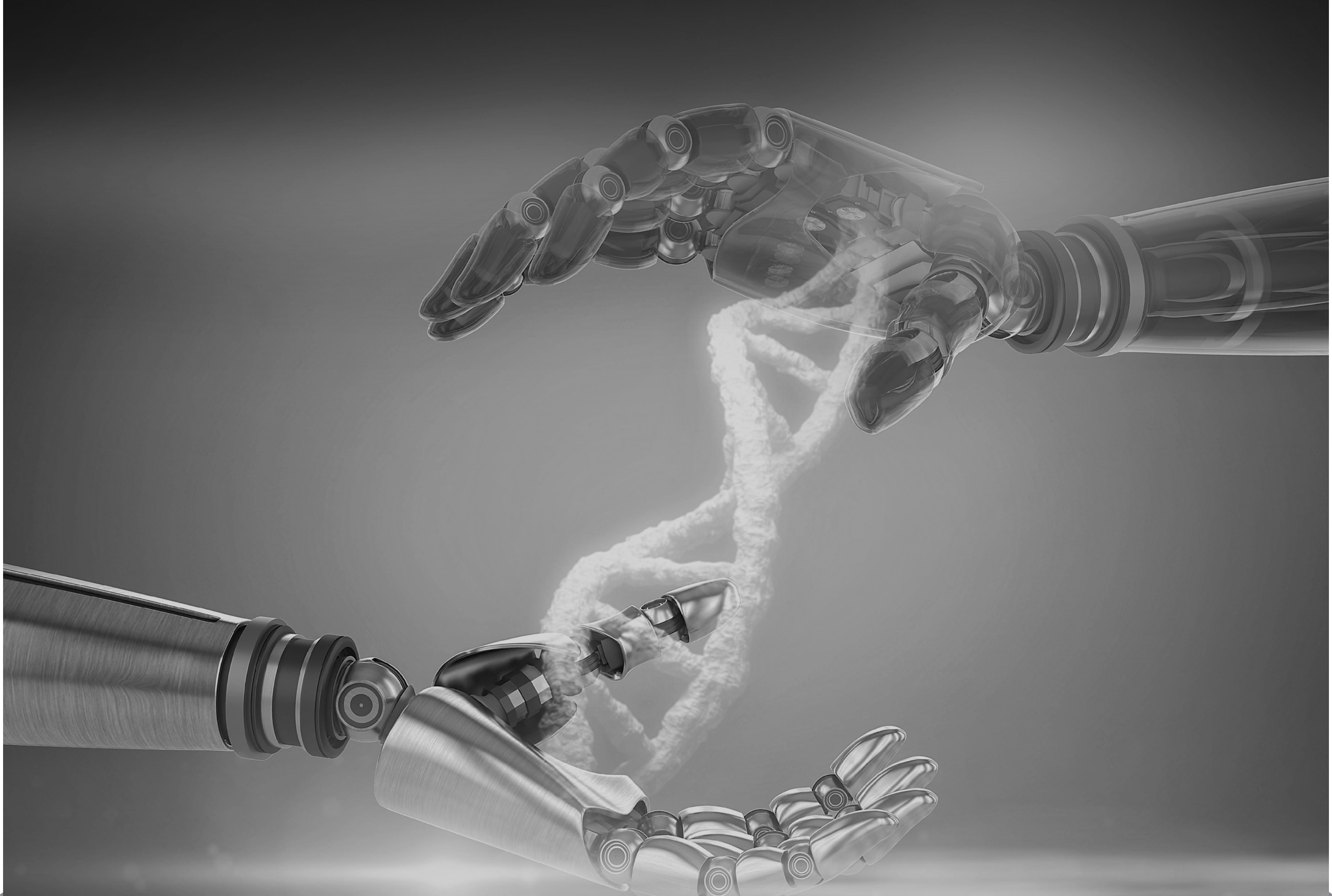
Emerging Stocks Down Under

The trend has been that mobile was winning. It's now won.

- Eric Schmidt (b. 1955), Former CEO and Executive Chairman of Google and Alphabet



PLEXURE

There's an app for that

ACTINOGEN MEDICAL

Don't you forget about me

PKS HOLDINGS

A rally with legs

PLEXURE

There's an app for that

Stocks Down Under rating: ★★★★

ASX: PX1
Market cap: A$ 198M

52-week range: A$1.10 / A$1.23
Share price: A$ 1.14

Headquartered in Auckland New Zealand, Plexure is one of the more recent NZX-listed companies to do a secondary share offering on the ASX. The company's listing went live on the 25 November 2020. Plexure produces a highly niche loyalty app, specifically designed for Quick Service Restaurants and grocery stores. The company was profitable during FY19 and is currently making the choice to funnel its cash into development and growth, likely resulting in a net loss this year. The question is, is it worth it?

