

Zip Co

Reasonable momentum

ADD (no change)

Current price:	A\$0.89
Target price:	A\$1.11 ▲
Previous target:	A\$1.06
Up/downside:	25.2%
Reuters:	Z1P.AX
Bloomberg:	Z1P AU
Market cap:	US\$193.2m
	A\$261.6m
Average daily turnover:	US\$0.44m
	A\$0.60m
Current shares o/s	37.07m
Free float:	56.0%



Price performance	<i>1M</i>	<i>3M</i>	<i>12M</i>
Absolute (%)	-1.1	6.6	10.6
Relative (%)	-0.8	3.8	2.3

Richard COLES

T (61) 2 9043 7911

E richard.coles@morgans.com.au

Steven SASSINE, CFA

T (61) 2 9043 7905

E steven.sassine@morgans.com.au

Analyst(s) own shares in the following stock(s) mentioned in this report:

– N/A

- ZIP's FY18 NPAT loss of A\$22.5m was slightly better than our expectations of a loss of A\$25m.
- While acknowledging ZIP is still working towards profitability, we think the FY18 result showed generally positive momentum across the business.
- Key positives included: achieving monthly cashflow breakeven in 4Q18, evidence of scale benefits emerging, and management commentary that several large merchant clients are in the pipeline.
- We lift our ZIP FY19F/FY20F NPAT by A\$3m-A\$5m (large percentage change off a low base). Our ZIP target price is marginally raised to A\$1.11 from A\$1.06.
- Maintain speculative ADD recommendation. We see upside emerging over the next few years.

Result summary

ZIP's FY18 NPAT loss of A\$22.5m was slightly better than our expectations (-A\$25m). As previously highlighted by ZIP's quarterly update, 4Q18 growth in key operational metrics was impressive with both 4Q18 customer and merchant numbers up 18% sequentially and transactions up 26% sequentially. Outlook commentary was broad with management noting the key FY19 priorities are to continue to drive towards A\$1bn in annual transaction volume and 1 million customers.

The positives

While acknowledging ZIP is still working towards profitability, we think this result showed generally positive momentum across the business. Key positives included: 1) ZIP achieving monthly cashflow breakeven in 4Q18; 2) evidence of scale benefits emerging highlighted by the cash operating cost ratio falling ~3% in 2H18; 3) management noting ZIP has several large merchant clients in the pipeline; and 4) the announcement that additional debt funding is nearly secured, which will lift ZIP's total funding to A\$500m (previously A\$380m).

The negatives

While acknowledging ZIP's bad debt write-off levels (FY18: 2.6%) are below management's target level (3%), they did rise significantly on FY17 (1.28%) with book seasoning. Management also indicated they expect the outcomes of the ASIC review into the "buy now, pay later space" to be released within the next few months. While management believe the likely outcome will be some industry best practice guidelines, market caution is likely to exist until outcomes are fully known.

Changes to forecasts and investment view

We lift our ZIP FY19F/FY20F NPAT by A\$3m-A\$5m (large percentage change off a low base). Our ZIP target price is marginally raised to A\$1.11, and is based on a DCF methodology discounted by 10% to reflect the company not yet being profitable. We think this result showed good progress and we see upside potential emerging for ZIP over the next few years if management execute. We maintain our speculative ADD recommendation, ZIP remains an investment more suitable for investors with a higher risk tolerance.

Financial Summary	Dec-17A	Dec-18A	Dec-19E	Dec-20E	Dec-21E
Total Revenue (A\$m)	17.0	40.4	70.1	106.3	154.4
EBTDA (A\$m)	-18.9	-19.0	3.3	13.5	30.4
Normalised Net Profit (A\$m)	-20.2	-22.5	-1.9	6.7	22.2
Normalised EPS (A\$)	-0.09	-0.08	-0.01	0.02	0.07
Normalised EPS Growth (%)	-41%	9%	92%	n/a	227%
EV/EBITA (x)	na	na	203.7	64.7	36.3
FD Normalised P/E (x)	na	na	na	38.9	11.9
DPS (A\$)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
P/BV (x)	18.1	7.8	7.9	6.3	4.0
ROE (%)	-174.1	-80.2	-5.7	18.1	41.8

