

BANXA Holdings Inc

H1 FY21 results

Better than forecast H1 performance, positive Q2 EBITDA

BANXA Holdings Inc (TSX-V:BNXA) is a global Payments Service Provider (PSP) serving the digital asset/cryptocurrency industry. It does so by using its platform as a “bridge” between the fiat/cash/banking system and the digital asset/exchange system. The company is headquartered in Australia where it has pioneered easy to access, local payments platforms for retail investors to acquire cryptocurrencies. More recently it has expanded its infrastructure to the B2B market, partnering with the leading cryptocurrency exchanges, including OK Group, Binance, KuCoin and EDGE Wallet. It has also expanded to the UK, the European Union, USA and Canada. The company has reported H1 FY21 revenue of A\$7.4m, up 124% on the prior period, on the back of an almost seven-fold increase in payments volumes. Gross profit for the half was up more than 200% in the previous corresponding period to \$2.2m. Adjusted EBITDA was a loss of \$0.28m for the period with Q2 FY21 delivering adjusted positive EBITDA of \$0.096m. The result outperformed our forecasts on an annualised basis and has resulted in an upgrade to our FY21 and FY22 forecasts. This has lifted our base case DCF valuation to C\$3.80/share (A\$3.88/share) from C\$3.47/share previously.

Business model

BANXA earns revenue from commission fees & spread. It is therefore a “flow” based business, similar to international forex companies such as PayPal, TransferWise or Ant Financial and Australian forex companies OFX and EML Payments. It operates in both the B2B and B2C markets. For consumers, the company has pioneered physical point of sale locations through its partnerships with Australia Post (4,500 post offices) and blueshyft (1,200 newsagents) and online access through its premium branded “bitcoin” domain names. It has a number of products, including its leading product the BANXA platform, which integrates into client/partner platforms - software and hardware wallets, websites and cryptocurrency exchanges. The platform has been built inhouse, and the Intellectual Property (IP) behind the platform, which includes Machine Learning, Compliance, KYC (“Know-Your-Customer”) and Cash Flow positioning, is owned by BANXA and is integrated with a number of specialist data providers.

H1 FY21 result commentary

BANXA has reported better than expected H1 FY21 revenues and costs, forcing us to rethink our FY21 forecasts and beyond. The company delivered a 124% lift in revenues to \$7.4m (derived from commissions and the sale of cryptocurrencies) and a 203% increase in gross profit to \$2.2m. The reported EBITDA loss was \$1.4m, an increase of 14% on the \$1.2m loss reported in H1 FY20 but the adjusted EBITDA loss was \$0.28m, a 77% improvement on pcp. The company reported positive adjusted EBITDA of \$0.096m for Q2. The adjusted NPAT loss for the half was \$0.5m, a \$1.4m improvement on H1 FY20. Employee and operating costs were substantially below our forecasts on a full year run rate and as a consequence, we have upgraded our forecasts for FY21 and FY22 on a lower than previously struck cost base.

Base case DCF valuation upgraded to C\$3.80

We have upgraded our base case DCF valuation to C\$3.80 (previously C\$3.47) as a result of our earnings adjustments. Our valuation uses a weighted average cost of capital (WACC) of 13.5% to reflect the high risk/return nature of the investment and a terminal growth rate of 2.2%. In our view, continued momentum in BANXA’s total payments volume together with the delivery of stable gross margins should underpin its share price in the short to medium term.

