



## 9 Spokes International Ltd (9SP)

### Rebasing Expectations

#### Event:

- ARR guidance; revised assumptions, earnings, valuation, and price target.

#### Investment Highlights:

- The company announced on 7 December it is targeting annualised recurring revenue (ARR) of NZ\$6-7M by 31 March 2018.
- 9SP's RBC platform went live 1 November with a soft launch, and hard launch will be early CY18e.
- Adoption rate of end users continues to track strongly. We estimate there are now more than 25,000 end users (20,000 users at 28 September 2017), with management noting additional users are still accruing at a rate of ~5,000 per month. An update will be provided with the December 2017e quarterly report.
- A number of contracts still on foot and are deep in negotiation. Business development pipeline is ~10 institutions, with 3-4 in advanced stages. OCBC and a leading NZ bank have both signed LOIs, while negotiations with a leading US bank continue to progress. Management are also looking to add potential alliance partners to reduce dependence on current alliance partners.
- Reduced cash burn anticipated: management is tracking well in the current quarter with a 20% staff cost reduction QTD compared to the previous quarter. Cash receipts for the December quarter are expected to be ~ NZ\$1.7M from a combination of RBC implementation, ongoing licence fees from existing channel partners, as well as from the commencement of RBC licence fees.

#### Earnings and Valuation

- We have rebased our expectations for future growth to a conservative base and will look to the next few quarters for operational improvements to reassess our expectations. We have reduced user adoption rate to 4,000 per month (previously 5,000 per month), and target adoption rate of 4% by FY20e end (previously 10%), as well as 2 apps per user (previously 3 apps per user).
- We have reduced our valuation to \$0.20/share from \$0.45/share to reflect our rebased expectations in the near term. We have employed a DCF methodology with an increased discount rate of 15% (previously 10%).
- We still hold the view there is significant potential upside as 9SP diversifies its channel partners, accelerates end user growth, and approaches cash flow breakeven. We keenly anticipate upcoming quarterlies to demonstrate progress.

#### Recommendation and Price Target:

- We maintain our Buy recommendation although we have reduced our price target to \$0.20/share from A\$0.45/share, in line with our DCF valuation.
- We continue to note the potential for upside should 9SP successfully accelerate user growth, application per user growth, convert deal pipeline, and diversify its existing alliance partner network.
- Catalysts for the share price include: 1) acceleration of end-user customer adoption, 2) additional channels in existing jurisdictions; and 3) additional channels in new jurisdictions; 4) reduced cash burn, and increased cash receipts; 5) cash flow and profit breakeven.

Recommendation	Buy
Previous	Buy
Risk	High
Price Target (A\$)	\$ 0.20
Previous (A\$)	\$ 0.45
Share Price (A\$)	\$ 0.086
ASX Code	9SP
52 week low - high (A\$)	0.07-0.20
Methodology	DCF

Capital structure	
Shares on Issue (M)	495.3
Options (M)	14.6
Undiluted Market Cap, A\$M	42.6
Net Cash/(Debt), A\$M	14.2
EV (A\$M)	28.4
12mth Av Daily Volume ('000)	615

Forecasts, NZ\$M	2017a	2018e	2019e	2020e
Revenue	1.2	5.3	12.5	23.0
EBITDA	-14.4	-16.4	-8.5	1.6
NPAT	-14.0	-16.2	-8.3	1.2
EPS, cps, NZD	-3.5	-3.5	-1.7	0.2
EV/Sales, x	26.6	5.8	2.5	1.3

Shareholders	
Adrian Grant	16.6%
Mark Estall	10.4%
Harrogate	5.9%

Board	
Paul Reynolds	Non Executive Chairman
Mark Estall	Executive Director & CEO
Thomas Power	Non Executive Director
Wendy Webb	Non Executive Director

#### Share Price Graph



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The analyst does not own 9SP securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) owns 7,896,194 9SP shares and 5.4M options in 9SP. Cranport Pty Ltd owns 3,023,925 shares in 9SP.

Foster Stockbroking was the co-manager to the placement of 92.1M shares at \$0.13 per share to raise \$12M in July 2017 and received fees for this service.