

BANXA Holdings Inc

Earnings Upgrade

Turning up the Volume

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 Q3 FY21 (March quarter) transaction payments value (TPV) of A\$205m, a 695% increase on Q3 FY20’s TPV and an 84% jump on Q2 FY21. The growth was driven by an acceleration of volumes across the quarter with March 2021 TPV lifting 13% on February which in turn increased 29% on January. Year to date TPVs are A\$400m, well ahead of our initial forecasts. We have revisited our estimates and are now forecasting Q4 FY21 TPV of A\$256m (representing a 450% increase on Q4 FY20 and 25% increase on Q3 FY21) to bring total TPV for FY21 to A\$653m (previously A\$477m).

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.

Leveraged to growth in payments volumes

BANXA has reported better than expected Q3 TPVs of A\$205m which brings total TPVs for the 9 months to March 31 to A\$400m. Given we had previously forecast FY21 TPVs of A\$477m and the acceleration that the company has experienced in volumes, we have upgraded our forecasts for ongoing payments volumes. We are now forecasting that Q4 TPV will increase 25% over Q3 to deliver A\$256m. Ongoing we are forecasting 10% quarter on quarter TPV growth for FY22 and FY23 and 5% for FY24. We have maintained our forecasts for 2% commission for FY21, with this tempering to 1.7% in FY22-FY25. BANXA’s results should reflect its leverage to payments volumes.

Base case DCF valuation upgraded to C\$8.10/share

We have upgraded our base case DCF valuation to C\$8.10 (previously C\$3.80) as a result of our adjustments to payments volumes. BANXA is highly leveraged to volume growth, and this better than expected growth in Q3 TPV should benefit cashflows and operating profits. Our valuation also takes into account additional shares being issued in the now closed private placement, which has raised C\$15m at C\$4.00/share. In our view, continued momentum in BANXA’s total payments value 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 (A\$M)	Revenue (A\$M)	Gross Profit (A\$M)	EBITDA (A\$M)	NPAT (A\$M)	EPS (cps)	EV/Sales (X)
06/20a	69	6.8	2.7	(1.0)	(2.0)	nm	48.4
06/21e	653	31.7	12.9	0.4	0.3	0.62	9.9
06/22e	1,301	53.3	21.5	3.1	2.1	4.80	6.2
06/23e	1,908	79.5	32.2	12.8	8.9	19.95	4.2

Source: RaaS Advisory Estimates for FY21e, FY22e and FY23e ^ATotal Payments Value

Fintech

13th April 2021

Share details

TSX-V Code	BNXA
OTCQX Code	BNXAF
FSE Code	AC00
Share price (12 Apr)	C\$7.12
Market Capitalisation	C\$316.6M
Shares on issue post raise (est)	44.5M
Net cash post raise (est)	~A\$20.0M
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 owns shares in BANXA.
No fee has been paid for this update report

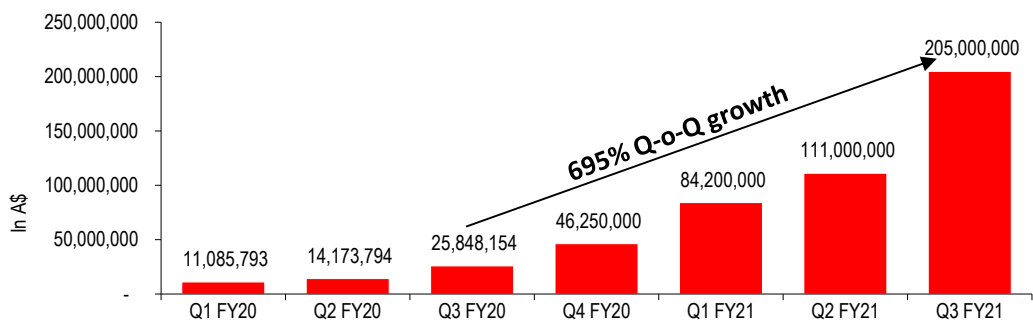
Oversubscribed capital raise

BANXA has announced that it closed an upsized private placement of C\$15m at a price of C\$4.00. The offer, announced on March 16, was initially for C\$10m but this was quickly amended to accommodate additional demand. The offer consisted of one share and one-half of one share purchase warrant with each warrant entitling the holder to acquire one share at C\$8.50 with an expiry date 42 months from the offer close. The placement results in an additional 3.75m shares on issue with the potential for another 1.87m shares issued in September 2024. We have incorporated the issue into our forecasts, although note that the warrants are not yet in the money.