Earnings History and RaaS’ Estimates							
Year end	TPV [^] (A\$M)	Revenue (A\$M)	Gross Profit (A\$M)	EBITDA (A\$M)	NPAT (A\$M)	EPS (cps)	EV/Sales (X)
06/20a	69.3	6.8	2.7	(1.0)	(2.0)	nm	16.2
06/21e	476.7	15.7	6.9	(0.9)	(0.6)	-0.69	6.5
06/22e	719.4	25.9	11.4	2.2	1.5	3.67	4.1
06/23e	1,010.9	38.1	16.8	6.7	4.6	11.41	2.7

Source: RaaS Advisory Estimates for FY21e, FY22e and FY23e [^]Total Payments Value

Fintech

3rd March 2021

Share details

Tsx-V Code	BNXA
Share price (2 Mar)	C\$2.69
Market Capitalisation	C\$109.5M
Shares on issue	40.7M
Net debt at 31 Dec	A\$0.22M
Free float	~65%

Share performance (since IPO)



Upside Case

- Scalable business model in high growth sector
- Delivering both online and offline payments options to consumers and businesses
- Delivering compliant, fully regulated blockchain solution to cryptocurrency ownership

Downside Case

- Dependent on volumes, clipping a small % of transactions value
- Sensitive to regulation
- Highly fragmented sector

Catalysts

- Demonstrated continued payments growth
- Delivering its maiden net profit

Board of Directors

Domenic Carosa	Chairman & Founder
Jim Landau	Non-Executive Director
Doron Cohen	Non-Executive Director
Matthew Cain	Non-Executive Director
Holger Arians	Chief Executive Officer

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* RaaS Advisory was paid in shares for its initiation report on BANXA. No fees have been paid for this update report.

H1 FY21 result

BANXA has reported an 124% lift in H1 FY21 revenues to \$7.4m, driven by strong growth from commissions on the sale of cryptocurrencies and the sale of cryptocurrencies. The company reports commissions on the buy and sell of cryptocurrencies, integration revenue and the sale of cryptocurrencies as revenue. Gross profit for the half year was \$2.2m, an increase of 203% on the prior period. The adjusted NPAT loss for the half was \$0.48m, a 74% reduction on the \$1.9m loss in H1 FY20. A key feature of the result was lower than expected employee and operating costs, which we have adjusted for the remainder of FY21 and FY22.

Exhibit 1: H1 FY21 versus H1 FY20 and RaaS forecast (in A\$M)

	H1 FY20	H1FY21	% change
Agency transactions	19.6	184.1	839%
Sell transactions	2.3	3.9	64%
Commissions on buy and sell	0.9	3.4	280%
Integration revenue	0	0.1	nm
Sale of cryptocurrencies	2.4	3.9	62%
Total Payments Volume	25.3	195.2	673%
Revenues as per financial statements	3.3	7.4	124%
Cost of sales	(2.6)	(5.2)	102%
Gross Profit	0.7	2.2	203%
GP margin	21.5%	29.1%	36%
EBITDA Reported	(1.2)	(1.1)	(13%)
EBITDA Adjusted	(1.2)	(0.3)	(77%)
NPAT Reported	(1.9)	(0.9)	(52%)
NPAT Adjusted	(1.9)	(0.5)	(74%)

Source: Company data, RaaS estimates

Earnings adjustment

We have adjusted our earnings for the second half of FY21 to reflect higher revenues from commissions and sales of cryptocurrencies as well as lower employee and operating costs. This has resulted in a 90% reduction in our adjusted NPAT loss forecast for FY21 to A\$0.2m. We are now anticipating that BANXA will report EBITDA of A\$2.2m and NPAT of \$1.5m in FY22.

Exhibit 1: Earnings adjustments (in A\$M)

	FY21 old	FY21 new	FY22 old	FY22 new
Revenue	11.5	15.7	17.3	25.9
Gross Profit	8.8	6.9	13.9	11.4
EBITDA	(2.5)	(0.9)	(0.2)	2.2
NPAT Adjusted	(2.5)	(0.2)	(0.1)	1.5
NPAT Reported	(2.5)	(0.6)	(0.1)	1.5

