

Vonex Limited (ASX:VN8)

On cusp of new revenue stream

Event

Vonex Limited (the "Company" or VN8") recently announced that after a successful round of beta testing, Oper8tor Conference - the first stage of the Company's aggregated communication app - is on track for iOS and Android download in Australia in March 2019, ahead of a commercial launch in Europe by July 2019. In addition, VN8 will make a white label version of Oper8tor Conference available to businesses in March 2019. Oper8tor Conference incorporates the call blast technology, allowing facilitators to call blast participants and bring them into the conference call. Additional functionality includes recording capability, colour-coded user playback, and collaborative notes, with additional features in development. It is intended that the proprietary Operator App will eventually bring together Conference, Voice, Message, and Video platforms to seamlessly facilitate user communication across a broad range of channels, platforms / social media applications, and devices. VN8 is targeting Europe based on its large addressable market size, constituting 465 million mobile devices, of which 70% are smartphones (Source: GSM Association, 2018)

State One comment: Oper8tor revenues of US\$100m/year?

The development of Oper8tor is progressing in-line with disclosed timeframes; we see this as confirmation of the Company's technological and management capacity. While commercial success is not a given, the addressable market size in Europe alone indicates that Oper8tor has the potential to generate material new revenue streams for the group. Social media applications are the highest used web and mobile applications across the globe. The three largest social media sites Facebook, YouTube, and WhatsApp have 2.2 billion, 1.8bn, and 1.5bn active users respectively. Other important social media sites include WeChat/Weixin (1.06bn), Instagram (1bn), Sina Weibo (China's Twitter) (431 million), Twitter (335 million), Reddit (330m), Pinterest (250m), and Snapchat (188m). that the Company has 5 million performance shares which convert into ordinary shares on Oper8tor achieving 10 million active users, with a further 10 million performance shares which convert on Oper8tor achieving 50 million active users. Revenue streams for free social media apps typically derive from (a combination of) advertising, email lists, SMS marketing, sponsors/partnerships, in-app purchases which improve functionality, premium versions, and subscription services. In addition, Oper8tor can generate revenue via voice minutes (charging for certain calls). Assuming industry average active user income of US\$10 per annum (~US\$0.80 per month), a 10 million user base could generate revenues for Oper8tor of US\$100m per annum. In terms of what Oper8tor could be worth, we note that Facebook with a market capitalisation of US\$465bn and a 2.2bn active user base, is valued at US\$211/user. At the other end of the spectrum, Snapchat, with a US\$12bn m'cap and an active user base of 188m, is valued at US\$63/user. Attaching a conservative valuation of US\$50/user, we calculate that Oper8tor - if successful in getting 10 million active users - could be worth some US\$500m to a potential acquirer. Note: State One currently values Oper8tor at a nominal A\$5m (to account for the risk in forecasting the app's take-up in the global social media ecosystem); this illustrates, we suggest, the potential value uplift to VN8 if Oper8tor "takes off".

SOTP Valuation: 28c per diluted share (unchanged)

Our SOTP target price for VN8 is unchanged at 28cps and is based on a DCF/PER valuation of A\$45m (A\$0.25 per diluted share) for the Telco business and a nominal A\$5m (A\$0.03ps) for the - still early-stage - Oper8tor technology. **We maintain a Speculative Buy (Higher Risk) recommendation.** Risks to our target price and forecast earnings profile include but are not limited to: the rate of growth in new registered active PBX users, average received revenue per PBX user, competition from new and existing telcos, government regulation, key personnel risk, and the success of the Oper8tor App.

