

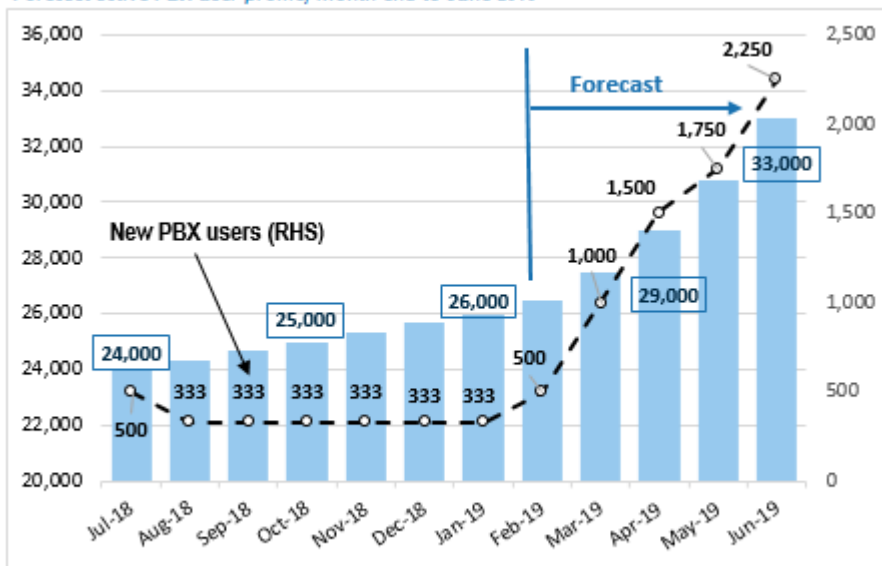
Vonex Limited (ASX:VN8)

Approaching inflection point

Vonex's registered private branch exchange (PBX) users have increased from 24,000 at the end of July 2018, to 25,000 at the end of October 2018, and to a record 26,000 as at 25 January 2019 (VN8 announcement, 29 January 2019). Growth in cloud-based PBX registrations is a key indicator of the group's business development progress. Based on the new user growth profile, we calculate that registrations have increased by, on average, 333 users per month.

With the Dec/Jan holiday season now over, we forecast that the growth rate in VN8's registered PBX user base will accelerate significantly. We forecast new users increasing by 500 in February, 1,000 in March, 1,500 in April, 1,750 in May, and 2,250 in June. Factors driving this customer and user growth include an increased marketing drive (in December 2018, VN8 commenced online marketing to all States and Territories), improved engagement with new and existing channel partners (VN8 has added 38 new channel partners to date and is targeting to reach 100 new channel partners by 30 June 2019), and VN8's marketing and partnering agreement with technology partner CounterPath gaining traction.

Forecast active PBX user profile, month-end 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\$45m (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.

8 February 2019

Share price: A\$0.08

Target price: A\$0.28

Target upside: 250%

Recommendation
Speculative Buy

Risk Assessment
Higher

Telecommunications Services

David Brennan, CFA

Senior Investment Analyst

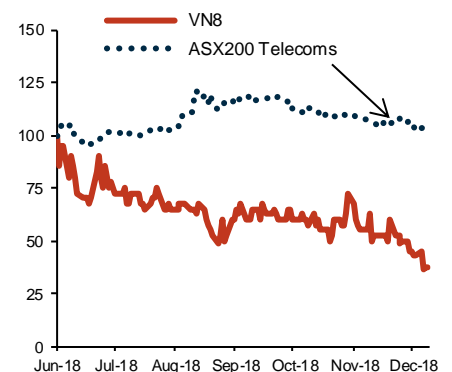
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Vonex Limited

ASX Code	VN8
52-week range	A\$0.07-A\$0.23
Market Cap - diluted (ASm)	14
Shares - diluted (m)	175
Av Daily Turnover (shares)	71k
ASX All Ordinaries	5,958
FY19E BV per share (A\$c)	2.4c
EPS FY19E (A\$c)	-0.5c
Net (Debt)/Cash FY19E (A\$m)	3.9

Relative price performance



Financial Statements

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\$c)	(10.0)	(0.5)	0.6	2.3	4.0
EPS Normalised (A\$c)	(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

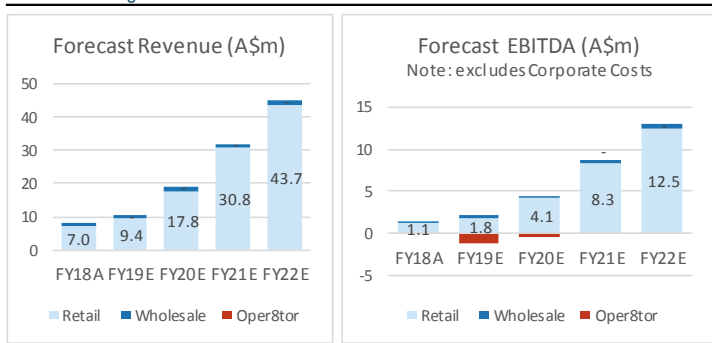
Retail revenue	FY18A	FY19E	FY20E	FY21E	FY22E
PBX users (begin year)	n/c	23,500	33,000	69,000	105,000
PBX users (end year)	n/c	33,000	69,000	105,000	141,000
PBX users (average)	n/c	28,250	51,000	87,000	123,000
Average new users per month	n/c	792	3,000	3,000	3,000
Average revenue/user (A\$pa)	n/c	332	350	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)	4	5	4	0	-5
EV/EBITDA	-4.2	-3.7	2.7	0.0	n/a
ROE (%)	-31%	-20%	21%	55%	60%

SOTP valuation	A\$m	A\$ps	Comments
Telco business	86	0.49	DCF valuation
	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.

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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