Source: RaaS estimates

Base Case DCF valuation upgraded to C\$3.80/share

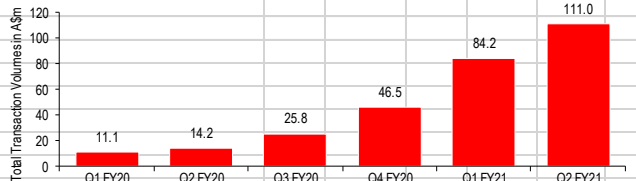
We believe the discounted cashflow methodology is the most appropriate method to value BANXA, given the relatively early stage of the company's life. We arrive at a base case valuation of C\$3.80 after applying a WACC of 13.5% and terminal growth rate of 2.2% to our base case free cashflows. The terminal value accounts for A\$2.17/share of our valuation.

Exhibit 3: Base Case DCF valuation

	Parameters
Discount rate (WACC)	13.5%
Terminal Growth Rate	2.2%
Beta	1.8
Present value of free cashflows (A\$m)	67.6
Terminal value (A\$m)	89.9
Add net cash	(0.3)
Equity value (A\$m)	157.8
Shares on issue	40.7
Equity value per share (A\$)	A\$3.88
Equity value per share (C\$)	C\$3.80

Source: RaaS estimates

Exhibit 4: Financial Summary

Banxa Holdings Inc						Share price (2nd March)						CS	2.69						
Profit and Loss (A\$m)						Total Transaction Volumes and Margins						FY18A	FY19A	FY20A	FY21F	FY22F	FY23F		
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	Commission Revenue	3.7	1.6	2.2	4.7	7.1	10.0							
Total Transaction Value (TTV)	46.0	69.3	476.7	719.4	1,010.9	Sale of Cryptocurrencies	22.3	6.4	4.6	11.0	18.7	28.1							
Revenue (commissions/crypto sales)	8.0	6.8	15.7	25.9	38.1	Sell Transactions (purchases from customers)	21.3	6.2	4.4	10.5	17.8	26.7							
Gross Profit	1.8	2.7	6.9	11.4	16.8	Agency transactions	42.7	31.8	58.1	450.5	675.8	946.1							
EBITDA	(2.2)	(1.0)	(0.9)	2.2	6.7	Total Transaction Volume (TTV)	90.0	46.0	69.3	476.7	719.4	1,010.9							
Depn	(0.6)	(0.6)	(0.0)	(0.0)	(0.0)	Gross Profit	4.1	1.8	2.7	6.9	11.4	16.8							
Amort	0.0	0.0	0.0	0.0	0.0	GP/TTV	5%	4%	4%	1%	2%	2%							
EBIT	(2.8)	(3.7)	(1.0)	2.2	6.7	GP/Revenue reported	16%	22%	40%	44%	44%	44%							
Interest	(0.0)	(0.1)	(0.0)	(0.1)	(0.1)														
Tax	0.8	(0.3)	0.0	(0.6)	(2.0)														
Minorities	0.0	0.0	0.0	0.0	0.0														
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0														
NPAT pre significant items	(2.1)	(4.1)	(0.2)	1.5	4.6														
Significant items	0.0	2.1	(0.4)	0.0	0.0														
NPAT (reported)	(2.1)	(2.0)	(0.6)	1.5	4.6														
Cash flow (A\$m)						Total Transaction Volume growth													
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F														
EBITDA	(2.2)	(1.0)	(0.9)	2.2	6.7														
Interest	0.0	(0.1)	(0.0)	(0.1)	(0.1)														
Tax	(0.2)	(0.1)	0.0	(0.6)	(2.0)														
Working capital changes	0.3	(1.3)	4.3	(3.8)	(0.7)														
Operating cash flow	(2.1)	(2.5)	3.4	(2.3)	3.9														
Mtce capex	(0.0)	0.0	(0.1)	(0.0)	(0.0)														
Free cash flow	(2.1)	(2.5)	3.3	(2.3)	3.9														
Growth capex	0.0	0.0	(0.1)	(0.0)	(0.1)														
Acquisitions/Disposals	0.0	0.5	0.0	0.0	0.0														
Other	(0.0)	(1.2)	0.0	0.0	0.0														
Cash flow pre financing	(2.1)	(3.2)	3.2	(2.3)	3.9														
Equity	1.9	3.6	4.9	0.0	0.0														