Q3 FY21 payments volumes surprise

BANXA has reported a 695% increase in Q3 TPV to A\$205m versus the same quarter in FY20. March saw TPV of A\$79.5m, an increase of 13% on February (A\$70.4m), which in turn lifted 29% on January (A\$54.6m). Year to date TPV stood at A\$400m at March 31, compared with A\$51.1m for the first nine months of FY20. We had been forecasting A\$477m TPV for FY21, but with the current momentum in volumes, this was clearly underestimated.

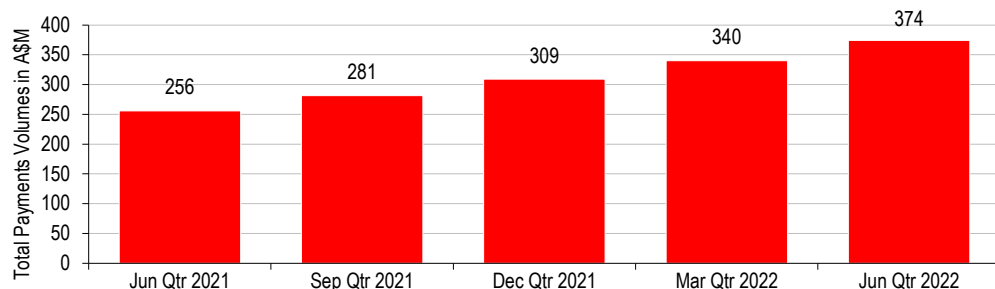
Exhibit 1: Quarterly Total Payments Volumes (TPVs)



Source: BANXA announcements

We have adjusted our TPV forecasts on the expectation that the volume growth experienced in Q3 continues. We are now forecasting a 25% increase in Q4 TPV over Q3 to A\$256m, which represents a 440% increase on Q4 FY20. Thereafter our expectation is that TPV will lift 10% each quarter in FY22 and FY23 before settling back to grow at 5% each quarter. Our forecasts for the next five quarters are set out in the following exhibit.

Exhibit 2: Forecasted Quarterly Total Payments Volumes (TPVs) Q4 FY21 to Q4 FY22



Source: RaaS estimates

What are volumes doing in the broader cryptocurrency market?

In framing these forecasts, we have given regard to volumes in the broader cryptocurrency market. In its recent quarterly review, CoinDesk Research¹ noted that spot trading volumes for bitcoin (BTC) levelled off in Q1 CY21 after reaching an all-time daily high in January of more than US\$7b. Bitcoin options trading volumes also reached all-time highs in Q1, pointing to growing investor interest and deepening market sophistication. The review noted that transaction activity in Q1 remained significantly higher in Q1 than in all of 2020 and that while there were signs that institutional interest might be tempering, the growth in activity from small hodlers (long term holders) was evident, particularly those holding less than 1,000 BTC. The review found that the launch of several Ethereum investment products and funds had attracted greater institutional investor attention in Q1 CY21 and driven both price and volumes. Given BANXA's relatively early stage position in the market as a bridge between fiat and digital assets, we feel our revised forecasts are relatively conservative for what is a still maturing and deepening market for this asset class.

Earnings adjustment

We have adjusted our earnings to reflect our expectation that payments volumes will be substantially higher than we previously anticipated. This has resulted in a significant increase in our FY21 and FY22 forecasts for revenues (commissions fees and spread). We anticipate that FY21 GP/TPV margins will be 2.0% with this tempering to 1.7% in FY22 reflecting the increasing payments volumes from exchanges which pay little or no commission. We expect BANXA to take the opportunity to build its sales and marketing teams as well as bolster its technical teams and for that reason, we have also increased our forecasts for employee costs, meaning that the difference between our old and new forecasts for gross profit are largely absorbed by an investment in people. Over time, the company's leverage to volume growth should be reflected in the bottom line.

