

# Vonex Ltd (ASX:VN8)

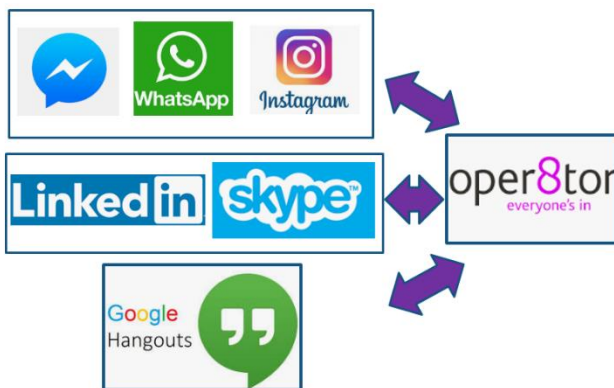
## One App to Rule them all: Oper8tor

### Event

Vonex announced on 28 March 2019 that the group's proprietary communications platform - Oper8tor - has successfully connected two major social media platforms with a third connection imminent. We believe that this has not previously been achieved by any other application. Launch of the Oper8tor app in Australia, initially planned for the end of March 2019, will now be delayed into the June 2019 quarter. This will allow for further improvement in functionality and the incorporation of recent changes in account security settings. VN8 is now targeting commercial launch of the new Oper8tor app in Europe in the September 2019 quarter.

### State One comment: Oper8tor is in the right space

Today's smartphone user must install and use several messaging apps on their device to communicate with contacts on different platforms such as Facebook Messenger, WhatsApp, Instagram, LinkedIn, Skype, and Google Hangouts. The need to seamlessly consolidate Facebook's stand-alone messaging platforms has been identified as a priority by Mark Zuckerberg – see article [here](#). Work to merge Instagram, WhatsApp, and Facebook Messenger is not expected to be completed by the beginning of 2020 at the latest. Here Oper8tor's has a jump on the market heavyweights, with patents in place, and a **differentiating advantage in that it is platform "agnostic"** and able to consolidate messaging platforms belonging to competing technology companies. Thus, Oper8tor will enable users to communicate with each other whether on a Facebook-owned platform, or on a Microsoft-owned platform (Skype, LinkedIn) or on a Google-owned platform (Google Hangouts).



### Vonex 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\$44m (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. However, we suggest that **this valuation may prove to be very conservative indeed**. We note that social media platforms typically attract very high market valuations. Yelp, Snapchat, Twitter, have market caps of US\$3bn, US\$14bn, and US\$25bn respectively. VN8 has a target for Oper8tor of 10 million active users. Assuming industry-average active user income of US\$10 per annum (~US\$0.80 per month), a 10 million user base could generate very substantial revenues for Oper8tor of US\$100m per annum. **We maintain our 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.

1 April 2019

Share Price: A\$0.095

Target Price: A\$0.28

**Target Upside: 195%**

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

### Telecommunications Services

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### Vonex Limited

ASX Code	VN8
52 week range (A\$cps)	A\$0.07-A\$0.23
Market Cap (ASm)	18
Fully diluted no. of shares (m)	175
Av Daily Turnover (shares)	946k
ASX All Ordinaries	6,272
FY19E BV per share (A\$c)	2.4
FY19E EPS (A\$c)	-0.5
FY19E Net (Debt)/Cash (A\$m)	3.9

### Relative Price Performance



**Vonex Limited**

Year ending June

<b>Profit &amp; Loss Statement (A\$M)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Revenue	8.1	10.6	19.2	32.2	45.2
COGS	(5.0)	(6.3)	(11.5)	(19.3)	(27.1)
Employee/contractor	(2.1)	(3.4)	(3.6)	(4.1)	(5.1)
Corporate/Other	(1.9)	(2.2)	(2.5)	(3.0)	(3.1)
<b>EBITDA</b>	<b>(0.9)</b>	<b>(1.3)</b>	<b>1.6</b>	<b>5.8</b>	<b>9.9</b>
Depreciation & Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
<b>Operating profit</b>	<b>(1.0)</b>	<b>(1.5)</b>	<b>1.4</b>	<b>5.6</b>	<b>9.8</b>
NOI	(13.1)	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>(14.1)</b>	<b>(1.5)</b>	<b>1.4</b>	<b>5.6</b>	<b>9.8</b>
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	(0.5)	(1.7)	(3.0)
<b>Reported NPAT</b>	<b>(14.7)</b>	<b>(0.9)</b>	<b>1.1</b>	<b>4.0</b>	<b>7.0</b>
<b>Normalised NPAT</b>	<b>(1.6)</b>	<b>(0.9)</b>	<b>1.1</b>	<b>4.0</b>	<b>7.0</b>
EBITDA Margin (%)	-11%	-12%	8%	18%	22%
Operating profit margin (%)	-13%	-14%	7%	17%	22%
EPS Reported (A\$)	(10.0)	(0.5)	0.6	2.3	4.0
<b>EPS Normalised (A\$)</b>	<b>(1.1)</b>	<b>(0.5)</b>	<b>0.6</b>	<b>2.3</b>	<b>4.0</b>
EPS growth (%)	n/a	n/a	n/a	274%	74%
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