Debt	(0.3)	0.5	2.5	0.0	0.0														
Dividends paid	0.0	0.0	0.0	0.0	0.0														
Net cash flow for year	(0.5)	0.9	10.6	(2.3)	3.9														
Balance sheet (A\$m)						Margins, Leverage, Returns						FY19A	FY20A	FY21F	FY22F	FY23F			
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	EBITDA													
Cash	1.1	2.1	12.7	10.4	14.3	EBIT													
Accounts receivable	0.1	0.8	1.3	2.3	3.6	NPAT pre significant items													
Inventory	0.1	0.0	0.0	0.1	0.1	Net Debt (Cash)													
Other current assets	0.2	1.0	1.0	1.0	1.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	(6.32)	(2.65)							
Total current assets	1.4	3.9	15.0	13.8	19.0	ND/ND+Equity (%)	(%)	(39.9%)	(68.0%)	(71.7%)	(64.1%)	(58.8%)							
PPE	0.0	0.0	0.1	0.1	0.1	EBIT interest cover (x)	(x)	n/a	n/a	n/a	0.0	0.0							
Goodwill	0.2	0.2	0.2	0.2	0.2	ROA													
Investments	0.0	0.0	0.0	0.0	0.0	ROE													
Deferred tax asset	0.6	0.0	0.0	0.0	0.0	ROIC													
Loan receivables	0.0	0.0	0.0	0.0	0.0	NTA (per share)													
Total non current assets	0.8	0.2	0.3	0.3	0.3	Working capital													
Total Assets	2.2	4.1	15.3	14.1	19.2	WC/Sales (%)													
Accounts payable	0.8	1.5	3.6	1.0	1.5	Revenue growth													
Short term debt	0.0	0.1	3.1	3.1	3.1	EBIT growth pa													
Tax payable	0.3	0.2	0.1	0.1	0.1	Pricing													
Other current liabilities	0.5	0.6	1.6	1.6	1.6	No of shares (y/e)	(m)	0	31	41	41	41							
Total current liabilities	1.6	2.4	8.5	5.8	6.3	Weighted Av Dil Shares	(m)	na	31	41	41	41							
Long term debt	0.0	0.4	0.4	0.4	0.4	EPS Reported	cps	nm	nm	(1.95)	3.67	11.41							
Other non current liab	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	nm	nm	(0.69)	3.67	11.41							
Total long term liabilities	0.0	0.4	0.4	0.4	0.4	EPS growth (norm/dil)					(633.6%)	211%							
Total Liabilities	1.6	2.8	8.9	6.2	6.8	DPS	cps	-	-	-	-	-							
Net Assets	0.6	1.2	6.3	7.8	12.5	DPS Growth													
Share capital	2.9	6.5	12.9	12.9	12.9	Dividend yield													
Accumulated profits/losses	(1.2)	(5.4)	(6.8)	(5.4)	(0.7)	Dividend imputation													
Reserves	0.0	0.1	0.3	0.3	0.3	PE (x)													
Minorities	0.0	0.0	0.0	0.0	0.0	PE market													
Total Shareholder funds	1.7	1.2	6.4	7.8	12.5	Premium/(discount)													
						EV/EBITDA													
						FCF/Share	cps	nm	nm	8.5	-5.5	9.7							
						Price/FCF share				nm	nm	27.7							
						Free Cash flow Yield				nm	nm	3.2%	-2.1%	3.6%					

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018



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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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- provide general advice to retail and wholesale clients in relation to
 - Securities
- deal on behalf of retail and wholesale clients in relation to
 - Securities

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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Australia

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