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ASX: ACW
Market cap: A$ 32M

52-week range: A$0.015 / A$0.048
Share price: A$ 0.022

The Sydney-based drug developer Actinogen Medical, whose lead candidate has shown some promise in Alzheimer's disease, has seen its share price recover nicely from the Corona Crash low of just 1.5 cents. However, we believe this stock can go a lot further. Just prior to an important clinical announcement back in May 2019, Actinogen changed hands at 5.2 cents. The data since then has been promising.

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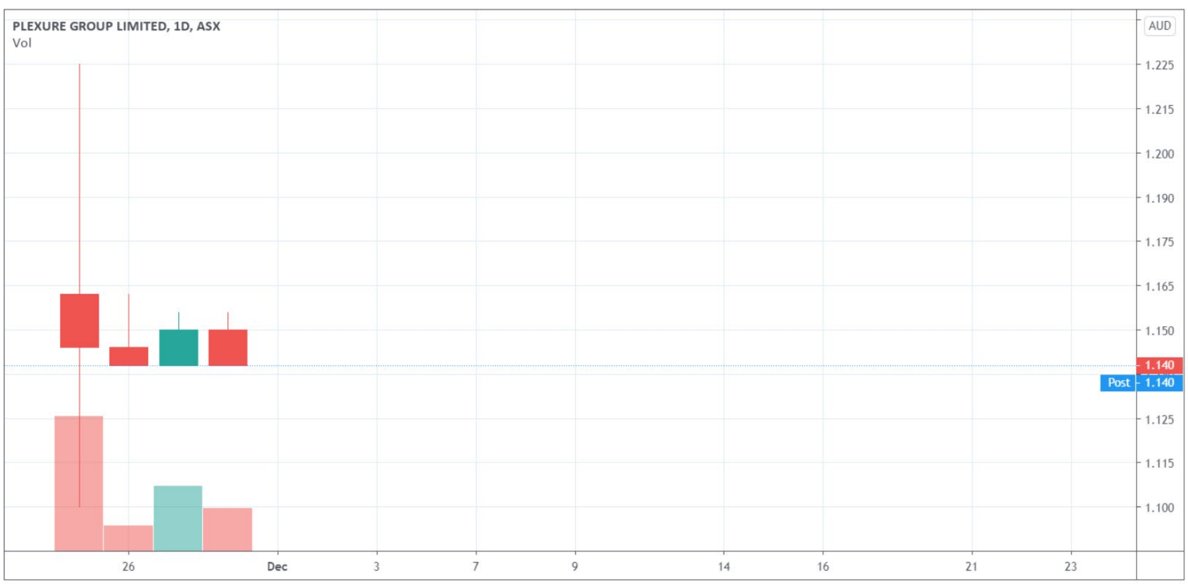
Share price chart



Source: Tradingview

Unlocking the app

Plexure is currently divided into five divisions based on their geographical region: Asia, Australasia, North America, Latin America and Europe/Middle East/Africa (EMEA). The company's customisable loyalty app allows its clients to do a range of things, including using AI to analyse and sort data provided by its users, building specific user profiles and personalise push notifications and advertisements and letting app users order and pay right on the mobile app. Unfortunately, we don't have a significant number of details on the specific divisions other than revenue breakdowns. We do know that one of the company's most significant clients is McDonald's. As of 1H21, the company's app operates in 60 McDonald's locations worldwide and the main company has a 9.9% equity stake in Plexure, as of April 2019.

Asia and North America are Plexure's two main division in terms of annual revenue generating 70.5% of the company's NZ$10.1m 1HY21 total revenues. This represents a year-over-year increase of 22.4%. Two examples of these regions significant customers are White Castle, the US burger chain, and Super Indo, a major Indonesian supermarket operator.

At NZ$4.2m, Australasia, Latin America and EMEA generate the remaining 29.5% of the company's 1HY21 revenues. These three geographic divisions produced 23.4% year-over-year increase in revenue combined. These division's largest clients are the McDonald franchises mentioned above.

The secondary listing

On 26 November 2020, Plexure raised NZ$37m in capital under its heavily oversubscribed secondary listing on the ASX. The placement price was 1.145 per share and the company now has around three years' worth of capital in its coffers. We believe the main reason behind this secondary listing was simply accessing a significantly greater liquidity pool to finance operating losses over the next couple of years.