19 February 2018

Share Price: A\$0.105

Target Price: A\$0.28

Target Upside: 167%

Recommendation

Speculative Buy

Risk Assessment

Higher

Telecommunications Services

David Brennan, CFA

Senior Investment Analyst

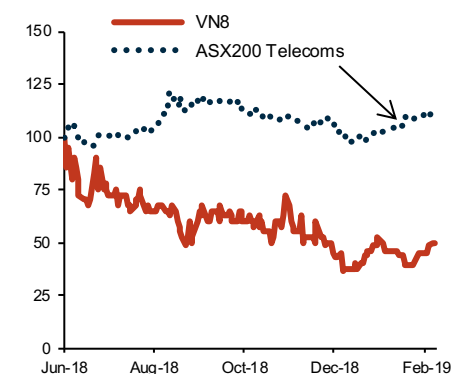
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Vonex Limited

ASX Code	VN8
52 week range (A\$cps)	A\$0.07-A\$0.23
Market Cap (A\$m)	18
Fully diluted no. of shares (m)	175
Av Daily Turnover (shares)	71k
ASX All Ordinaries	6,176
FY19E BV per share (A\$c)	A\$2.4c
FY19E EPS (A\$c)	-0.5c
FY19E Net (Debt)/Cash (A\$m)	3.9

Relative Price Performance



Vonex Limited

Year ending June

Profit & Loss Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	8.1	10.5	19.0	32.0	45.0
COGS	(5.0)	(6.3)	(11.4)	(19.2)	(27.0)
Employee/contractor	(2.1)	(3.4)	(3.6)	(4.1)	(5.1)
Corporate/Other	(1.9)	(2.2)	(2.5)	(3.0)	(3.1)
EBITDA	(0.9)	(1.3)	1.5	5.7	9.8
Depreciation & Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Operating profit	(1.0)	(1.5)	1.4	5.5	9.7
NOI	(13.1)	0.0	0.0	0.0	0.0
EBIT	(14.1)	(1.5)	1.4	5.5	9.7
Interest income	0.0	0.2	0.1	0.1	0.3
Interest expense	(0.6)	(0.0)	(0.0)	(0.0)	(0.0)
Tax expense	0.0	0.4	(0.4)	(1.7)	(3.0)
Reported NPAT	(14.7)	(0.9)	1.0	4.0	7.0
Normalised NPAT	(1.6)	(0.9)	1.0	4.0	7.0
EBITDA Margin (%)	-11%	-13%	8%	18%	22%
Operating profit margin (%)	-13%	-14%	7%	17%	22%
EPS Reported (A\$)	(10.0)	(0.5)	0.6	2.3	4.0
EPS Normalised (A\$)	(1.1)	(0.5)	0.6	2.3	4.0
EPS growth (%)	n/a	n/a	n/a	288%	75%
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.01
Avg. no. of fully-diluted shares (m)	69	175	175	175	175
YE no. of fully-diluted shares (m)	148	175	175	175	175

Cash Flow Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
EBITDA	(0.9)	(1.3)	1.5	5.7	9.8
Investment in working capital	(0.5)	(0.0)	0.3	0.4	0.4
Tax expense	0.0	0.4	(0.4)	(1.7)	(3.0)
Operating Cash Flow	(1.4)	(1.0)	1.3	4.4	7.2
Capex	(0.1)	(0.5)	(0.5)	(0.5)	(0.5)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(0.1)	(0.5)	(0.5)	(0.5)	(0.5)
Net interest received / (paid)	(0.6)	0.2	0.1	0.1	0.3
Debt draw down / (repayment)	(2.4)	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	(2.3)
Equity raised / (repaid)	23.0	0.0	0.0	0.0	0.0
Financing Cash Flow	20.0	0.2	0.1	0.1	(2.0)
Non-operating & Other	(13.7)	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	4.8	(1.3)	0.9	4.0	4.7

Balance Sheet (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash & Equivalents	5.2	3.9	4.8	8.9	13.6
Receivables	0.7	1.1	1.9	3.2	4.5
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.1	0.1	0.1	0.1	0.1
PPE and Exploration & Development	0.7	1.1	1.4	1.8	2.1
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	0.5	0.5	0.5	0.5	0.5
Total Assets	7.2	6.6	8.7	14.4	20.7
Payables and other current Liabilities	2.0	2.3	3.4	5.1	6.8
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
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	2.0	2.3	3.4	5.1	6.8
Total Equity	5.2	4.3	5.3	9.3	13.9
Net Debt (Cash)	(5.2)	(3.9)	(4.8)	(8.8)	(13.5)

Substantial Shareholders	%	Date
Code Nominees Pty Ltd	13.3%	
Finance West Pty Ltd	11.0%	Aug-18
Mr Matthew Fahey	3.8%	

