable	0.0	0.0	0.0	0.0	0.0
Other	31.4	160.3	483.4	604.7	756.5
Total Liabilities	35.4	162.9	486.2	607.5	759.6
Total Shareholder Equity	11.5	11.6	85.0	219.0	384.0

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Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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