



Vonex Limited (ASX:VN8)

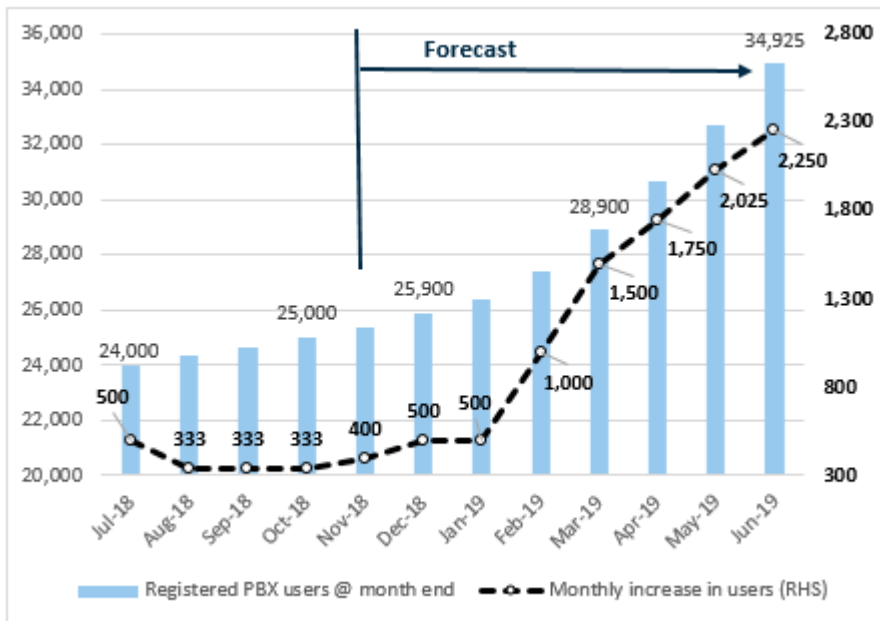
Latest announcement hits the right tone

Vonex announced today (20 December) that it has hit approximately 25,800 private branch exchange (PBX) registrations, up more than 26% YoY, and expects to break through 26,000 early in the new year with its marketing program in full effect.

We welcome this news. Earlier in the year VN8 announced that it had reached 24,000 registered PBX users as at the end of July and 25,000 as at the end of October. This implied average growth of (only) 333 users per month for the months of August, September, and October - this was below management's guided growth rate of 500 users per month. Thus, **the latest print indicates that the monthly growth rate is back to ~500.**

Looking into the second half of the financial year, we forecast that the growth rate in VN8's registered PBX user base will accelerate significantly to over 2,000 per month by May 2019 on the back of an increased marketing drive, improved engagement with new and existing channel partners, and as VN8's marketing and partnering agreement with CounterPath gains traction. We note that the December announcement referred to the recruitment of new business development focused personnel and the commencement of online marketing to all States and Territories.

Forecast active PBX users, monthly to June 2019



Source: Company, State One Stockbroking forecasts

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 group's early-stage multi-platform social media application, Oper8tor. **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 Oper8tor.

20 December 2018

Share price: A\$0.075

Target price: A\$0.28

Recommendation
Speculative Buy

Risk Assessment
Higher

Telecommunications Services

David Brennan, CFA

Senior Investment Analyst

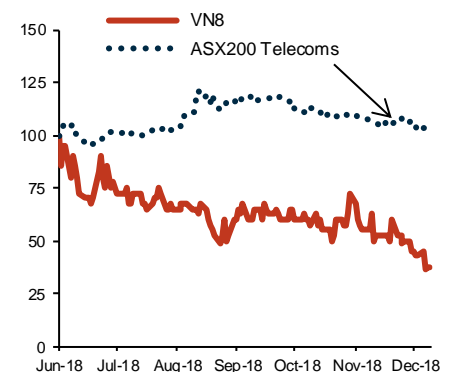
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Vonex Limited

| | |
|------------------------------|-----------------|
| ASX Code | VN8 |
| 52-week range | A\$0.07-A\$0.23 |
| Market Cap - diluted (ASm) | 13 |
| Shares - diluted (m) | 175 |
| Av Daily Turnover (shares) | 63k |
| ASX All Ordinaries | 5,621 |
| FY19E BV per share (A\$c) | 2.5c |
| EPS FY19E (A\$c) | -0.5c |
| Net (Debt)/Cash FY19E (A\$m) | 4 |

