



Vonex Ltd (ASX:VN8)

New ARR metric supports upside

Event

VNX announced today (7 November 2019) that the number of active private branch exchange (PBX) users registered on Vonex's cloud-based platforms increased by 1,000 to 35,000 in early-November from 34,000 in mid-October. In addition, VNX indicated that from this point on, the group will now announce each 2,500 users' net growth (instead of the existing method of reporting each 1,000 users net growth). Lastly, VN8 disclosed a new metric: annualised recurring revenue (ARR). As at September 2019, VN8 calculates its ARR at ~A\$9.1m.

State One comment:

PBX users: Reading in-between the lines, we believe that management's decision to change reporting each 1,000 increase in new users (net) to reporting each 2,500 in new users (net), implies that management is targeting a monthly increase of 2,500 users. At this level of growth (from November 2019), we calculate that VN8's retail users will increase by 87% from 29,000 at the end of FY19A to nearly 54,250 at the end of FY20E and to 84,250 (+55%) at the end of FY21E.

Calculation of VN8 retail revenue (A\$m). Source: Company, State One Stockbroking forecasts

Retail revenue	FY19A	FY20E	FY21E	FY22E	FY23E
PBX users (begin year)	23,500	29,000	54,250	84,250	114,250
PBX users (end year)	29,000	54,250	84,250	114,250	114,250
PBX users (average)	26,250	41,625	69,250	99,250	114,250
Average new users per month	458	2,104	2,500	2,500	0
Average revenue/user (A\$pa)	287	224	236	237	240
Average revenue/user (A\$pm)	24	19	20	20	20
Revenue (A\$m)	7.5	9.3	16.3	23.5	27.4
Annual % change	8%	24%	75%	44%	17%

ARR: This metric is often used to assist in valuing Software as a Service (SaaS) companies which, while growing the top-line, are not yet generating positive earnings. Typically, a 7-10x ARR multiple is used to determine a market capitalisation range. We suggest that since VN8 is a relatively established telecom business, a lower ARR multiple of 4x is more reasonable. At September 2019's ARR of A\$9.1m, this implies a potential market capitalisation of A\$36.4m - significantly above (+87%) VN8's current diluted market cap of A\$19.4m (calculated using 177m shares @ 11cps).

Vonex SOTP Valuation: 24c per diluted share

Our estimated SOTP valuation for VN8 is A\$43m (A\$0.24 per diluted share) comprised of a DCF valuation of A\$38m (A\$0.22 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. VN8 is targeting commercial launch of the App in the first half of 2020. **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.

7 November 2019

Share Price: A\$0.11

Target Price: A\$0.24

Target Upside: 121%

Recommendation
Speculative Buy

Risk Assessment
Higher

Telecommunications Services

David Brennan, CFA

Senior Investment Analyst

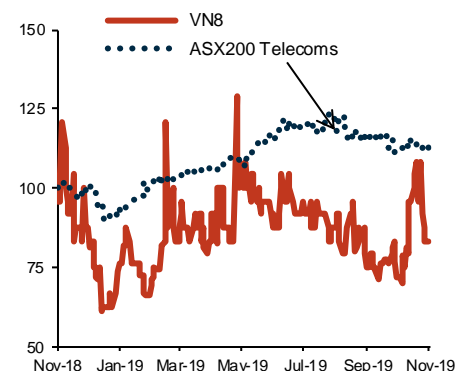
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Vonex Limited

ASX Code	VN8
52-week range (A\$cps)	A\$0.07-A\$0.17
Market Cap diluted (A\$m)	19.4
Fully diluted no. of shares (m)	177
Av Daily Turnover (shares)	105k
ASX All Ordinaries	6,820
FY20E BV per share (A\$c)	1.2
FY20E EPS (A\$c)	-0.7
FY20E Net (Debt)/Cash (A\$m)	1.2

Relative Price Performance



Vonex Limited

Year ending June

Profit & Loss Statement (A\$M)	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue	8.8	10.6	17.7	25.0	28.9
COGS	(5.5)	(6.9)	(11.6)	(16.4)	(19.1)
Employee/contractor	(3.4)	(3.5)	(2.5)	(2.6)	(2.6)
Corporate/Other	(2.0)	(2.0)	(2.1)	(2.2)	(2.2)
EBITDA	(2.0)	(1.7)	1.5	3.8	5.0
Depreciation & Amortisation	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Operating profit	(2.2)	(1.8)	1.4	3.7	4.8
NOI	(0.6)	0.0	0.0	0.0	0.0
EBIT	(2.8)	(1.8)	1.4	3.7	4.8
Interest income	0.0	0.1	0.0	0.1	0.1
Interest expense	(0.0)	0.0	0.0	0.0	0.0
Tax expense	0.0	0.5	(0.4)	(1.1)	(1.5)
Reported NPAT	(2.8)	(1.2)	1.0	2.6	3.5
Normalised NPAT	(2.8)	(1.2)	1.0	2.6	3.5
EBITDA Margin (%)	-23%	-16%	9%	15%	17%
Operating profit margin (%)	-25%	-17%	8%	15%	17%
EPS Reported (A\$C)	(1.9)	(0.7)	0.6	1.5	2.0
EPS Normalised (A\$C)	(1.9)	(0.7)	0.6	1.5	2.0
EPS growth (%)	n/a	n/a	n/a	164%	34%
DPS - Declared (A\$)	0.00	0.00	0.00	0.00	0.01
Avg. no. of fully-diluted shares (m)	149	177	177	177	177
YE no. of fully-diluted shares (m)	149	177	177	177	177

