

Isignthis (ISX) Approval Process Continues

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Andrew Shearer
ashearer@pacpartners.com.au
+61 3 8633 9862

Performance Update

Recent updates have indicated ISX's progress in establishing a solid foundation for market penetration through legal acceptance in several key jurisdictions, alongside new agreements executed with various clients from the gaming and payments businesses.

The raising of \$10m provides ISX with the funds to build brand awareness and overcome potential hurdles in ensuring successful client integration and meeting regulatory requirements.

However as the majority of customer agreements are yet to be fully integrated and partners who are fully integrated are yet to generate revenue from operations, we remain prudent in our forecast of short term revenue. It is unlikely that any material revenue is derived from successfully integrated clients until early FY17.

Recent Integrations – Laying Foundation for Growth

Partner Integration: One key area for ISX to commence revenue generation is by integrating existing customers. The timeline to do this varies across customers. Partner Integration is occurring in 3 areas:

Channel Partners/Networks: As the PCI DSS certification has been obtained, the following Channel Partners; Adlante; eMerchantPay; and IPG have completed integration and pending final testing will be able to commence sales. In addition, integrations pending include; Alpha Payments Cloud; The Flying Merchant; SmartCardPayment Systems and Assurity (Singapore Government NAF).

Direct Customers: Integration of Coinify and eZeewallet are 95% completed and awaiting a final test. Incomplete or soon to commence integrations include Crownbet; Tikforce; and SolidTrustPay.

Card Acquiring Services: Consumer Clearhaus have been fully integrated awaiting a final test. The integration status with YeePay is nearing completion, YeePay are the pioneer in the Chinese e-Payment industry processing over US\$77bn of transactions in 2014, a successful integration will constitute significant opportunities for ISX.

Regulatory Updates: The ability of ISX to gain regulatory approval to operate in jurisdictions will expand the reach and revenue opportunities

- **Isle of Man:** ISX has confirmed that their platform is applicable to the Isle of Man, which is a major centre for off shore wagering and financial services.
- **Other Jurisdictions:** In addition ISX is seeking approval for key jurisdictions of Cyprus, Gibraltar, Malta, U.K, Australia, France & Italy. Furthermore two principal reforms

Recommendation

Buy

Previous Recommendation	Buy
Risk Rating	High
Current Share Price	\$0.17
12 Month Price Target	\$0.31
Price Target Methodology	NAV
Total Return (Capital + Yield)	84%
DCF Valuation	\$0.31
Market capitalisation	\$48m
Liquidity – Daily Value	\$ m

Financial Forecasts & Valuation Metrics

Y/e (\$m)	FY15A	FY16A	FY17F	FY18F
Revenue	0.0	0.4	7.4	9.5
NPAT	-20.2	-9.2	-4.2	-2.4
EPS (cps)	-2.81	-1.53	-0.44	-0.25
EPS Growth	0%	-46%	-71%	-42%
DPS (c)	0	-1	0	0
EV / EBITDA (x)	-5.3	-11.0	-27.5	-51.3
PER (x)	-6.2	-11.5	-39.7	-68.7
Dividend Yield	0%	-3%	-1%	-1%
Gearing	0	0	0	0
Interest Cover (x)	na	na	na	na

Source: PAC Partners estimates

Investment Summary

We have reduced our FY17e revenue by 25% and FY18e by 33%, with limited changes to FY19 onwards, as we see the adoption rate picking up in FY18.

The reduction in estimated near term earnings has resulted in our target price reducing from \$.048/sh to \$.031/sh (-53%) We retain a Buy recommendation and a high risk rating.

Risks for ISX remain around the rate of on boarding customers, future performance is leveraged to the rate of customer uptake.