Relative price performance



Source: IRESS

Financial Statements

Vonex Limited

Year ending June

| Profit & Loss Statement (A\$m) | FY18A | FY19E | FY20E | FY21E | FY22E |
|--------------------------------------|---------------|--------------|------------|------------|-------------|
| Revenue | 8.1 | 10.7 | 19.7 | 32.7 | 45.7 |
| COGS | (5.0) | (6.4) | (11.8) | (19.6) | (27.4) |
| 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) | 1.8 | 6.0 | 10.1 |
| Depreciation & Amortisation | (0.1) | (0.1) | (0.1) | (0.1) | (0.2) |
| Operating profit | (1.0) | (1.4) | 1.6 | 5.8 | 10.0 |
| NOI | (13.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | (14.1) | (1.4) | 1.6 | 5.8 | 10.0 |
| Interest income | 0.0 | 0.2 | 0.1 | 0.2 | 0.3 |
| Interest expense | (0.6) | (0.0) | (0.0) | (0.0) | (0.0) |
| Tax expense | 0.0 | 0.4 | (0.5) | (1.8) | (3.1) |
| Reported NPAT | (14.7) | (0.9) | 1.2 | 4.2 | 7.2 |
| Normalised NPAT | (1.6) | (0.9) | 1.2 | 4.2 | 7.2 |
| EBITDA Margin (%) | -11% | -12% | 9% | 18% | 22% |
| Operating profit margin (%) | -13% | -13% | 8% | 18% | 22% |
| EPS Reported (A\$c) | (10.0) | (0.5) | 0.7 | 2.4 | 4.1 |
| EPS Normalised (A\$c) | (1.1) | (0.5) | 0.7 | 2.4 | 4.1 |
| EPS growth (%) | n/a | n/a | n/a | 242% | 71% |
| 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) | 1.8 | 6.0 | 10.1 |
| Investment in working capital | (0.5) | (0.0) | 0.3 | 0.4 | 0.4 |
| Tax expense | 0.0 | 0.4 | (0.5) | (1.8) | (3.1) |
| Operating Cash Flow | (1.4) | (0.9) | 1.5 | 4.6 | 7.4 |
| 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 | 0.2 | 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 | (2.4) |
| Equity raised / (repaid) | 23.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing Cash Flow | 20.0 | 0.2 | 0.1 | 0.2 | (2.1) |
| Non-operating & Other | (13.7) | 0.0 | 0.0 | 0.0 | 0.0 |
| Inc/(Dec) in Cash | 4.8 | (1.3) | 1.1 | 4.2 | 4.8 |

| Balance Sheet (A\$m) | FY18A | FY19E | FY20E | FY21E | FY22E |
|--|------------|------------|------------|-------------|-------------|
| Cash & Equivalents | 5.2 | 4.0 | 5.1 | 9.3 | 14.2 |
| Receivables | 0.7 | 1.1 | 2.0 | 3.3 | 4.6 |
| 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 | 6.7 | 9.1 | 14.9 | 21.4 |
| Payables and other current Liabilities | 2.0 | 2.3 | 3.5 | 5.2 | 6.9 |
| 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 | 3.5 | 5.2 | 6.9 |
| Total Equity | 5.2 | 4.3 | 5.5 | 9.7 | 14.5 |
| Net Debt (Cash) | (5.2) | (3.9) | (5.1) | (9.3) | (14.1) |

| 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

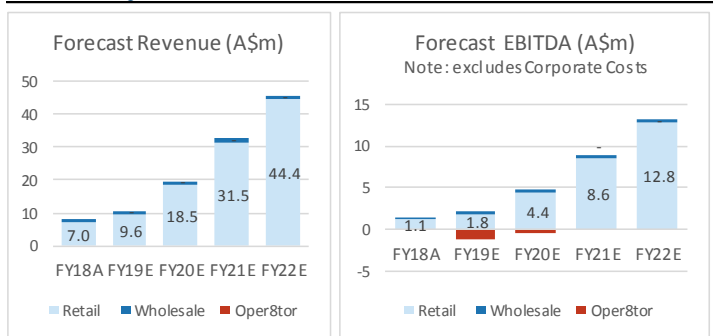
| Retail revenue | FY18A | FY19E | FY20E | FY21E | FY22E |
|------------------------------|-------|--------|--------|---------|---------|
| PBX users (begin year) | n/c | 23,500 | 34,925 | 70,925 | 106,925 |
| PBX users (end year) | n/c | 34,925 | 70,925 | 106,925 | 142,925 |
| PBX users (average) | n/c | 29,212 | 52,925 | 88,925 | 124,925 |
| Average new users per month | n/c | 952 | 3,000 | 3,000 | 3,000 |
| Average revenue/user (A\$pa) | n/c | 328 | 350 | 354 | 356 |
| Average revenue/user (A\$pm) | n/c | 27 | 29 | 29 | 30 |
| Revenue (A\$m) | 7.0 | 9.6 | 18.5 | 31.5 | 44.4 |
| Annual % change | n/c | 37% | 93% | 70% | 41% |

| 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 | 9.6 | 18.5 | 31.5 | 44.4 |
| 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 | 10.7 | 19.7 | 32.7 | 45.7 |
| Annual % change | n/c | 33% | 84% | 66% | 40% |

| Group EBITDA (A\$m) | FY18A | FY19E | FY20E | FY21E | FY22E |
|------------------------------------|------------|------------|------------|------------|-------------|
| Retail business | 1.1 | 1.8 | 4.4 | 8.6 | 12.8 |
| 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 | 4.3 | 9.0 | 13.2 |
| Annual % change | n/c | na | 357% | 110% | 47% |



| Valuation Ratios (x) | FY18A | FY19E | FY20E | FY21E | FY22E |
|----------------------|-------|-------|-------|-------|-------|
| Normalised PER | -ve | -ve | 10.8 | 3.1 | 1.8 |
| EV (A\$m) | 3 | 4 | 3 | -1 | -6 |
| EV/EBITDA | -3.4 | -3.4 | 1.8 | n/a | n/a |
| ROE (%) | -31% | -18% | 25% | 55% | 59% |

| SOTP valuation | A\$m | A\$ps | Comments |
|-----------------------|-----------|-------------|--|
| Telco business | 88 | 0.50 | DCF valuation |
| | 29 | 0.16 | PE/EPS valuation |
| | 44 | 0.25 | Weighted Target Value |
| Oper8tor | 5 | 0.03 | Nominal value, State One estimate |
| Group | 49 | 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.

The Research Analyst who prepared this report hereby certifies that the views expressed in this research document accurately reflect the analyst's personal views about the company and its financial products. The research analyst has not been and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report.

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