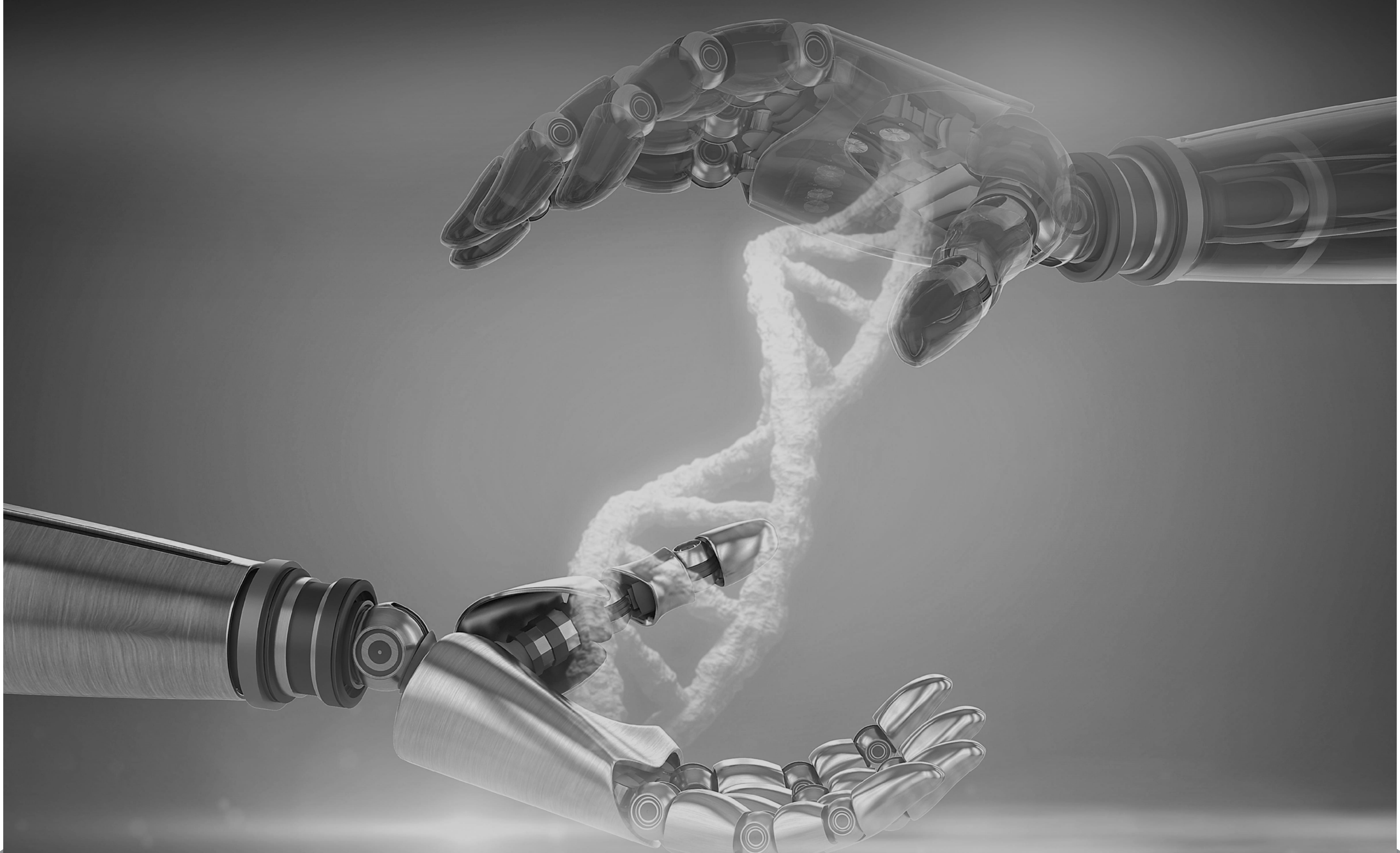
STOCKS DOWN UNDER

17 NOVEMBER 2020

# Emerging Stocks Down Under

*"Never take your position for granted and never let any favors you receive go to your head."*