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: ZIP Financial summary

Company:	ZIP					Profit & loss (A\$m)	FY17A	FY18A	FY19F	FY20F	FY21F
ASX code	Z1P	Recommendation	ADD	Portfolio income		16.4	39.3	68.5	104.7	152.7	
Bloomberg code	Z1PAU	Valuation	\$1.23	Other income		0.6	1.1	1.6	1.6	1.7	
Share price	0.88	Price target	\$1.11	Total revenue		17.0	40.4	70.1	106.3	154.4	
No. of shares (m)	297.5	Upside/(down side)	26.0%	Doubtful debts expense		-5.3	-13.2	-14.7	-24.0	-31.9	
Market cap (A\$m)	261.8			Interest expense		-10.3	-13.0	-17.1	-25.4	-36.6	
Year end	Jun			Bank fees and data costs		-2.4	-3.9	-5.6	-7.0	-8.4	
				Cost of sales		-18.0	-30.2	-37.4	-56.3	-76.8	
				Gross Profit		-1.0	10.2	32.7	50.0	77.6	
Forecast summary	FY17A	FY18A	FY19F	FY20F	FY21F	Employment expense	-10.8	-19.2	-20.8	-27.1	
Normalised NPAT (A\$m)	-20.2	-22.5	-1.9	6.7	22.2	Finance Costs	-1.3	-1.6	-1.2	-1.2	
growth - %	-128.4	-11.7	91.6	458.2	-229.2	Other operating expenses	-5.8	-8.5	-7.4	-8.2	
Reported net profit (A\$m)	-20.2	-22.5	-1.9	6.7	22.2	EBTDA	-18.9	-19.0	3.3	13.5	
growth - %	-128.4	-11.7	91.6	458.2	-229.2	Depreciation and Amortisation	-1.9	-3.6	-5.1	-6.7	
Normalised basic EPS (cps)	-8.6	-7.8	-0.6	2.3	7.4	Profit/(loss) before tax	-20.2	-22.5	-1.9	6.7	
growth - %	-40.9	8.6	91.9	na	n/a	Tax benefit/(expense)	0.6	0.0	0.0	0.0	
Normalised diluted EPS (cps)	-8.6	-7.8	-0.6	2.3	7.4	Normalised NPAT	-20.2	-22.5	-1.9	6.7	
growth - %	-40.9	8.6	91.9	na	n/a	Non-recurring items/one-offs - after tax	0.0	0.0	0.0	0.0	
Reported diluted EPS (cps)	-8.6	-7.8	-0.6	2.3	7.4	Statutory NPAT	-20.2	-22.5	-1.9	6.7	
growth - %	-40.9	8.6	91.9	na	n/a	Dividend	0.0	0.0	0.0	0.0	
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	Retained Earnings	-20.2	-22.5	-1.9	6.7	
growth - %	na	na	na	na	na						
						Balance sheet (A\$m)	FY17A	FY18A	FY19F	FY20F	
Valuation summary	FY17A	FY18A	FY19F	FY20F	FY21F	Cash and cash equivalents	19	13	5	4	
Price / earnings	na	na	na	38.9x	11.9x	Receivables	144	307	421	625	
EV / EBITDA	na	na	203.7x	64.7x	36.3x	Property, plant and equipment	1	3	14	31	
Price / book value	18.1x	7.8x	7.9x	6.3x	4.0x	Intangibles	11	10	11	12	
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	Other assets	0	0	0	0	
						Total Assets	175	333	451	672	
Growth and margins - %	FY17A	FY18A	FY19F	FY20F	FY21F	Trade and other payables	3	8	10	15	
Revenue growth - %	436.3	137.7	73.5	51.7	45.2	Borrowings	159	290	406	614	
Expense growth - %	122.0	63.6	0.6	24.1	29.1	Other liabilities	1	2	2	2	
EBTDA margin - %	-110.9	-47.0	4.6	12.7	19.7	Total Liabilities	163	300	418	631	
ROE - %	-174.1	-80.2	-5.7	18.1	41.8	Issued capital	37	81	83	85	
ROC - %	-31.4	-18.2	-1.0	2.5	5.7	Accumulated losses	4	4	4	4	
						Reserves	-30	-52	-54	-47	
Cashflow (A\$m)	FY17A	FY18A	FY19F	FY20F	FY21F	Total equity	12	33	33	42	
EBTDA	-18.9	-19.0	3.3	13.5	30.4	Book value per share	0.05	0.11	0.11	0.14	
Other operating cashflow s	11.3	20.4	2.1	4.5	4.5	NTA per share	0.00	0.08	0.08	0.10	
Cashflows from operations	-7.6	1.4	5.3	18.0	34.9	Net debt (A\$m) (-is net cash)	-19.2	-12.7	-5.3	-3.9	
Total Capex	-3.3	-6.0	-16.6	-25.1	-36.5	Net debt to equity - %	-165.3	-37.9	-16.1	-9.4	
Net receivables movement	-112.5	-170.9	-114.2	-204.0	-232.0						
Purchase/(sale of assets)	0.0	0.0	0.0	0.0	0.0	Valuation summary					
Other investing cashflow s	-1.9	0.0	0.0	0.0	0.0	Preferred methodology:	DCF				
Cashflows from investing activities	-117.6	-176.9	-130.8	-229.1	-268.5	Valuation per share (A\$)	\$1.23				
Stock issuance	10.2	41.0	1.7	1.7	1.7	Premium/(discount) to valuation	-10%				
Inc/(dec) in borrowings	127.1	128.2	116.5	208.1	236.6	Target Price (A\$)	\$1.11				
Dividends paid	0.0	0.0	0.0	0.0	0.0	Discounted cashflow inputs					
Other financing cashflow s	0.0	-0.3	0.0	0.0	0.0	Terminal growth rate	3.0%	Value of cash flow s	194		
Cashflows from financing activities	137.3	168.9	118.1	209.7	238.3	Risk free rate (Rf)	4.0%	Value of franking credits	171		
						Market risk premium (Rm)	6.0%	Equity value	365		
Net increase/(decrease) in cash	12.1	-6.6	-7.3	-1.4	4.7	Equity Beta (B)	1.3	Shares on issue - w eighted av	297		
						Ke = Rf + B * Rm	11.8%	Equity value per share	\$1.23		

