

## Zip Co (Z1P)

Rating: Buy | Risk: High | Price Target: \$1.60

### 3Q18 Result: Again, Strongly Ramping Up Towards Cashflow Breakeven in FY18. Retain BUY.

#### Key Information

Current Price (\$ps)	0.81
12m Target Price (\$ps)	1.60
52 Week Range (\$ps)	0.58 - 1.30
Target Price Upside (%)	97.5%
TSR (%)	97.5%
Reporting Currency	AUD
Market Cap (\$m)	195.7
Sector	Information Technology
Avg Daily Volume (m)	0.2
ASX 200 Weight (%)	0.02%

#### Fundamentals

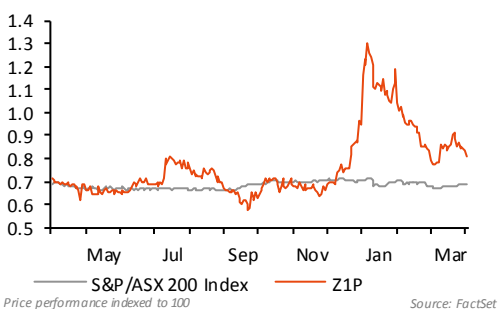
YE 30 Jun (AUD)	FY17A	FY18E	FY19E	FY20E
Sales (\$m)	17.0	35.3	69.2	106.8
NPAT (\$m)	(20.2)	(23.8)	0.8	5.9
EPS (cps)	(6.9)	(7.0)	0.2	1.7
EPS Growth (%)	(91.4%)	(1.4%)	103.3%	657.8%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

#### Ratios

YE 30 Jun	FY17A	FY18E	FY19E	FY20E
P/E (x)	(9.4)	(11.6)	nm	46.3
EV/EBITDA (x)	(8.3)	(11.7)	66.3	18.8
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 (%)	(5.1%)	(20.3%)	(12.4%)	13.3%
Absolute (%)	(3.0%)	(22.5%)	(14.7%)	13.3%
Benchmark (%)	2.1%	(2.2%)	(2.3%)	(0.0%)



#### Major Shareholders

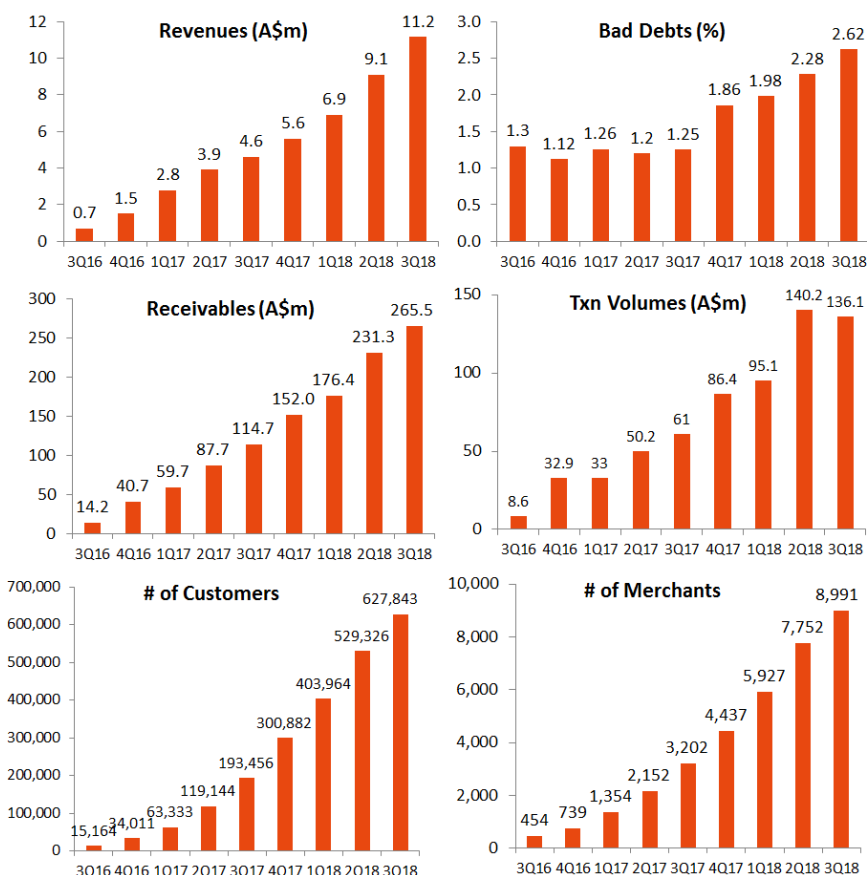
Larry Diamond (CEO & MD)	21.0%
Westpac Bank	17.1%
Peter Gray (COO & ED)	6.9%

