

# Vonex Limited (ASX:VN8)

## New PBX user growth lifts off

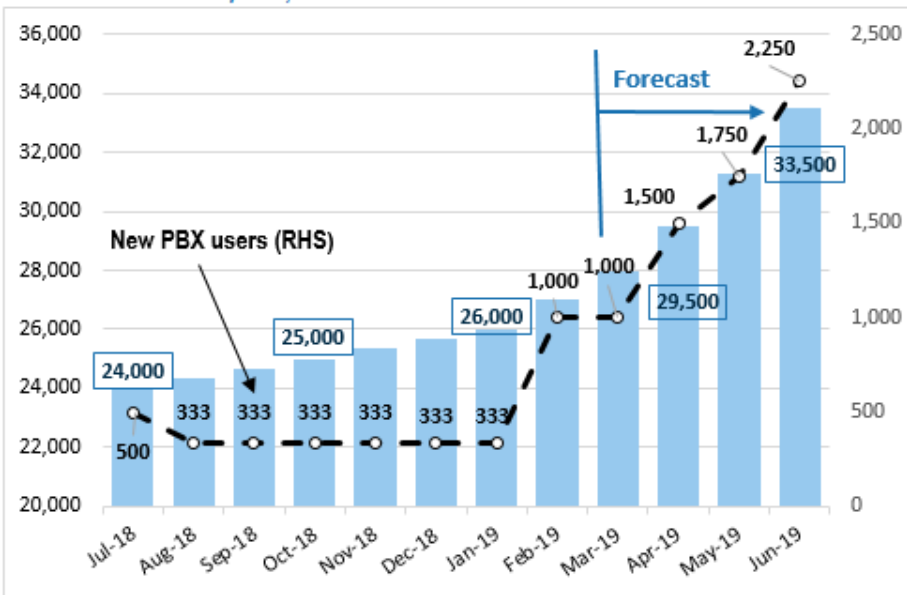
### Event

Vonex announced on 25 February that it reached a record 27,000 registered Private Branch Exchange (PBX) users as at 21 February 2019. This represents an increase of 1,000 users over the past four weeks (26,000 as at 25 January 2019). The number of new Channel Partners has also increased to 45 YTD (vs 38 as at end January; Vonex maintains a target of 100 new Channel Partners by the end of the financial year

### State One comment: Feb growth in users above our forecast

In our research note "[Approaching inflection point](#)", 8 February 2019, we forecast that subsequent to the Dec/Jan holiday season, growth rates in the PBX user base would accelerate significantly. The latest announcement indicates that this has indeed occurred; the month-on-month increase of 1,000 in February is significantly higher than the average monthly increase of 333 seen between August 2018 and January 2019. See chart below. Note: the 1,000 increase in February is 500 above our original forecast increase of 500. As a result, we have revised up our forecast end-June 2019 user base to 33,500 (33,000 previously). With some 55 new Channel Partners expected to be onboarded over the next four months, we suggest that the growth rate in new users will continue to accelerate.

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\$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. **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.

25 February 2019

Share Price: A\$0.115

Target Price: A\$0.28

**Target Upside: 143%**

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

### Telecommunications Services

David Brennan, CFA

Senior Investment Analyst

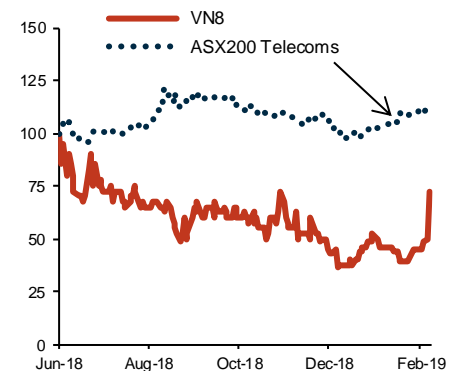
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### Vonex Limited

ASX Code	VN8
52 week range (A\$cps)	A\$0.07-A\$0.23
Market Cap (ASm)	20
Fully diluted no. of shares (m)	175
Av Daily Turnover (shares)	86k
ASX All Ordinaries	6,185
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

Profit & Loss Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
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

Cash Flow Statement (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
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 n / (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>

Balance Sheet (A\$M)	FY18A	FY19E	FY20E	FY21E	FY22E
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)

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

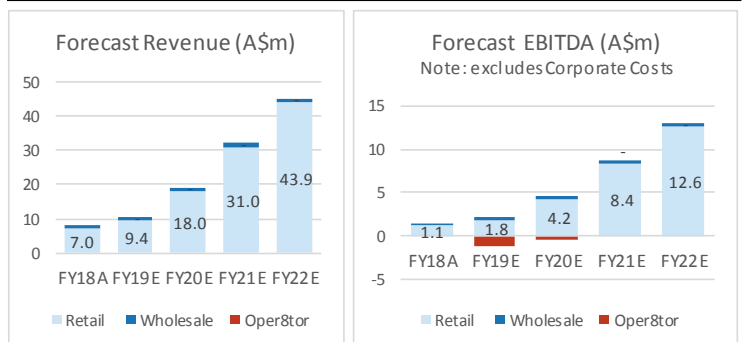
Retail revenue	FY18A	FY19E	FY20E	FY21E	FY22E
PBX users (begin year)	n/c	23,500	33,500	69,500	105,500
PBX users (end year)	n/c	33,500	69,500	105,500	141,500
PBX users (average)	n/c	28,500	51,500	87,500	123,500
Average new users per month	n/c	833	3,000	3,000	3,000
Average revenue/user (A\$pa)	n/c	331	350	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%

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	18.0	31.0	43.9
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	10.6	19.2	32.2	45.2
Annual % change	n/c	31%	81%	68%	40%

Group EBITDA (A\$m)	FY18A	FY19E	FY20E	FY21E	FY22E
Retail business	1.1	1.8	4.2	8.4	12.6
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	4.1	8.8	13.0
Annual % change	n/c	na	362%	115%	48%



Valuation Ratios (x)	FY18A	FY19E	FY20E	FY21E	FY22E
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%

SOTP valuation	A\$m	A\$ps	Comments
<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>Oper8tor</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 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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