Source: Company, IRESS, State One Stockbroking forecasts

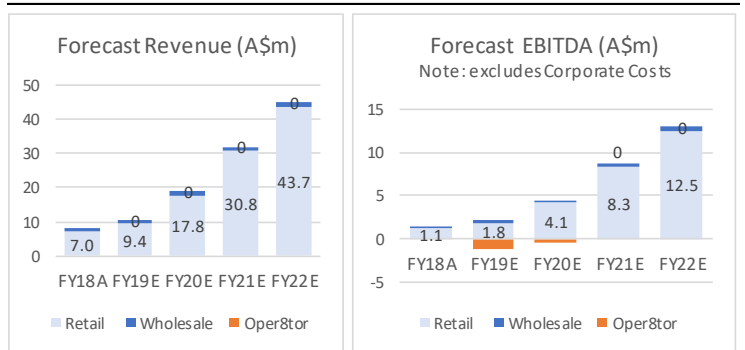
Retail revenue	FY18A	FY19E	FY20E	FY21E	FY22E
PBX users (begin year)	n/c	23,500	33,000	69,000	105,000
PBX users (end year)	n/c	33,000	69,000	105,000	141,000
PBX users (average)	n/c	28,250	51,000	87,000	123,000
Average new users per month	n/c	792	3,000	3,000	3,000
Average revenue/user (A\$pa)	n/c	332	350	354	356
Average revenue/user (A\$pm)	n/c	28	29	29	30
Revenue (A\$m)	7.0	9.4	17.8	30.8	43.7
Annual % change	n/c	34%	90%	73%	42%

Wholesale revenue	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue (A\$m)	1.1	1.1	1.2	1.2	1.3
Annual % change	n/c	4%	4%	4%	4%

Oper8tor revenue	FY18A	FY19E	FY20E	FY21E	FY22E
Average monthly users	n/c	0	0	0	0
Monthly revenue per user (US\$)	n/c	0.0	0.0	1.0	1.0
Revenue (US\$m)	n/c	0	0	0	0
Revenue (A\$m) @ US\$0.75	n/c	0	0	0	0
Annual % change	n/c	na	na	na	na

Group revenue (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Retail business	7.0	9.4	17.8	30.8	43.7
Wholesale business	1.1	1.1	1.2	1.2	1.3
Oper8tor	0.0	0.0	0.0	0.0	0.0
Group	8.1	10.5	19.0	32.0	45.0
Annual % change	n/c	30%	81%	68%	41%

Group EBITDA (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Retail business	1.1	1.8	4.1	8.3	12.5
Wholesale business	0.2	0.4	0.4	0.4	0.4
Oper8tor	0.0	-1.3	-0.5	0.0	0.0
Group (excluding Corporate)	1.3	0.9	4.0	8.7	12.9
Annual % change	n/c	na	367%	117%	48%



Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
Normalised PER	-ve	-ve	13.7	3.5	2.0
EV (A\$m)	5	6	5	1	-4
EV/EBITDA	-5.4	-4.6	3.5	0.2	n/a
ROE (%)	-31%	-20%	21%	55%	60%

SOTP valuation	A\$m	A\$ps	Comments
	86	0.49	DCF valuation
Telco business	31	0.18	PE/EPS valuation
	45	0.26	Weighted Target Value
Oper8tor	5	0.03	Nominal value, State One estimate
Group	50	0.28	Sum of weighted target value for the Telco business and a nominal value for Oper8tor

Note: Per share data based on 175 million diluted shares

Directors

(source: FY18 Annual Report)

Nicholas Ong—Non-executive Chairman

Mr Ong was a Principal Adviser at the Australian Securities Exchange (ASX) and brings 14 years' experience in IPO, listing rules compliance and corporate governance. Mr Ong has developed a wide network of clients in Asia-Pacific region and provides corporate and transactional advisory services through boutique firm Minerva Corporate Pty Limited. He is a member of the Governance Institute of Australia and holds a Bachelor of Commerce and a Master of Business Administration from the University of Western Australia.

Other directorships of Australian listed companies held by Mr Ong in the last three years are:

Current: Helios Energy Limited, CoAssets Limited, Arrow Energy Limited and Black Star Petroleum Limited.