#### Event

As expected, Z1P announced another set of very strong quarterly numbers in what is a seasonally weaker 3Q. Loan book growth +15% on pcp, number of merchants +16%, customers +19%, transaction volumes +3% (with March hitting \$50m) and, most importantly, revenues +23% to \$11.2m (vs. Shaw's \$10.2m). We have not made any changes to our FY18/FY19 revenue numbers. PT and recommendation remain unchanged.

#### Highlights

- Outlook reiterated for cashflow breakeven in FY18 (INCLUDING bad debt write-offs) – noting that, significantly, in 2Q18 Z1P was effectively already break-even at -\$0.1m.
- Z1P's performance is best summed up in charts:



- Revenue growth of 23% highlights the leverage being achieved, with all components (yield, cost of sales and cash operating costs) trending in the right direction – (1) revenue yield of 17.9% getting closer to 20% target (vs. Shaw and Partners 17.6%); (2) cash cost of sales continuing to reduce from 16.7% to 9.7% (vs. Shaw and Partners 11.1%) owing to the exiting of expensive legacy funding costs in the 1H18 (and more competitive NAB pricing bringing weighted cost down from >10% to <6%); and (3) cash operating costs also reducing further from 14.0% to 10.4%, due to the stabilisation of staffing costs post the ramp up in FY17.
- Z1P ended the quarter with a strong cash position of \$17.5m (\$14.3m restricted in trust) and positive operating cashflow of \$1.1m (a \$1.2m improvement on 2Q18).

#### Recommendation

BUY.

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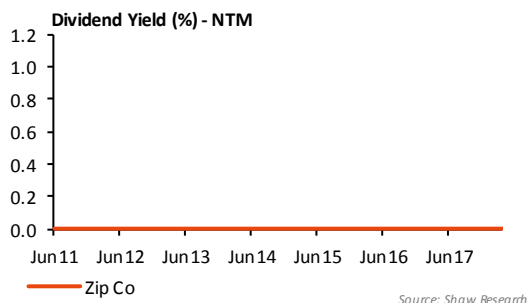
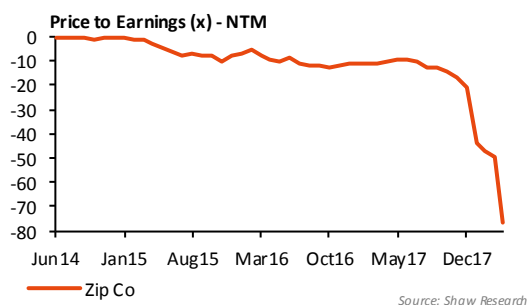
## Zip Co Information Technology

FactSet: Z1P-AU / Bloomberg: Z1P AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price (\$ps)	0.81
Target Price (\$ps)	1.60
52 Week Range (\$ps)	0.58 - 1.30
Shares on Issue (m)	241.6
Market Cap (\$m)	195.7
Enterprise Value (\$m)	239.5
TSR (%)	97.5%
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