**- Robert Greene (Born 1959), American writer**



## POINTERRA

What a difference a substantial investor makes

## ZEBIT

My kind of start-up

## EMERGE GAMING

Not emerging soon enough

## POINTERRA

### What a difference a substantial investor makes

**Stocks Down Under rating:** ★★

**ASX: 3DP**
**Market cap: A$ 315M**

**52-week range: A$0.015 / A$0.675**
**Share price: A$ 0.475**

14 July 2020 is the day the world changed for Perth-based Pointerra, in a good way that is. You see, 14 July is the day the company announced that internet entrepreneur Bevin Slattery bought 50m shares in Pointerra at 5 cents per share, bringing in $2.5m in fresh capital. But much more than the $2.5m in additional cash, the market appreciated that someone like Slattery thought Pointerra was worth investing in, something that we've been convinced of since 2016. Following the news, the shares jumped on market open and have basically never looked back. They peaked around 67 cents late September and are now trading in the high 40s. But is Pointerra worth more than $300m right now?

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**Market cap: A$ 107M**

**52-week range: A$0.93 / A$1.50**
**Share price: A$ 1.165**

Zebit completed its IPO on the ASX on 26 October 2020. The company is an E-Commerce and Buy Now Pay Later start-up with a twist. Headquartered in San Diego, California, USA means the company is exclusively focused on expanding its Zebit Marketplace across the United States. The uniqueness of packaging its Buy Now Pay Later and E-Commerce offerings within its Zebit Marketplace we believe will provide an edge with which to slash into an already crowded marketplace.

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Headquartered in Perth, Emerge Gaming is an eSports tournament platform currently in a tricky situation. The company has significant prospects, but the stock is currently suspended due to some significant regulatory issues that do not appear to be resolving themselves anytime soon. This is one of those weird situations where we think the company will provide investors with high growth, but the decisions management has made on the regulatory side of the market have forced a suspension. Unfortunately, it is unclear when the stock will come out of suspension.

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### Share price chart


*Source: Tradingview*

### What the heck is a pointcloud

Many readers will have heard of Nearmap (ASX:NEA), the company that flies around in light planes capturing imagery of whatever is on the ground below, be it cities, infrastructure assets, deserts, rivers etc. Organisations use that imagery for construction and urban planning, asset inspection, maintenance, risk management etc.

Capturing aerial imagery is one thing. Storing it and working with it on a desktop or in the field is quite another. You see, this sort of imagery tends to get pretty big, data-wise. Detailed imagery of part of the city, as an example, can run into the gigabytes. This problem only gets worse when you're storing and working with so-called pointclouds.

A pointcloud is a set of data points that can represent anything that is scanned, for instance, buildings, roads, utility assets, etc., but unlike photo's, pointclouds are in 3D. The data for pointclouds are collected using Lidar radar, which stands for Light Detection and Ranging. Lidar scanners can be attached to a plane, but are also used on the ground, for instance by surveyors.

### Along came Pointerra

Where things get tricky with pointclouds is the large size of the data files, which makes it hard to work with pointclouds on computers. Loading takes a long time and manipulating the data, like zooming and rotating, can be very slow. That's why pointcloud imagery is often chopped up into smaller pieces to make it easier to process. However, that also means that users typically only see small parts of a much bigger picture. Additionally, it's easy to misplace datasets that are part of bigger files, especially as organisations get bigger and when there's a lot of legacy imagery. In other words, pointclouds are cumbersome to use. That is until Pointerra came along.

Pointerra enables users of pointclouds, like surveyors, engineers, asset managers, city planners etc. to store, manage, visualise, analyse and share large 3D point clouds and datasets in a way that is much easier than before. The company's cloud-based solution includes proprietary algorithms and new ways to store massive data files, such that users can work with their datasets in a smooth and seamless fashion. This means that they no longer have to work with partial datasets, but instead can have an holistic view of their project.

### The United States is the promised land for 3DP

Pointerra sells it's so-called Data-as-a-Service (DaaS), Analytics-as-a-Service (AaaS) and Data Processing-as-a-Service (DPaaS) products in a model with monthly recurring revenues from customers. A typical utility customer pays between $5,000 and $15,000 per month, but larger customers may pay substantially higher fees. The interesting thing is that these fees get higher over time, as customers store more data on Pointerra's servers and use more services.

While Pointerra has its origins in Australia, the United States is really where the big bucks are for the company, specifically the U.S. utility companies of which there are more than 3,000. For now, Energy utilities are Pointerra's main focus, but we believe the products are just as applicable to other utility sectors.