Plexure believes that the company is primed for significant expansion over the next couple of years and management wants to take full advantage while it can. This is why we believe investors should expect losses over the next couple of years. To quote management: "… investments the Company has chosen to make in headcount increases to support the expansion of its sales and marketing activities, its product innovation and the required upgrading of its platform capacity to support much greater user numbers and activity levels."

Pre-COVID performance was strong

Before COVID-19 hit Plexure had both strong growth and momentum on its side. The company's FY19 and FY20 revenue growth amounted to 44% and 51% respectively. The company also released its product in 11 additional countries bringing the total number of countries where Plexure is active to 60 by the end of FY20.

Additionally, user numbers grew to 182.7m at the end of FY20, representing a 29% and 66% annual growth in users during FY19 and FY20. The accelerating growth was the main reason the company was able to post its maiden net profit after tax during FY20 (NZ$1m). However, we believe this profit was more to prove to investors that the company could achieve profitability, rather than a milestone investor should view as an indication of future results.

FY22 has a strong foundation but uncertain

Plexure is an interesting case as the company is currently trading at an FY21 EV/Revenue ratio of 6.9x despite management's own projections showing a lacklustre 14% revenue growth for FY21 (ending 31 March 2021). Despite this, we think the shares are worth a punt even at this relatively high valuation.

While the company is predicted to generate a NZ$10m loss, the loss is intentional as we explained earlier. Plexure was able to produce 40% to 50% annual revenue growth during FY19 and FY20 without the significant expansion-related spending initiated during the current financial year. This, combined with the company's ability to produce reasonable growth during COVID-19, indicates to us that Plexure is likely to resume its pre-COVID-19 revenue growth levels during FY22, which starts in 4 months We need to stress that this return to "normal" is not confirmed by management, as its projections only go out to the end of FY21.

For now, we believe Plexure is worth four stars as we expect the company will be able to return to pre-COVID-19 growth levels.

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Source: Tradingview

If there’s one disease condition that is overdue for a new drug, it’s got to be Alzheimer’s. For one thing, there’s an awful lot of Alzheimer’s out there these days, maybe 1-2% of ageing First World populations. When you add up that sort of prevalence it makes for a US$10bn drug market, at the very least.

Couple that great need with the paucity of present treatment options. The last time an Alzheimer’s drug gain FDA approval was in 2003. None of the approved drugs out there work for very long. A whole lot of drug candidates have failed in the clinic over the last couple of decades. And the one before the FDA right now, a drug from Biogen called Aducanumab, got a ‘no’ vote from the Agency’s advisory committee on 6 November. The agency may follow suit and formally reject the drug next March.

Stressing those new mechanisms

So why should investors look at Actinogen, given that its Xanamem drug, now in mid-stage clinical development, has Alzheimer’s as a lead indication? Well, we think that, sooner rather than later, science will catch up with the massive market opportunity and the long drought for Alzheimer’s drug developers will break. Additionally, we argue that those developers most likely to make it rain will be companies going after new and different mechanisms of action to treat the disease. Companies like Actinogen.

Xanamem is designed to treat Alzheimer's by reducing the production of the stress hormone cortisol in the brain. There's a large body of scientific work going back decades, which shows a strong association between high cortisol and, ultimately, the development of cognitive impairment. There's also a lot of evidence that lowering excess cortisol could treat other Central Nervous System disorders.

Xanamem is the fruits of years of research by a group at the University of Edinburgh chasing down this hypothesis, with Actinogen having gotten involved when it acquired the Edinburgh spin-out company in 2014. By May 2017 Actinogen had the drug in a Phase 2 study in Alzheimer's called 'XanADu' and this study read out its first data in May 2019. That's right, they named the study after the place where Coleridge reckoned Kubla Khan decreed his stately pleasure dome, in that famous 1816 poem.

A clinical failure, then a success

Until now most Alzheimer's drug developers have gone after only a couple of proteins, one called beta amyloid and one called tau, and then wondered why nothing much was working. We argue Actinogen's chances of clinical success are higher because its approach is fresh. That doesn't mean that the path to clinical success will be easy. In May 2019 the company reported the top line data for XanADu which showed that, apparently, the drug didn't work, being indistinguishable from placebo in terms of improving cognition in the treated patients. Investors howled like Coleridge's woman wailing for her demon-lover and Actinogen stock promptly plunged from 5.2 cents to under a cent by June.

