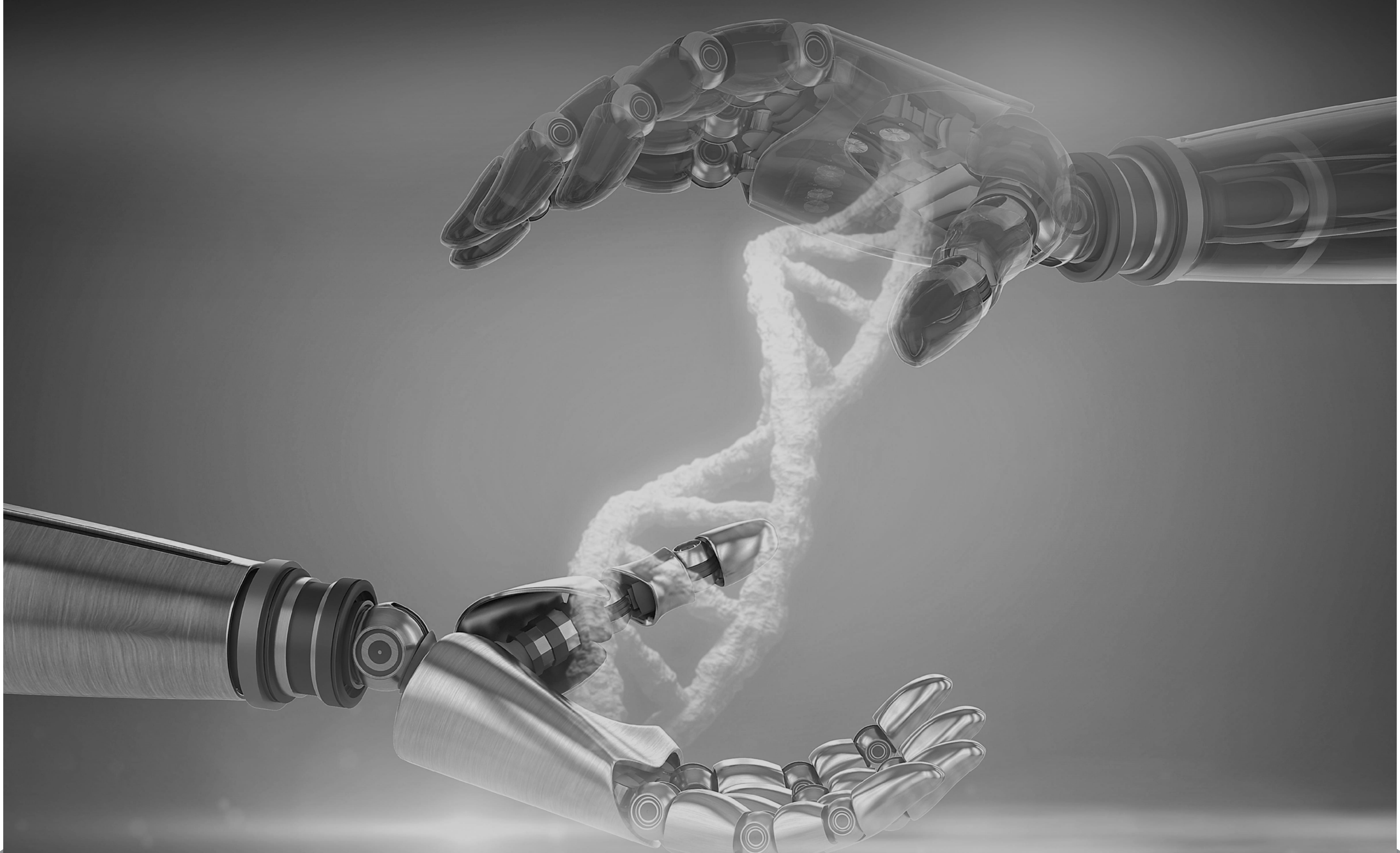
STOCKS DOWN UNDER

13 OCTOBER 2020

Emerging Stocks Down Under

"Don't worry about failure; you only have to be right once."