SOURCE: MORGANS RESEARCH, COMPANY

Changes to forecasts and investment view

We lift our FY19F/FY20F NPAT by A\$3-A\$5m (large percentage change off a low base). Our ZIP target price is marginally raised to A\$1.11.

The key risks to our ZIP ADD call are: 1) growth risks; 2) credit risk; 3) competitive threats; 4) regulatory risk; and 5) funding risk.

Figure 2: ZIP - Changes to forecasts

	FY17A	FY18A	FY19F	FY20F	FY21F
Total Revenue (A\$m)					
Previous forecast	17.0	38.8	69.0	109.7	166.7
Current forecast	17.0	40.4	70.1	106.3	154.4
% change	0.0%	4.1%	1.6%	-3.1%	-7.4%
Growth %	436.3%	137.7%	73.5%	51.7%	45.2%
EBITDA (A\$m)					
Previous forecast	-17.6	-19.7	-0.9	10.3	27.2
Current forecast	-18.9	-19.0	3.3	13.5	30.4
% change	7.2%	-3.5%	na	31.4%	11.8%
Growth %	128.1%	0.6%	na	314.3%	125.9%
Normalised NPAT (A\$m)					
Previous forecast	-20.2	-24.9	-5.1	1.5	12.3
Current forecast	-20.2	-22.5	-1.9	6.7	22.2
% change	0.0%	-9.4%	63.4%	348.6%	80.4%
Growth %	128.4%	11.7%	-91.6%	-458.2%	229.2%
Cash EPS (cps)					
Previous forecast	-8.6	-9.4	-1.8	0.5	4.2
Current forecast	-8.6	-7.8	-0.6	2.3	7.4
% change	0.0%	-16.2%	63.9%	340.1%	75.9%
Growth %	40.9%	-8.6%	91.9%	n/a	227.1%
Dividend (cps)					
Previous forecast	0.0	0.0	0.0	0.0	0.0
Current forecast	0.0	0.0	0.0	0.0	0.0
% change	n/c	1.8%	4.0%	3.4%	3.5%
Growth %	na	na	na	na	na

SOURCES: MORGANS ESTIMATES

Queensland

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan	+61 7 3152 0600
Partners	
Brisbane: North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Caloundra	+61 7 5491 5422
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Ipswich/Springfield	+61 7 3202 3995
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787

New South Wales

Sydney	+61 2 9043 7900
Stockbroking, Corporate Advice, Wealth Management	
Sydney: Grosvenor	+61 2 8215 5000
Place	
Sydney: Reynolds	+61 2 9373 4452
Securities	
Sydney: Currency	+61 2 8216 5111
House	
Armidale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

Victoria

Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Richmond	+61 3 9916 4000
South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Western Australia

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
Perth	+61 8 6462 1999

South Australia

Adelaide	+61 8 8464 5000
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

Australian Capital Territory

Canberra	+61 2 6232 4999
----------	-----------------

Northern Territory

Darwin	+61 8 8981 9555
--------	-----------------

Tasmania

Hobart	+61 3 6236 9000
--------	-----------------

Disclaimer

The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Disclosure of interest

Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

Regulatory disclosures

Analyst owns shares in the following mentioned company(ies): N/A

Recommendation structure

For a full explanation of the recommendation structure, refer to our website at http://www.morgans.com.au/research_disclaimer

Research team

For analyst qualifications and experience, refer to our website at <http://www.morgans.com.au/research-and-markets/our-research-team>

Research coverage policy

For an overview on the stock selection process, refer to our website at <https://www.morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy>

Research independence statement

<https://www.morgans.com.au/Research-Independence-Statement>

Stocks under coverage

For a full list of stocks under coverage, refer to our website at <http://www.morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage> and <http://www.morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage>

www.morgans.com.au

If you no longer wish to receive Morgans publications please contact your local Morgans branch or write to GPO Box 202 Brisbane QLD 4001 and include your account details.