Exhibit 3: Earnings adjustments (in A\$M)				
	FY21 old	FY21 new	FY22 old	FY22 new
Total payments volumes	477	653	719	1,301
Revenue	15.7	31.7	25.9	53.3
Gross profit	6.9	12.9	11.4	21.5
GP/TPVs	1.4%	2.0%	1.6%	1.7%
EBITDA	(0.9)	0.4	2.2	3.1
NPAT before one-time items	(0.2)	0.3	1.5	2.1

Source: RaaS estimates

Base Case DCF valuation upgraded to C\$8.10/share

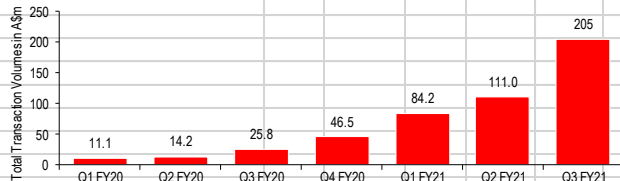
We believe the discounted cashflow methodology is the most appropriate method to value BANXA, given the relatively early stage of the company's life. We arrive at a base case valuation of C\$8.10 (A\$8.44) after applying a WACC of 13.5% and terminal growth rate of 2.2% to our base case free cashflows. The terminal value accounts for A\$4.94/share of our valuation.

Exhibit 4: 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)	138.7
Terminal value (A\$m)	216.4
Add net cash (estimated post raise) (A\$m)	(20.0)
Equity value (A\$m)	375.1
Shares on issue (estimated post raise)	44.5
Equity value per share (A\$)	A\$8.44
Equity value per share (C\$)	C\$8.10