- Drew Houston (b. 1983), co-founder and CEO of Dropbox



AEROMETREX

Sky-high potential

BILL IDENTITY / B.ID

The only bill we will gladly accept

OPTISCAN IMAGING

Put this one under your microscope

AEROMETREX

Sky-high potential

Stocks Down Under rating: ★★★★

ASX: AMX
Market cap: A$ 121M

52-week range: A$0.70 / A$2.60
Share price: A$ 1.33

Adelaide-based Aerometrex listed on the ASX in December last year and had a flying start, more than doubling its share price on the opening day. With the exception of the March period, during the height of the Corona Crash, the share price has held up quite nicely above the $1 IPO price. Investors who don't know Aerometrex could think of it as Nearmap's little brother, only much more attractively valued, in our view. Let's take a closer look at this aerial imagery and mapping company.

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ASX: BID
Market cap: A$ 163M

52-week range: A$0.39 / A$1.39
Share price: A$ 1.22

Headquartered in Melbourne, B.id operates across Australia, New Zealand, the United States, the United Kingdom and mainland Europe delivering utility bill expense management solutions. Basically, this means B.id uses the cloud to quickly handle a large amount of data while maintaining data integrity and drastically increasing the ability of companies to sort and manage its utility expenses without sacrificing manpower. The company has experienced significant year-over-year revenue growth in the past. and the partnership with Xero and the new contract with Jones Lang LaSalle provide proof of strong demand.

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52-week range: A$0.013 / A$0.165
Share price: A$ 0.115

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Share price chart

Source: Tradingview

Nearmap's little brother

Aerometrex was founded in 1980 and listed on the ASX on 10 December 2019, raising $25m in the process. The company is specialised in capturing aerial images used by a range of different industries, like Mining, Utilities, Construction and Insurance. Aerometrex also offers services around 3D modelling and LiDAR surveys as well as photogrammetry, i.e. the measurement of objects and distances between objects. The company owns and operates its own small fleet of light aircraft to fly over target areas and capture the required imagery. You could say that Aerometrex is a smaller version of Nearmap. The company generated $20.1m in revenues in FY20, up 25% year-on-year.

The company's key revenue driver is LiDAR, i.e. Light Detection and Ranging, which is a remote sensing method that uses laser light to measure distances. Aerometrex generated nearly $9m in revenues with LiDAR surveys last year. Aerial photomapping ($6.1m in revenues in FY20) and 3D ($3.4m) are the two other key revenue generators, although aerial photomapping saw its revenue decline 6% last year while 3D grew by 72% on the back of large projects.

Moving to a recurring revenue model

All that imagery Aerometrex is capturing and creating, i.e. photos, 3D and LiDAR, needs to be easily accessible to customers. Therefore the company is investing a lot in MetroMap, a Cloud-based service that enables customers to analyse Aerometrex's database of aerial imagery and 3D models for their specific purpose, e.g. analysing flood plains in coastal areas for insurance purposes, poles and wires for maintenance purposes or mining pits for production planning.

MetroMap is sold as a subscription, but can also be accessed by customers in an on-demand payment model. The subscription version generated around $700k in revenues in FY20, which is less than the $990k that on-demand generated, but it grew 105% compared to just 17% for on-demand. The aim is to drive the company-wide Annual Recurring Revenues (ARR) as strongly as possible, not just MetroMap's recurring revenues. Starting from around $250k in July 2019, ARR stood at almost $2.9m at the end of August 2020, so it appears Aerometrex is on the right track.

And just last week, the company announced several new corporate customers for MetroMap, including Suncorp and PSMA, that combined have a minimum value of $860k, bringing ARR growth for 1Q21 to 65% quarter-on-quarter.

Spookfish Australia acquired from Eagleview

What certainly helped drive Aerometrex's ARR growth recently was the acquisition of certain parts of Spookfish for $1.5m, which was Eagleview's Australian business. Some readers may recognise the Spookfish name as it was listed on the ASX under the code SFI until it was acquired by US company Eagleview in December 2018 for $90m. Eagleview sold a part of its Australian business, including Spookfish Australia, to Aerometrex in May of this year, hence a jump in the company's recurring revenue recently.

Valuation metrics much more attractive than Nearmap's

For FY21, FY22 and FY23, Aerometrex is currently trading at EV/EBITDA multiples of 14.1x, 10.4x and 7.5x respectively, which we believe is extremely cheap, considering Aerometrex is expected to grow its EBITDA by 51%, 35% and 39% respectively in those years.

Our beloved EV/EBITDA-to-EBITDA-growth ratio is flashing <0.3 for each of these years, which in our book indicates a substantial undervaluation. Remember, a ratio of 1x indicates the EV/EBITDA valuation and the expected EBITDA growth for a particular year are balanced while values substantially below 1x indicate clear undervaluations.