The company launched commercial initiatives in the U.S. several years ago but struggled to get traction. We believe this was mainly due to the company just not attracting the right commercial people initially. More recently, though, it seems the company has found the magic formula for selling its products in the U.S.

### Getting to the point

Pointerra measures its success in Annual Contract Value (ACV), or the annualised value of all current contracts combined. This number hit US$4.93m per the end of September, which represented a 24% month-on-month increase, which is very impressive, especially since the company currently only has about 10 paying U.S. utilities on the books.

From an investor point of view, Pointerra ticks most of the boxes; the product is a software product, and it is scalable across a huge global industry. Yes, the sales cycle is long, but the product is very sticky. Once a customer has migrated its digital assets and its workflows to Pointerra, they'll likely stick around for many years. We like the company so much, we owned Pointerra stock for many years and waited patiently until we sold our entire stake in the last few months as the stock ran up to levels that we thought we no longer sensible.

In other words, our issue with Pointerra right now is valuation. Since Bevin Slattery came on board as a substantial investor, praise his soul, the shares have run from around 5 cents to more than 60 and are now trading in the high 40s. That implies a market capitalisation of around $320m. So looking at this from a P/ACV perspective (there's a metric we've never used), Pointerra is trading at a multiple of 45x if we just look at the number for September. Mind you; this is Annual Contract Value, not actual sales.

Even assuming Pointerra can triple its ACV in the next little while, we're still looking at a multiple of around 15x. And again, that's contract value, not sales. So for now, we'll wait patiently until the shares retreat to more acceptable levels and give Pointerra 2 stars.

# ZEBIT

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### Share price chart


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### What is a Zebit?

Zebit has two main symbiotic divisions: E-Commerce and Buy Now Pay Later (BNPL). The company's goal is clearly stated as the provision of a marketplace for the "120 million US credit-challenged consumers." Zebit Marketplace, as it is called, provides this service by allowing consumers to shop over 90,000 products across more than 25 categories and delay payment for six-months.

The main division is Zebit Marketplace which currently consists of 661,000 registered users (30 September 2020). While revenue decreased during the six months ending 30 June 2020, we believe the marketplace's performance was stronger than it appeared at first glance. E-certificates are the main source of revenue for Zebit and during the period in question, this segment saw a decline in sales of 27.4% to $12.2m during 1HY20. The two other sales categories for the marketplace are electronics and all other. These divisions saw increases in sales of 8.7% and 18.1%, respectively. We believe this period's performance shows a strong adoption of the offerings of Zebit Marketplace. As COVID-19 did the largest chunk of its economic damage during 1HY20 in the United States, product sales growth in the marketplace was encouraging to see.

The Buy Now Pay Later feature of Zebit Marketplace is a fully integrated feature and does not generate any revenue on its own. The company takes a down payment and then allows for payment within the next six-months with no interest payable. We believe this is a highly attractive feature which will enable Zebit to expand its userbase, especially during these difficult economic times.

## Primed to take advantage of the U.S. economic situation

During COVID-19, Reuters reported that US households cut their debt for the first time in six years by around US$34bn. The largest decline was in credit card balances with a $US76bn plunge during 2QY20 (April – June 2020). Combining the second and first quarter's results led to an overall 12% decline in credit card balances during 1HY20. We believe this focus on credit card balance reduction is a positive trend for Zebit due to its no interest rate system.

Credit cards in the United States often have interest rates higher than 20%, especially for Zebit Marketplace's target clientele. As consumers continue to suffer through uncertain economic ties we believe they are likely to take greater advantage of delayed payment systems, like Zebit Marketplace, especially when 0% interest is involved. Zebit's IPO really was perfectly timed as they can now continue expanding when the macro situation favours them the most.

## A bet for sure, but an educated one

Zebit is still basically a start-up, one with a solid track record. Based on the significant improvements to the company's EBITDA situation during 3QY20, we fully expect Zebit to achieve EBITDA profitability for FY21. While EBITDA was only US$0.13m, this is still a significant milestone for the company and does not appear to be a one-off. Zebit achieving EBITDA profitability so soon after an IPO is an impressive feat and we believe a strong vindication of management's ability.