Source: RaaS estimates

¹ CoinDesk Research, Quarterly Review, First Quarter 2021

Exhibit 5: Financial Summary

Banxa Holdings Inc						Share price (12th April)						CS		7.12				
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	6.5	12.9	18.9						
Total Transaction Value (TTV)	46	69	653	1,301	1,908	Sale of Cryptocurrencies	22.3	6.4	4.6	25.2	40.4	60.6						
Revenue (commissions/crypto sales)	8.0	6.8	31.7	53.3	79.5	Sell Transactions (purchases from customers)	21.3	6.2	4.4	24.0	38.4	57.6						
Gross Profit	1.8	2.7	12.9	21.5	32.2	Agency transactions	42.7	31.8	58.1	597.0	1,208.9	1,771.0						
EBITDA	(2.2)	(1.0)	0.4	3.1	12.8	Total Transaction Volume (TTV)	90.0	46.0	69.3	652.7	1,300.6	1,908.1						
Depn	(0.6)	(0.6)	(0.0)	(0.0)	(0.0)	Gross Profit	4.1	1.8	2.7	12.9	21.5	32.2						
Amort	0.0	0.0	0.0	0.0	0.0	GP/TTV	4.5%	3.9%	3.9%	2.0%	1.7%	1.7%						
EBIT	(2.8)	(3.7)	0.4	3.1	12.8	GP/Revenue reported	15.7%	22.3%	39.5%	40.6%	40.4%	40.5%						
Interest	(0.0)	(0.1)	(0.0)	(0.0)	(0.1)	Total Transaction Volume growth												
Tax	0.8	(0.3)	(0.1)	(0.9)	(3.8)													
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)	0.3	2.1	8.9													
One time items inc forex gain/losses	0.0	2.1	0.4	0.0	0.0													
NPAT (reported)	(2.1)	(2.0)	0.6	2.1	8.9													
Cash flow (A\$m)						Margins, Leverage, Returns						FY19A	FY20A	FY21F	FY22F	FY23F		
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	EBITDA	(27.2%)	(14.9%)	1.2%	5.8%	16.1%							
EBITDA	(2.2)	(1.0)	0.4	3.1	12.8	EBIT	(35.2%)	(54.9%)	1.2%	5.8%	16.1%							
Interest	0.0	(0.1)	(0.0)	(0.0)	(0.1)	NPAT pre significant items	(25.8%)	(60.2%)	0.8%	4.0%	11.2%							
Tax	(0.2)	(0.1)	(0.1)	(0.9)	(3.8)	Net Debt (Cash)	(1.13)	(2.60)	(22.40)	(8.63)	(3.92)							
Working capital changes	0.3	(1.3)	(3.9)	(15.9)	(13.5)	Net deb/EBITDA (x)	(x)	n/a	n/a	58.571	(2.79)	(0.31)						
Operating cash flow	(2.1)	(2.5)	(3.6)	(13.7)	(4.6)	ND/ND+Equity (%)	(%)	(39.9%)	(68.0%)	(49.3%)	(25.5%)	(10.3%)						
Mtce capex	(0.0)	0.0	(0.1)	(0.0)	(0.0)	EBIT interest cover (x)	(x)	n/a	n/a	0.0	0.0	0.0						
Free cash flow	(2.1)	(2.5)	(3.7)	(13.8)	(4.7)	ROA	(16.4%)	(118.3%)	2.0%	9.5%	34.0%							
Growth capex	0.0	0.0	(0.1)	(0.0)	(0.1)	ROE	(16.7%)	(136.0%)	5.1%	9%	30%							
Acquisitions/Disposals	0.0	0.5	0.0	0.0	0.0	ROIC	(146.2%)	(167.3%)	1.5%	8%	78%							
Other	(0.0)	(1.2)	0.0	0.0	0.0	NTA (per share)	98.90	0.03	0.52	0.56	0.76							
Cash flow pre financing	(2.1)	(3.2)	(3.8)	(13.8)	(4.7)	Working capital	(0.67)	(0.70)	8.23	24.14	37.7							
Equity	1.9	3.6	19.3	0.0	0.0	WC/Sales (%)	(8.4%)	(10.3%)	26.0%	45%	47%							
Debt	(0.3)	0.5	2.5	0.0	0.0	Revenue growth	(69.2%)	(15.0%)	367.2%	68%	49%							
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT growth pa	n/a	n/a	-110%	742.5%	315%							
Net cash flow for year	(0.5)	0.9	18.0	(13.8)	(4.7)	Pricing						FY19A	FY20A	FY21F	FY22F	FY23F		
Balance sheet (A\$m)						No of shares (y/e)						(m)	0	31	44	44	44	
Y/E 30 June	FY19A	FY20A	FY21F	FY22F	FY23F	Weighted Av Dil Shares						(m)	na	31	42	44	44	
Cash	1.1	2.1	18.8	5.1	0.4	EPS Reported						cps	nm	nm	1.48	4.80	19.95	
Accounts receivable	0.1	0.8	7.2	15.8	24.7	EPS Normalised/Diluted						cps	nm	nm	0.62	4.80	19.95	
Inventory	0.1	0.0	4.7	10.4	16.2	EPS growth (norm/dil)							nm	nm	nm	679.8%	315%	
Other current assets	0.2	1.0	1.0	1.0	1.0	DPS						cps	-	-	-	-	-	
Total current assets	1.4	3.9	31.8	32.3	42.4	DPS Growth							n/a	n/a	n/a	n/a	n/a	
PPE	0.0	0.0	0.1	0.1	0.1	Dividend yield							0.0%	0.0%	0.0%	0.0%	0.0%	
Goodwill	0.2	0.2	0.2	0.2	0.2	Dividend imputation							30	30	30	30	30	
Investments	0.0	0.0	0.0	0.0	0.0	PE (x)							nm	nm	481.6	148.3	35.7	
Deferred tax asset	0.6	0.0	0.0	0.0	0.0	PE market							20.0	20.0	20.0	20.0	20.0	
Loan receivables	0.0	0.0	0.0	0.0	0.0	Premium/(discount)							nm	nm	2,308%	641%	78%	
Total non current assets	0.8	0.2	0.3	0.3	0.3	EV/EBITDA							(151.22)	(325.43)	822.38	106.1	26.0	
Total Assets	2.2	4.1	32.0	32.6	42.6	FCF/Share						cps	nm	nm	-7.9	-30.9	-10.4	
Accounts payable	0.8	1.5	3.6	2.1	3.2	Price/FCF share							nm	nm	nm	-	23.1	-68.3
Short term debt	0.0	0.1	3.1	3.1	3.1	Free Cash flow Yield							nm	nm	(1.1%)	(4.3%)	(1.5%)	
Tax payable	0.3	0.2	0.1	0.1	0.1													
Other current liabilities	0.5	0.6	1.6	1.6	1.6													
Total current liabilities	1.6	2.4	8.5	6.9	8.1													
Long term debt	0.0	0.4	0.4	0.4	0.4													
Other non current liabs	0.0	0.0	0.0	0.0	0.0													
Total long term liabilities	0.0	0.4	0.4	0.4	0.4													
Total Liabilities	1.6	2.8	8.9	7.4	8.5													
Net Assets	0.6	1.2	23.1	25.2	34.1													
Share capital	2.9	6.5	28.4	28.4	28.4													
Accumulated profits/losses	(1.2)	(5.4)	(5.7)	(3.5)	5.4													
Reserves	0.0	0.1	0.3	0.3	0.3													
Minorities	0.0	0.0	0.0	0.0	0.0													
Total Shareholder funds	1.7	1.2	23.1	25.2	34.1													

Source: RaaS Advisory



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

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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Australia

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