Source: Iress

iSignthis Limited							Price \$	0.18
NFPOS		622 m					Market Cap	\$109 m
PROFIT & LOSS (\$m)								
Y/e Dec	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F		
Revenue	0.0	0.4	7.4	9.5	19.9	31.3		
EBITDA	-20.1	-9.1	-3.9	-2.2	7.7	18.5		
Depreciation & Amortisation	0.0	0.1	0.3	0.3	0.3	0.3		
EBIT	-20.2	-9.2	-4.2	-2.4	7.4	18.2		
Net Interest	0.0	0.0	0.0	0.0	0.0	0.0		
Income tax	0.0	0.0	0.0	0.0	-2.2	-5.5		
NPAT underlying	-20.2	-9.2	-4.2	-2.4	5.2	12.8		
Equity Accounting Profits								
Less non-controlling Interest	0.0	0.0	0.0	0.0	0.0	0.0		
NPAT underlying - attributed to sharehol	-20.2	-9.2	-4.2	-2.4	5.2	12.8		
Abnormal items	0.0	0.0	0.0	0.0	0.0	0.0		
NPAT Reported.	-20.2	-9.2	-4.2	-2.4	5.2	12.8		
NPATA								
BALANCE SHEET (\$m)								
Y/e Dec	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F		
Cash	2.3	9.0	0.4	-1.9	8.9	29.5		
PP&E	0.0	0.1	-0.1	0.0	0.1	0.2		
Debtors & Inventory	0.1	0.1	1.1	1.4	3.0	4.7		
Intangibles	1.3	1.2	1.3	1.3	1.3	1.3		
Other assets	0.0	0.0	0.9	0.9	1.6	2.5		
Total Assets	3.7	10.4	3.7	1.6	14.8	38.2		
Borrowings	0.0	0.0	0.0	0.0	0.0	0.0		
Trade Creditors	0.2	0.5	0.7	0.9	2.0	3.1		
Other Liabilities	6.8	1.6	0.2	0.2	0.3	0.3		
Total Liabilities	0.2	0.7	0.9	1.1	2.2	3.3		
NET ASSETS	3.5	9.7	2.8	0.5	12.7	34.9		
OEI and Pref Shares	0.0	0.0	0.0	0.0	0.0	0.0		
Shareholder Equity	3.5	9.7	2.8	0.5	12.7	34.9		
Cash Flow (\$m)								
Y/e Dec	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F		
Operating EBITDA	0.0	0.0	8.4	14.9	31.1	44.6		
Interest & Tax	0.0	0.2	0.2	0.2	(2.2)	(5.3)		
Working Cap.	0.0	0.2	0.0	0.0	0.0	0.0		
Operating Cash Flow	(1.8)	(3.9)	(7.5)	(1.4)	11.8	21.6		
Investments	0.0	0.0	0.5	0.5	0.5	0.5		
PPE	(0.0)	(0.1)	(1.5)	(1.5)	(1.5)	(1.5)		
Other	1.3	0.0	0.0	0.0	0.0	0.0		
Free Cashflow (FCF)	(0.6)	(4.0)	(8.5)	(2.4)	10.8	20.6		
Ord Dividends	0.0	0.0	0.0	0.0	0.0	0.0		
Equity, (Debt Paydown)	2.9	10.6	0.0	0.0	0.0	0.0		
Net Cashflow	2.3	6.7	(8.5)	(2.4)	10.8	20.6		
DIVISIONAL SUMMARY (A\$m)								
Y/e Dec	FY15A	FY16A	FY17F	FY18F	FY19F	FY20F		
Revenue								
EOI Revenue	0.0	0.0	2.3	3.0	5.6	8.8		
SCA Revenue	0.0	0.0	4.6	6.0	14.0	22.0		
Channel Partner Sales	0.0	0.0	1.3	5.6	11.2	13.4		
Total	0.0	0.0	8.2	14.6	30.8	44.3		

iSignthis Limited

Date:

14-Sep-16

Model Updated:

14-Sep-16

KEY RATIOS

Y/e Dec	FY16A	FY17F	FY18F	FY19F	FY20F
EBITDA Margin (%)	-2050.5%	-53.1%	-22.8%	38.5%	59.0%
NPAT Margin (%)	-2074.7%	-56.6%	-25.6%	26.1%	40.7%
ROE (%) y/e	2440.2%	-43.1%	-248.6%	33.3%	207.9%
ROI (%) y/e	-1170.5%	-177.6%	-98.0%	194.3%	338.4%
NTA per share (\$)	0.01	0.00	0.00	0.02	0.06
Eff Tax Rate (%)	0.0%	0.0%	0.0%	-30.0%	-30.0%
Interest Cover (x)	-	-	-	-	-
Net Gearing (%)	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION PARAMETERS