Cash Flow Statement (A\$M)	FY19A	FY20E	FY21E	FY22E	FY23E
EBITDA	(2.0)	(1.7)	1.5	3.8	5.0
Investment in working capital	(0.1)	(0.4)	0.4	0.4	0.2
Tax expense	0.0	0.5	(0.4)	(1.1)	(1.5)
Operating Cash Flow	(2.2)	(1.6)	1.4	3.0	3.7
Capex	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(0.3)	(0.5)	(0.5)	(0.5)	(0.5)
Net interest received / (paid)	(0.0)	0.1	0.0	0.1	0.1
Debt draw down / (repayment)	(0.0)	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	(1.1)
Equity raised / (repaid)	1.0	0.0	0.0	0.0	0.0
Financing Cash Flow	1.0	0.1	0.0	0.1	(1.0)
Non-operating & Other	(0.6)	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	(2.0)	(2.0)	1.0	2.6	2.2

Balance Sheet (A\$M)	FY19A	FY20E	FY21E	FY22E	FY23E
Cash & Equivalents	3.2	1.2	2.2	4.8	6.9
Receivables	0.6	1.1	1.8	2.5	2.9
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.3	0.3	0.3	0.3	0.3
PPE and Exploration & Development	0.8	1.2	1.5	1.9	2.2
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	5.4	4.2	6.3	9.9	12.9
Payables and other current Liabilities	2.1	2.1	3.1	4.2	4.8
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	2.1	2.1	3.1	4.2	4.8
Total Equity	3.3	2.1	3.1	5.7	8.1
Net Debt (Cash)	(3.2)	(1.2)	(2.2)	(4.8)	(6.9)

Substantial Shareholders	%	Date
JP Morgan Nominees	15.0%	
Finance West Pty Ltd	10.9%	Aug-19
Carmine Lion Group	4.8%	

Source: Company, IRESS, State One Stockbroking forecasts

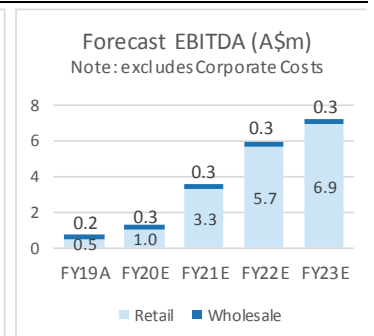
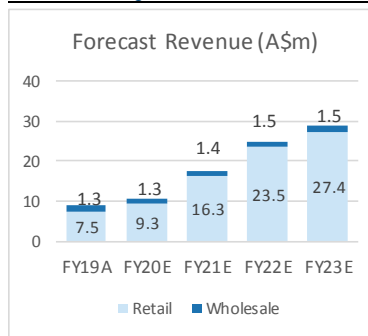
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Annual % change	8%	24%	75%	44%	17%

Wholesale revenue	FY19A	FY20E	FY21E	FY22E	FY23E
Revenue (A\$m)	1.3	1.3	1.4	1.5	1.5
Annual % change	15%	5%	5%	5%	5%

Oper8tor revenue	FY19A	FY20E	FY21E	FY22E	FY23E
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)	FY19A	FY20E	FY21E	FY22E	FY23E
Retail business	7.5	9.3	16.3	23.5	27.4
Wholesale business	1.3	1.3	1.4	1.5	1.5
Oper8tor	0.0	0.0	0.0	0.0	0.0
Group	8.8	10.6	17.7	25.0	28.9
Annual % change	n/c	21%	66%	41%	16%

Group EBITDA (A\$m)	FY19A	FY20E	FY21E	FY22E	FY23E
Retail business	0.5	1.0	3.3	5.7	6.9
Wholesale business	0.2	0.3	0.3	0.3	0.3
Oper8tor	0.0	-1.0	-1.0	0.0	0.0
Group (excluding Corporate)	0.7	0.3	2.6	6.0	7.2
Annual % change	n/c	na	778%	130%	21%



Valuation Ratios (x)	FY19A	FY20E	FY21E	FY22E	FY23E
Normalised PER	-ve	-ve	19.8	7.5	5.6
EV (A\$m)	8	10	9	7	4
EV/EBITDA	-4.0	-6.0	6.1	1.7	0.9
ROE (%)	-84%	-45%	38%	59%	51%

SOTP valuation	A\$m	A\$ps	Comments
Telco business	38	0.22	DCF valuation

Oper8tor	5	0.03	Nominal value, State One estimate
Group	43	0.24	Sum of weighted target value for the Telco business and a nominal value for Oper8tor

Note: Per share data based on 177 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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