By comparison, Nearmap is expected to grow its EBITDA by 73%, 50% and 99% during the same years. However, its EV/EBITDA multiples are substantially higher at 74x, 49x and 25x and imply EV/EBITDA-to-EBITDA-growth ratios of approximately 1x for FY21 and FY22. In other words, its strong EBITDA growth is already priced in by the market. Only FY23 seems out of whack with a value of 0.25x, but that is still a few years out.

So, from where we're sitting, Aerometrex's shares offer substantially more upside potential than Nearmap's from a valuation point of view. Yes, Nearmap is the larger of the two companies and will thus attract more institutional investor interest, for now. However, we believe that Aerometrex's long standing track record of revenue growth and profitability, not to mention actual dividend payouts in the years prior to the IPO, don't make it any riskier than Nearmap. Therefore, we comfortably put a 4-star rating on Aerometrex.

Regarding dividends, following the IPO the company indicated that it will not pay dividends for a while so that it can use the capital it raised to pursue growth opportunities, both domestically and overseas.

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Share price chart

Source: Tradingview

Revenue growth remains strong

Revenue for B.id is comprised of two main streams: subscription fee and rebate revenue.

Subscription fee revenue is rather straight forward, this is the revenue it collects from companies utilising its product and service to manage its utility billing. Annualised revenue growth for this segment has provided a solid basis for the company's total year-over-year revenue growth of 85% in FY20. Subscription revenue growth is focused on Australia (83%) for the moment with the United Kingdom (13%) and the United States (4%) providing the remainder. The subscription side of the business saw an increase of 11 clients. While growth from Australia is important, we remain hopeful that the acquisition of its new contract with Jones Lang LaSalle will see more geographical diversification when it comes to subscription revenue growth. It would be the first concrete indication that B.id's international growth strategy, outside of the UK and the United States, is working.

Rebate revenue provides approximately 35% of the total company's annual revenue and is only produced in the United States. This revenue is derived from fees paid by clients for the management of the submission of information process to energy retailers for the Energy Efficient Infrastructure Program active in the United

States. Rebate revenue was first introduced in December 2016 and has seen annual revenues grow to $4.4m since then.

During the first quarter of FY21, rebate revenue saw a year-over-year increase of around 5%, while churn has stayed steady at 3%, indicating a low level of client turnover. We believe this revenue segment is highly unlikely to provide geographical expansion opportunities outside of the United States in the future due to its reliance on the Energy Efficient Infrastructure Program, which is specific to the US.

Change is not something to be afraid of but requires additional scrutiny

Bill Identity has had a number of important changes happen over the last year. The most significant is the change in name, the partnership with Xero Connect and the four-year deal with Jones Lang LaSalle.

BidEnergy has changed its name to Bill Identity or the shortened version of B.id. However, it is important to mention that B.id is still referred to as BidEnergy Limited on the ASX website. Meanwhile, on its company website, it is referred to as Bill Identity/B.id. It is unclear when the company will submit the necessary documents to the ASX to have its name changed on the ASX.

On 7 September 2020, B.id announced a new partnership with Xero Connect, allowing its product to become available on the Xero App Marketplace. While it remains to be seen if this will provide a significant boon to B.id's earnings, we believe the additional exposure will certainly help the company acquire new clients without an increase to marketing cost.

On 29 September 2020, B.id released information on the four-year deal it signed with real estate firm Jones Lang LaSalle (NYSE:JLL). This is a rather significant development for B.id as it expands the company's operating footprint into a number of new and important geographies, including Hong Kong, Mexico and the Middle East. However, this contract is subject to the successful completion of a pilot program with Jones Lang LaSalle in the United States and Canada. If this pilot program is successful, than B.id's proprietary robotic process automation technology will provide data collection and sorting to Jones Lang LaSalle's commercial real estate portfolio's utility bill payment systems worldwide.

We believe the partnership with Xero Connect and the Jones Lang LaSalle pilot program are significant developments that provide proof of demand for B.id product. Utility billing management might seem like a straightforward business. However, this process can take up a large amount of manpower, especially for large companies. Therefore, we expect B.id's revenue growth will likely continue as this industry continues to evolve.