In biotech it pays not to write well run companies off too quickly. In early October Actinogen took the market by surprise when it announced that, yes, Xanamem seemed to work after all, just not at the doses tried in XanADu. In the original Phase 2, that dose was 10 mg daily. In late 2018 Actinogen had initiated a small study in healthy, but elderly adults, called XanaHES, designed to evaluate whether Xanamem could improve cognition in these test subjects. It turned out that 20 mg daily over 12 weeks did just that, and it did so safely. The study only evaluated 42 subjects, so the high-level statistical significance assigned to one particular test of working memory in the treated patients was very encouraging. Actinogen stock promptly recovered just about all the lost ground from the XanADu failure.

Back in the clinic in 2021

Following on from the XanaHES triumph, and another small study showing that Xanamem correctly binds what it has been designed to hit inside the brains of patients, Actinogen is now preparing for two Phase 2 studies to be initiated next year, one called XanaMIA in mild cognitive impairment as per the XanaHES evidence, and one called XanaFX on Fragile X syndrome. The great part about Xanamem is that it is a 'pipeline in a product', with a whole variety of potential indications that can be pursued. However, Alzheimer's remains the focus and XanaMIA provides a solid way forward.

We believe Actinogen can re-rate again from here on in, depending on what comes next for Aducanumab, the abovementioned Biogen drug. Aducanumab is a monoclonal antibody targeting beta amyloid. It did well in a so-called post-hoc analysis of one Phase 3 study and that opens the door for another properly constructed Phase 3. Alternatively, the FDA could still say yes to the drug now and require confirmatory studies. Either way, it appears the drug is not out of the game yet.

Progress for Biogen could improve sentiment for other Alzheimer's drug developers, like Actinogen. With the data now looking good for the Australian company, we believe this is a memorable four-star opportunity.

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Source: Tradingview

A new kind of database

PKS has two main products: RippleDown Expert and RippleDown Auditor. RippleDown Expert offers a whole slew of features designed to increase the efficiency and effectiveness of healthcare facilities. It produces reports on individual patients through a combination of real-time monitoring, alerts and data mining of its vast clinical database.

RippleDown Auditor allows Pathologists to perform data integrity audits in real-time through its patented software. This includes checking data entries, billing and the reception of different specimens for suspected errors and flagging them as they arise in real-time.

We believe these two software offerings place PKS in a unique position in the marketplace. The company provides healthcare facilities with the ability to both increase operating efficiency and reduce human error, two areas that have come into sharp focus since the COVID-19 pandemic began. As consultant PWC said in a publication titled "COVID-19: Implications for the Australian Healthcare Workforce", published on 2 April 2020, Australia's healthcare system was already effectively at capacity prior to COVID-19. Unfortunately, this has been the norm in most developed countries around the world for a number of years with the pandemic finally bringing it all into sharp focus. Therefore, we believe increasing efficiency and reducing human error will continue to remain a high priority for funding, even after COVID-19 is in the rear view mirror.

PKS sells its products in a SaaS model (Software as a Service) and is a company in the extremely early stages of growth. Yet, PKS is already EBITDA positive at $3m for FY20, or 40% of total revenue. This $7.5m in revenue for FY20 represented 92% year-over-year growth. Based on the recurring revenue basis of 75% of total revenue during FY20, and the recent new contracts awarded during FY21, we believe FY21 will start to see EBITDA growth become more pronounced.

Business keeps coming in

On 19 November 2020, PKS informed the market that it had signed a US$1.65m contract to provide its RippleDown Auditor to 270 hospitals in the Middle East. This deal came about through Saudi Arabia's Ministry of Health and represents a big win for PKS on two main fronts: the expansion into the Middle East and increased usage of the company's auditor suite of products. We strongly believe this contract win represents a massive opening for the company into the Middle East as Saudi Arabia wields strong influence in the region, which should help PKS break into other countries healthcare systems.

Expensive but worth the premium

We believe PKS is a speculative investment for any investor. The company may already be profitable, but it still has a lot to prove in the global healthcare market and is still quite an early-stage company.

The company is currently trading at a FY21 EV/EBITDA ratio of 15.5x, which we believe is quite reasonable given the expected 34% increase in EBITDA the market is expecting.

Keep in mind, though, that the company has made significant inroads with a number of government agencies in the last few years, including the NSW Government Health and Pathology and the Ministries of Health for Saudi Arabia and Singapore. While these government organisations lend significant credibility to such a small company, a single unexpected contract loss could completely upend the market's forecasts. In other words, we see the key risk for PKS as being high dependency on only a few very large customers. We would very much welcome broader customer diversification.

All-in-all, though, we believe PKS is an investment with a lot of potential upside. FY21 has so far shaped out very well and we think this company has a bright future ahead of it. Four stars.

Pitt Street Research Pty Ltd

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