There is currently only one analyst covering Zebit and we do not agree with their forward EBITDA estimates. Currently, this analyst has the company showing an EBITDA loss for FY21 of around $17m and an EBITDA profit of $3m in FY22. We believe it is more likely that the company will eke out a small EBITDA profit for FY21. The fourth calendar quarter has historically been the company's largest revenue period and we believe it is likely that this period will provide a strong enough EBITDA profit to make up for 2HY21. To explain this a bit further, historically around 65% of the company's revenue has been generated within the first half of the financial year. Therefore, we believe the company would need to provide a strong EBITDA profit in 2QY21 to makeup for the likely EBITDA losses in 2HY21.

Under the analyst projections for FY22 EBITDA, the market values Zebit at an EV/EBITDA for FY22 of 36.4x. As we stated before, we believe the analyst is likely underestimating the company's 2QY21 EBITDA growth based on the company's 3QY20 market commentary and the current economic situation in the United States. Zebit Marketplace is the right service, at the right time and we strongly believe it deserves a four star rating at this time with the caveat that the company holds more risk than others due to its start-up nature.

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### The emergence of eSports

eSports is a massive industry worldwide. In 2016, the worldwide eSports market achieved revenues of US$493m and that grew to US$1.1bn in 2019. The Fortnite Celebration Cup, Clash of Clans World Championship and Formula 1 racing simulator's World's Fastest Gamer tournament all offered grand prizes of US$1m in 2020. Business Insider estimated that the CAGR for total viewership would grow at a 9% rate between 2019 and 2023, with 2019 experiencing 454m people watching. eSports might seem hard to understand for some, but it's an emerging industry already with a significant amount of monetary backing and a huge growth trajectory.

### An emerging company

Emerge is a company in development. It produced a loss of $1.3m from only $31,095 in revenue during FY20. So far during FY21, the company has made a number of significant launches, mainly in South Africa, of its eSports tournament platform, ArcadeX. Developing an eSports platform is not as easy as it sounds;

the product not only needs to be highly resistant to exploits and hacks, but also needs to be available across effectively all viewing platforms. ArcadeX is currently slated to be available on smartphones, tablets, consoles, PC's and Smart TV's.

The company is also developing a mobile social gaming platform called Miggster, which has achieved over 6m pre-registrations as of 28 October 2020. Miggster was released on 14 November 2020. Due to the recent date of the launch, it is unclear yet how many pre-registrations actually turned into revenue-generating users.

Emerge launched its Casual Gaming Tournament Platform, called MTN Arena, in July 2020 exclusively in South Africa. In the four months since the product launched, it generated around $30,000 in revenue. Since then, the company has drastically expanded its offering with its Technologia de Impacto Multiple S.L. (TIM) partnership, announced on 10 September 2020. This agreement guarantees 100,000 subscribers within six-months and therefore, promises to generate US$850,000 in revenue per month. Assuming 100% subscriber retention, this would equate to US$10.2m in annual recurring revenue. At the same time, this partnership is a true game-changer for the company, pardon the pun, it's also where the trouble started.

## The suspension

On 28 October 2020, Emerge requested it was placed in a trading halt pending its quarterly update and Appendix 4C. On 30 October 2020, the ASX placed the company in suspension from official quotation pending a response to the ASX's queries around Emerge's relationship with TIM. It seems TIM uses Crowd1 to achieve Miggster's pre-registrations and multiple regulatory agencies in the United States and New Zealand have issued a warning about Crowd1's business practices.

The concern effectively equates to TIM and Crowd1 fluffing Miggster's pre-registrations. Unfortunately, this is still an ongoing investigation with no end to the company's suspension in sight. Emerge is highly confident in TIM's reported pre-registration numbers, enough so that they launched Miggster on 14 November 2020. We believe this remains a significant risk to the company that investors must keep in mind.

## Worth the risk

We believe Emerge warrants being on the watchlist of most risk-prone growth investors. The company has a number of products in the pipeline and FY21 seems set to provide a boost to both revenue and EBITDA. While we hope the company will be able to achieve EBITDA profitability this financial year, the increase in expenses due to the company's multiple product launches are unclear at this time.

We would like to point out that the company's projected revenue from MTN Arena alone would cover the entirety of its expenses accrued during FY20, with plenty to spare. Unfortunately, the company's suspension and lack of predictable expenses make it impossible to offer any form of EV valuation. We believe at a market cap of $82.5m, Emerge's growth potential makes it worthy of an investment, provided the investor has a high-risk tolerance and the ASX's concerns turn out to be overcautious. It's a four star rating for us.

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Pitt Street Research Pty Ltd is founded on more than 40 years of combined experience researching companies in a range of different sectors.