Opportunities in the future are what we bid on

B.id is pre-profit and is trading at 16.7x EV/Revenue, a ratio that is unusually high compared to the rest of the ASX. However, we believe the high valuation is warranted at this time due to the clear expansion path B.id is on. The contract with Jones Lang LaSalle, despite requiring a pilot program before commencing, provides clear international proof of demand for B.id's product and service. While other companies provide billing software to utilities, B.id's potential consumer base is considerably larger as it encompasses all businesses that deal with utility bills. Therefore, we believe this company deserves four out of five stars at this point in time.

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Share price chart

Source: Tradingview

If you want to make your fortune investing in Life Sciences companies, there's one thing you need more than anything else – the patience of Job. Take Optiscan Imaging as a good example of the time it can take for a good idea to come around. That company, founded in 1994, went public on the ASX way back in August 1997 in order to develop a new approach to 'Confocal Laser Endomicroscopy'. In 2020, a mere 23 years later, it looks like the company might just be on the cusp of greatness with the resulting technology.

Optiscan believes it has the state of the art

What the heck is a Confocal Laser Endomicroscope? Okay, everyone knows what a microscope is. Endomicroscopes image internal body structures, the prefix 'endo' coming from the Greek word 'endon' meaning 'internal'). The 'confocal' part tells you that this is a variant of the confocal microscopes first introduced in the 1980s where a screen with a pinhole is placed in front of the focal plane of the device, allowing light from above and below the focal plane to be filtered out. Confocal microscopes allow for images of extraordinary detail to be built up compared to previous microscopy technologies. The reference to lasers tells you that optical fibre that is used for the pinhole, allowing the whole image to be digitised. Ask anyone white coat who knows their microscopes and they'll tell you CLE is a huge deal in the medical world because the right CLE technology can let surgeons see things they never were able to see before, in real time, and cut it out with precision. Optiscan reckons they now have the state of the art.

Optiscan last came close to hitting the big time with its CLE technology in 2006. It had developed a CLE device with remarkable imaging power, allowing 1,000-fold magnification of stuff inside the body that was just 1 micron in size. Not bad when you consider that a human hair is about 70 microns thick. The device was intended for use in gastrointestinal imaging and had been licensed to the Japanese company Pentax, back then a world leader in medical imaging. The product was approved and had been launched by Pentax. However, before the Pentax folks could really get moving their company was acquired by a competitor called Hoya, which quickly ditched the Australian-developed product.

Abandoned by the Japanese, saved by the Germans

The reason Optiscan is worth looking at today is what happened next. Optiscan in effect went back to the drawing board, with the help of a major German manufacturer of optical systems called Carl Zeiss Meditec. What the two came up with was a second generation device that was 70% smaller than the original, but with considerably improved imaging power. The new product was specifically intended for brain surgery. One of the reasons brain tumours are so deadly is that it's difficult for a surgeon to see where the cancerous tissue is sitting. The hand-held Optiscan/Zeiss device, which was eventually called Convivo, provided the best imaging tool yet developed to solve that problem. It gained European and US approval in 2018. The reason why Optiscan stock kept declining in 2019 and into 2020 was that it wasn't clear to the market when any serious money would flow to the Australian company from Zeiss's sales efforts.

Which brings us to why Optiscan stock has re-rated so smartly over the last six months. Under the current management team, which was put in place from around April 2018, Optiscan has now taken the technology which enabled Convivo and started to adapt it to imaging other cancers. Oral cancers, of which there are around 350,000 cases worldwide in any one year, are the next target. After some recent feedback from the FDA the company believes it can file for FDA approval in this setting sometime in the first half of calendar 2021, after third party validation and verification work. Another opportunity lies in breast cancer, where Optiscan's device can help identify the margins of a tumour so that less breast tissue needs to be removed in a lumpectomy procedure. Encouragingly, Optican is now enjoying a small revenue stream from the Zeiss device, although operating cash outflow in the June 2020 quarter was a mere $55,000.

Funded for the next stage

Optiscan recently raised $9.8m in a placement at 8.25 cents to go after the new CLE opportunities. The placement was anchored by Singapore's Clermont Group, a company controlled by the New Zealand-born billionaire Richard Chandler. We think 8.25 cents will be the floor for the stock in the near term, but it will need to break the 13 cent level of late September before it can re-rate again.

That said, we don't think it will take much in the way of new clinical data to re-interest the market in Optiscan. The market capitalisation for this company and its world-leading technology is still under A$70m. For those investors with a little patience, this one is four stars. For the less Job-like, put Optiscan on your watch list.

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