Zip Co. Ltd. provides retail finance solutions. It offers point-of-sale credit and digital payment services to consumers and merchants. 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)	(7.0)	0.2	1.7
EPS (Underlying) (cps)	(3.6)	(6.9)	(7.0)	0.2	1.7
EPS (Underlying) Growth (%)	82.8%	(91.4%)	(1.4%)	103.3%	657.8%
PE (Underlying) (x)	(17.2)	(9.4)	(11.6)	nm	46.3
EV / EBIT (x)	(15.8)	(7.5)	(10.2)	145.7	22.5
EV / EBITDA (x)	(16.9)	(8.3)	(11.7)	66.3	18.8
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 (%)	100%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(2.2%)	(6.1%)	(1.4%)	0.2%	1.7%
Profit and Loss (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	3.2	17.0	35.3	69.2	106.8
Sales Growth (%)	675.7%	436.3%	107.8%	95.9%	54.3%
EBITDA	(8.4)	(19.0)	(20.5)	3.6	10.9
EBITDA Margin (%)	nm	nm	(58.1%)	5.2%	10.3%
Depreciation & Amortisation	(0.6)	(1.9)	(2.9)	(2.0)	(1.8)
EBIT	(9.0)	(20.9)	(23.4)	1.6	9.1
EBIT Margin (%)	nm	nm	(66.3%)	2.4%	8.5%
Net Interest	0.0	0.1	(0.4)	(0.5)	(0.6)
Pretax Profit	(9.0)	(20.7)	(23.8)	1.1	8.5
Tax	0.0	0.6	0.0	(0.3)	(2.5)
Tax Rate (%)	0.0%	(2.7%)	0.0%	(30.0%)	(30.0%)
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT Underlying	(9.0)	(20.2)	(23.8)	0.8	5.9
Significant Items	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(9.0)	(20.2)	(23.8)	0.8	5.9
Cashflow (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
EBIT	(9.0)	(20.9)	(23.4)	1.6	9.1
Tax Paid	0.0	0.6	0.0	(0.3)	(2.5)
Net Interest	0.0	0.1	(0.4)	(0.5)	(0.6)
Change in Working Capital	(2.4)	11.1	8.6	2.3	3.2
Depreciation & Amortisation	0.6	1.9	2.9	2.0	1.8
Other	9.0	(0.4)	12.4	(2.4)	(3.5)
Operating Cashflow	(1.9)	(7.6)	0.2	2.6	7.5
Capex	(1.4)	(3.3)	(3.9)	(2.1)	(2.9)
Acquisitions and Investments	0.0	(1.9)	0.0	0.0	0.0
Disposal of Fixed Assets/Investments	0.2	0.0	0.0	0.0	0.0
Other	(35.0)	(112.5)	(159.5)	(167.4)	(141.7)
Investing Cashflow	(36.1)	(117.6)	(163.4)	(169.5)	(144.7)
Free Cashflow	(3.2)	(10.9)	(3.8)	0.5	4.5
Equity Raised / Bought Back	15.2	8.2	37.9	37.9	37.9
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	130.8	131.1	131.1
Financing Cashflow	44.0	137.3	168.7	169.0	169.0
Exchange Rate Effect	0.0	0.0	0.0	0.0	0.0
Net Change in Cash	6.1	12.1	5.4	2.1	31.8
Balance Sheet (AUD) (m)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	7.1	19.2	24.7	26.8	58.6
Accounts Receivable	0.1	0.4	6.3	8.9	12.4
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE	0.1	0.5	3.4	3.4	3.4
Goodwill & Intangibles	1.5	10.6	10.5	10.5	10.5
Investments	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	38.1	143.8	302.0	468.2	608.6
Total Assets	46.9	174.6	346.9	517.7	693.5
Accounts Payable	3.9	2.6	2.7	2.9	3.2
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	304.1	425.1	562.2
Total Liabilities	35.4	162.9	306.8	428.1	565.5
Total Shareholder Equity	11.5	11.6	40.1	89.6	128.1
Ratios	FY16A	FY17A	FY18E	FY19E	FY20E
ROE (%)	(158.2%)	(174.4%)	(92.0%)	1.2%	5.5%
ROIC (%)	(77.7%)	(173.7%)	(59.3%)	0.9%	4.6%
Gearing (%)	(159.5%)	253.2%	(159.5%)	(42.6%)	(84.5%)
Net Debt / EBITDA (x)	0.8	1.0	1.2	(7.5)	(5.4)
Price to Book (x)	nm	nm	nm	nm	nm

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

## Risk Rating

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

**RISK STATEMENT:** Where a company is designated as ‘High’ risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

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