

zipMoney (ZML)

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

1Q18 Numbers All Strong and Reiterates Cashflow Break-Even in FY18

Key Information

| | |
|-------------------------|------------------------|
| Current Price (\$ps) | 0.58 |
| 12m Target Price (\$ps) | 1.20 |
| 52 Week Range (\$ps) | 0.58 - 0.90 |
| Target Price Upside (%) | 106.9% |
| TSR (%) | 106.9% |
| Reporting Currency | AUD |
| Market Cap (\$m) | 140.1 |
| Sector | Information Technology |
| Avg Daily Volume (m) | 0.4 |
| ASX 200 Weight (%) | 0.01% |

Fundamentals

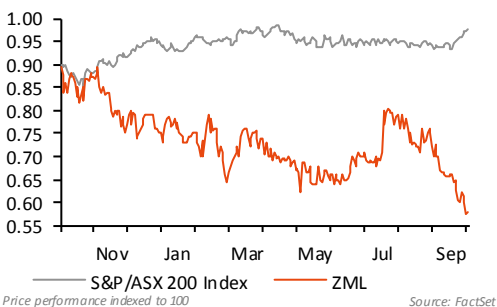
| YE 30 Jun (AUD) | FY17A | FY18E | FY19E | FY20E |
|-----------------|---------|--------|--------|-------|
| Sales (\$m) | 17.0 | 50.4 | 95.0 | 153.5 |
| NPAT (\$m) | (20.2) | 1.5 | 3.3 | 6.1 |
| EPS (cps) | (6.9) | 0.5 | 1.1 | 2.0 |
| EPS Growth (%) | (91.4%) | 106.9% | 122.9% | 87.7% |
| DPS (cps)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

Ratios

| YE 30 Jun | FY17A | FY18E | FY19E | FY20E |
|------------------|--------|-------|--------|--------|
| P/E (x) | (9.4) | nm | 54.8 | 29.2 |
| EV/EBITDA (x) | (21.1) | 6.7 | (21.1) | (33.0) |
| 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 (%) | (25.9%) | (28.7%) | (21.2%) | (46.8%) |
| Absolute (%) | (22.7%) | (26.1%) | (18.3%) | (38.3%) |
| Benchmark (%) | 3.2% | 2.6% | 2.9% | 8.5% |



Major Shareholders

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

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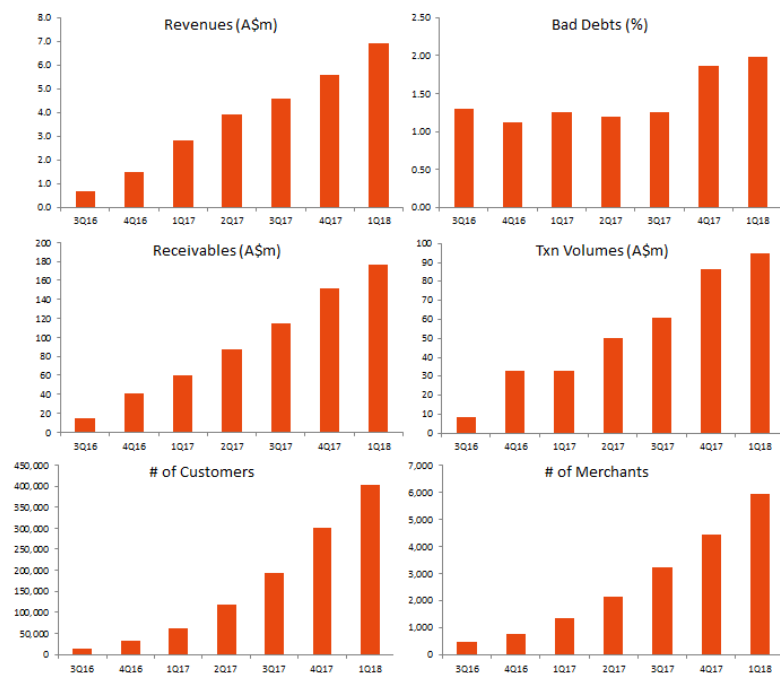
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Event

ZML has announced another set of very robust quarterly numbers, with loan book growth +16% on previous period (4Q17), number of merchants +34%, customers +34%, transactions numbers and volumes +23% and 10% respectively and, most importantly, revenues +22% to \$6.9m (vs. \$4.9m for FY16 and \$17.0m for FY17 vs. Shaw forecast of \$6.9m), with the company ending the quarter with cash of \$13.1m (+ \$3.7m restricted).

Highlights

- Cashflow breakeven on a monthly basis in FY18 a significant positive** – driven by (1) lower funding costs (transition from VPC receivable to lower cost NAB facility now in progress), and (2) stabilisation of operating costs (significant investment in the business over the past 12 months should now amortise to “modest” growth in the future; 2Q18 opex of \$6.1m expected, well below 1Q18 revenues of \$6.9m).
- Loan book/receivables up 16% in 1Q18 to \$176.4m (FY16: \$40.7m; FY17: \$152.0m), a solid result above Shaw’s \$171.3m estimate** – repayment profile was a robust (and improved) 14% (of period opening book; vs. 10% in 1Q17, 11% in 3Q17, 13% in 4Q17 and vs. Shaw’s 12%) vs. historical 9%, with reported arrears improving from 2.9% in pp to 2.2% (FY16: 1.4%) (>60 days with write-offs >180 days) and bad debts of 2.0%. This still remains below industry averages of 3-5% and Shaw’s forecast of 3.0%.



Recommendation

Retain BUY recommendation. 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 eWays, Catch, Solahart, LUX, etc.) and Pocketbook, and pushing into NZ to thereby accelerate the company’s growth profile. ZML has a strong and proven management team (and Board, strengthened with the future addition of a Westpac director), and is a low capex business with sustainably high margins. Fundamentally, ZML is a very attractive investment prospect as it continues to disrupt (and monetise) the digital payments space, where “buy now, pay later” products are gaining strong traction and visibility. 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, FuturePay, Ourpay, Oxipay and Afterpay, which all offer a homogenous platform with little distinction.

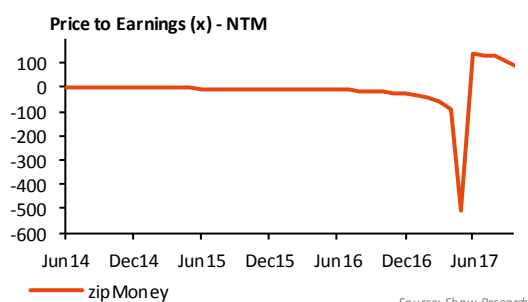
zipMoney Information Technology

FactSet: ZML-AU / Bloomberg: ZML AU

| Key Items | Data |
|------------------------|-------------|
| Recommendation | BUY |
| Risk | HIGH |
| Price (\$ps) | 0.58 |
| Target Price (\$ps) | 1.20 |
| 52 Week Range (\$ps) | 0.58 - 0.90 |
| Shares on Issue (m) | 241.6 |
| Market Cap (\$m) | 140.1 |
| Enterprise Value (\$m) | 23.3 |
| TSR (%) | 106.9% |
| 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 | 54.8 | 29.2 |
| EV / EBIT (x) | (20.2) | (16.9) | 15.1 | (29.9) | (40.3) |
| EV / EBITDA (x) | (22.0) | (21.1) | 6.7 | (21.1) | (33.0) |
| 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%) | 0.3% | 0.3% | (1.3%) |
| 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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Rating Classification

| | |
|------------------|--|
| 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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