<b>Cash Flow Statement (A\$M)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
EBITDA	(0.9)	(1.3)	1.6	5.8	9.9
Investment in working capital	(0.5)	(0.0)	0.3	0.4	0.4
Tax expense	0.0	0.4	(0.5)	(1.7)	(3.0)
<b>Operating Cash Flow</b>	<b>(1.4)</b>	<b>(1.0)</b>	<b>1.4</b>	<b>4.4</b>	<b>7.3</b>
Capex	(0.1)	(0.5)	(0.5)	(0.5)	(0.5)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(0.1)</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(0.5)</b>
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
<b>Financing Cash Flow</b>	<b>20.0</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>(2.0)</b>
Non-operating & Other	(13.7)	0.0	0.0	0.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>4.8</b>	<b>(1.3)</b>	<b>1.0</b>	<b>4.1</b>	<b>4.7</b>

<b>Balance Sheet (A\$M)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Cash & Equivalents	5.2	3.9	4.9	9.0	13.7
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
<b>Total Assets</b>	<b>7.2</b>	<b>6.6</b>	<b>8.8</b>	<b>14.5</b>	<b>20.9</b>
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
<b>Total Liabilities</b>	<b>2.0</b>	<b>2.3</b>	<b>3.4</b>	<b>5.1</b>	<b>6.8</b>
<b>Total Equity</b>	<b>5.2</b>	<b>4.3</b>	<b>5.4</b>	<b>9.4</b>	<b>14.1</b>
Net Debt (Cash)	(5.2)	(3.9)	(4.9)	(8.9)	(13.7)

<b>Substantial Shareholders</b>	<b>%</b>	<b>Date</b>
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

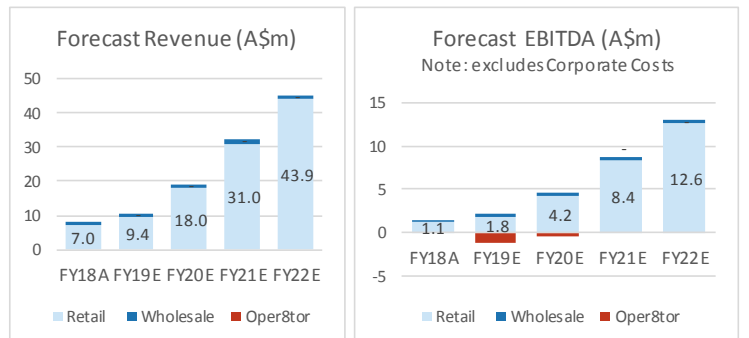
<b>Retail revenue</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
PBX users (begin year)	n/c	23,500	33,500	69,500	105,500
PBX users (end year)	n/c	33,500	69,500	105,500	141,500
<b>PBX users (average)</b>	<b>n/c</b>	<b>28,500</b>	<b>51,500</b>	<b>87,500</b>	<b>123,500</b>
Average new users per month	n/c	833	3,000	3,000	3,000
Average revenue/user (A\$pa)	n/c	331	350	354	356
Average revenue/user (A\$pm)	n/c	28	29	29	30
Revenue (A\$M)	7.0	9.4	18.0	31.0	43.9
Annual % change	n/c	35%	91%	72%	42%

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

<b>Operator revenue</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
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

<b>Group revenue (A\$m)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Retail business	7.0	9.4	18.0	31.0	43.9
Wholesale business	1.1	1.1	1.2	1.2	1.3
Operator	0.0	0.0	0.0	0.0	0.0
<b>Group</b>	<b>8.1</b>	<b>10.6</b>	<b>19.2</b>	<b>32.2</b>	<b>45.2</b>
Annual % change	n/c	31%	81%	68%	40%

<b>Group EBITDA (A\$m)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Retail business	1.1	1.8	4.2	8.4	12.6
Wholesale business	0.2	0.4	0.4	0.4	0.4
Operator	0.0	-1.3	-0.5	0.0	0.0
<b>Group (excluding Corporate)</b>	<b>1.3</b>	<b>0.9</b>	<b>4.1</b>	<b>8.8</b>	<b>13.0</b>
Annual % change	n/c	na	362%	115%	48%



<b>Valuation Ratios (x)</b>	<b>FY18A</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
Normalised PER	-ve	-ve	18.7	5.0	2.9
EV (A\$m)	7	8	7	3	-2
EV/EBITDA	-7.4	-6.0	4.4	0.5	n/a
ROE (%)	-31%	-19%	22%	55%	60%

<b>SOTP valuation</b>	<b>A\$m</b>	<b>A\$ps</b>	<b>Comments</b>
<b>Telco business</b>	<b>86</b>	<b>0.49</b>	DCF valuation
	<b>30</b>	<b>0.17</b>	PE/EPS valuation
	<b>44</b>	<b>0.25</b>	<b>Weighted Target Value</b>
<b>Operator</b>	<b>5</b>	<b>0.03</b>	Nominal value, State One estimate
<b>Group</b>	<b>49</b>	<b>0.28</b>	Sum of weighted target value for the Telco business and a nominal value for Operator

Note: Per share data based on 175 million diluted shares

**(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 Jijiafu 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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