Previous: Excelsior Gold Limited, Auroch Minerals Limited, Fraser Range Metals Group Limited, Tianmei Beverage Group Corporation Limited, Bojun Agriculture Holdings Limited and Jiajiafu Modern Agriculture Limited.

Winnie Lai Hadad—Non-Executive Director (Appointed 1 January 2018)

Ms Lai Hadad has expertise in change management, corporate governance and business process improvement and has been involved in listings on the Australian Securities Exchange. Ms Lai Hadad has been involved with both investments into China and out-bound investment from China. Her past roles include implementing Coca-Cola bottling strategies into Greater China and administering the first Chinese direct investment in an iron ore mine in the Pilbara Region of Western Australia.

Ms Lai Hadad has not held any other directorships of Australian listed companies in the last three years

Ms Lai Hadad is a lawyer admitted to practice in Western Australia, a qualified CPA, holds a BA, BCom and MSc, and is a graduate of both the Australian Institute of Company Directors and Governance Institute of Australia.

Matthew Fahey—Managing Director and CEO

Mr Fahey is Vonex Telecom's Chief Executive Officer and joined the Board as Managing Director. Mr Fahey joined Vonex Limited in 2013, through the Vonex Group's acquisition of iTrinity (IP Voice & Data) where he had served as Sales Director. Mr Fahey brings with him 20 years' of extensive experience in building and managing telecommunications companies with a well-regarded reputation in the industry for channel partner programs as well as excellence in VoIP and Telco. 2014 saw amazing growth for Vonex winning the CRN Fast50 award for fastest growing IT company in Australia.

In January 2018 Mr Fahey was appointed as Chief Executive Officer and Managing Director and sees significant opportunities for the Vonex business both in Australia and internationally. Mr Fahey is focused on driving marketing, sales and the continued development of diverse products in order to accelerate business growth and expand Vonex's market share.

Mr Fahey has not held any other directorships of Australian listed companies in the last three years.

Matthew Foy—Joint Company Secretary

Mr Foy was previously a Senior Adviser at the ASX and has ten years' experience in facilitating the compliance of listed companies. Mr. Foy is a qualified Chartered Secretary and has reviewed and approved the listing of over 40 companies during his tenure at the ASX. Mr. Foy is also Company Secretary of ASX-listed Arrow Resources Limited, Protean Energy Limited, XTD Limited and Emergent Resources Limited.

Mr Foy is a member of the Australian Institute of Company Directors, Governance Institute Australia, has a Graduate Diploma (Applied Finance) from FINSIA and a B. Com from the University of Western Australia.

David Vilensky—Non-Executive Director

Mr Vilensky is a practicing corporate lawyer and the managing director of Perth law firm Bowen Buchbinder Vilensky. He has more than 30 years' experience in the areas of corporate and business law and in commercial and corporate management. Mr Vilensky practices mainly in the areas of corporate and commercial law, mergers and acquisitions, mining and resources, trade practices and competition law and complex dispute resolution. Mr Vilensky acts for a number of listed and private companies and advises on directors' duties, due diligence, capital raisings, compliance with ASX Listing Rules, corporate governance and corporate transactions generally.

Other directorships of Australian listed companies held by Mr Vilensky in the last three years are:

Current: Zambezi Resources Limited, Latin Resources Limited.

Mr Vilensky has a Bachelor of Arts and a Bachelor of Laws from the University of Cape Town and is a member of the Law Society of Western Australia.

Daniel Smith—Joint Company Secretary

Mr Smith has primary and secondary capital markets expertise, having been involved in a number of IPOs and capital raisings. Mr Smith is a director of Minerva Corporate, a private corporate consulting firm. Mr Smith is currently a director and company secretary of ASX and AIM-listed Europa Metals Limited and ASX-listed Lachlan Star Limited and HIPO Resources Limited, and is Company Secretary for Taruga Minerals Limited and Love Group Global Limited.

Mr Smith holds a BA and is a member of the Australian Institute of Company Directors and the Governance Institute of Australia.

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Note: State One Stockbroking was Lead Manager and Underwriter for Vonex's IPO in June 2018

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