Y/e Dec	FY16A	FY17F	FY18F	FY19F	FY20F
EPS Adj (cps)	-1.53	-0.44	-0.25	0.54	1.34
PE Adj (x)	-11.47	-39.68	-68.67	32.14	13.05
Enterprise Value (\$m)	99.9	108.4	110.8	100.0	79.3
EV / EBITDA (x)	-11.0	-27.5	-51.3	13.0	4.3
EV / EBIT (x)	-10.8	-25.8	-45.7	13.5	4.3
Price / NTA	11.8	46.3	315.2	8.0	2.9
DPS (cps)	-0.5	-0.2	-0.1	0.2	0.5
Dividend Yield (%)	-3.0%	-1.4%	-0.5%	1.1%	2.7%
Franking (%)	100%	100%	100%	100%	100%
Free Cash / Share (c)	-0.6	-1.4	-0.4	1.7	3.3
Price / FCF PS (x)	-27.5	-12.8	-45.9	10.1	5.3

DCF VALUATION & SENSITIVITY

PV of Cashflows 2016 to 2021	17	Risk Free Rate	4.0%
		Equity Risk Premium	6.5%
PV of Term Year Cashflow	167	Equity Beta	1.35
Less OEI at FY16 y/e	0	Cost of Equity	12.8%
Cash and Equivalents	10	After Tax WACC	12.8%
Debt	0	Terminal Growth	4.0%
PV of Equity	195		
PV of Equity per share	\$ 0.31		

GROWTH PROFILE (YoY)

Y/e Dec	FY16A	FY17F	FY18F	FY19F	FY20F
Sales Revenue	>100%	41299%	79%	111%	44%
EBITDA	55%	57%	45%	455%	141%
EBIT	-2075%	-57%	-26%	37%	58%
NPAT	54%	54%	42%	314%	146%
EPS	-46%	-71%	-42%	-314%	146%
DPS	0%	-54%	-63%	-314%	146%

Contact Information

Melbourne (Head Office)	Level 10, 330 Collins Street Melbourne VIC 3000	+61 3 8633 9831
Sydney	Level 9, 56 Pitt Street, Sydney NSW 2000	+61 2 9233 9600
Perth	Level 29, 219 St Georges Tce, Perth WA 6000	

CRAIG STRANGER

Managing Director
3 8633 9832
cstranger@pacpartners.com.au

PAUL JENSZ

Director, Senior Industrial Analyst
03 8633 9864
pjensz@pacpartners.com.au

BRENDAN FOGARTY

Corporate Sales - Melbourne
03 8633 9866
bfogarty@pacpartners.com.au

PHIL CAWOOD

Institutional Sales – Sydney
02 9994 5552
Pcawood@pacpartners.com.au

SEAN KENNEDY

Corporate Finance
03 8633 9836
skennedy@pacpartners.com.au

ANDREW SHEARER

Senior Analyst
03 8633 9862
ashearer@pacpartners.com.au

TOM FAIRCHILD

Corporate Sales - Melbourne
+61 03 8633 9867
tfairchild@pacpartners.com.au

IAN LEETE

Corporate Sales – Sydney
02 9994 5551
ileete@pacpartners.com.au

BROOKE PICKEN

Equity Capital Markets
03 8633 9831
bpicken@pacpartners.com.au

LAWRENCE GRECH

Senior Analyst
0404 052 913
lgrech@pacpartners.com.au

RYAN GALE

Corporate Sales - Melbourne
03 8633 9833
rgale@pacpartners.com.au

SEBASTIAN JURD

Corporate Sales – Sydney
02 9994 5553
sjurd@pacpartners.com.au

ANTHONY STANI

Corporate Finance
03 8633 8251
astani@pacpartners.com.au

ROGER CHEN

Junior Analyst
03 8633 9868
rchen@pacpartners.com.au

EDWIN BULESCO

Corporate Sales – Perth
0431 567 550
ebulesco@pacpartners.com.au

Sol Jones

Corporate Sales – Sydney
02 9994 5554
sjones@pacpartners.com.au

Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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