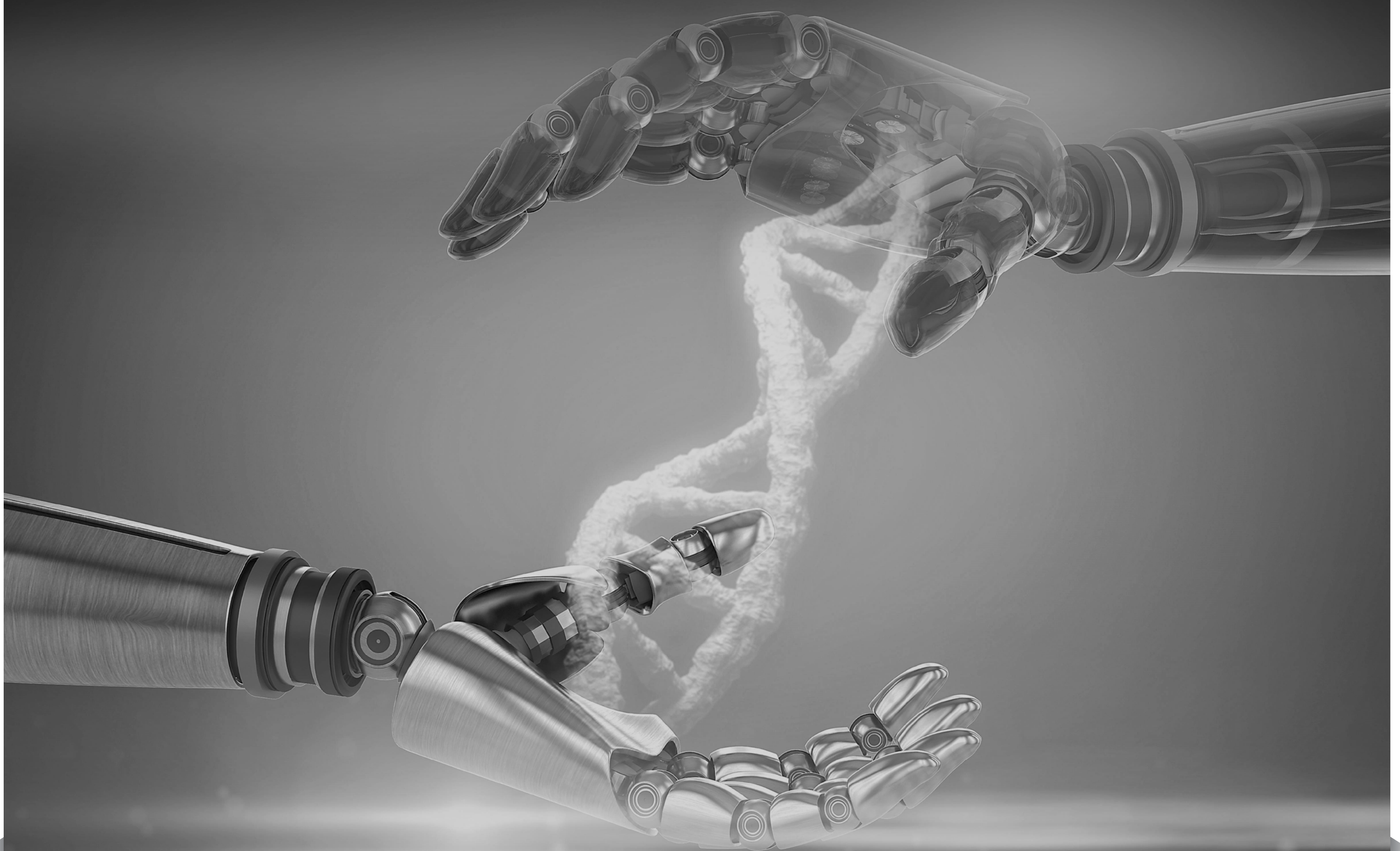
STOCKS DOWN UNDER

23 FEBRUARY 2021

Emerging Stocks Down Under

"If things don't come easy, there is no premium on effort. There should be joy in the chase, zest in the pursuit."

- Branch Rickey (1881 - 1965), American baseball player



PRAEMIUM

A Premium for you

OVER THE WIRE

This valuation is way under the line

ONEVIEW HEALTHCARE

COVID-19 or bust

PRAEMIUM

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Stocks Down Under rating: ★★★★

ASX: PPS
Market cap: A$ 396M

52-week range: A$0.19 / A$0.84
Share price: A$ 0.76

Praemium was founded in 2001 to develop a worldwide, flexible financial platform. Based in Melbourne, Praemium has ridden the wave of Australian-developed technological exports that have emerged during the 2000s with clients in the United Kingdom and Asia. The company has two main revenue streams: platform revenue and portfolio services. The first half of FY21 was a record period for Praemium and the stock has performed accordingly. We think there is more to come.

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Stocks Down Under rating: ★★★★

ASX: OTW
Market cap: A$ 236M
Dividend yield: 1% (100% Franked)

52-week range: A$1.83 / A$5.00
Share price: A$ 3.97

Headquartered in Brisbane, Over the Wire provides telecommunication, cloud and IT products and services to all major Australian capital cities and Auckland, New Zealand. The year 2020 was not kind to Over the Wire shareholders, with the stock ending the year down 7%. Since this company's focus is business clientele, will 'The Wire' finally get some love now that people are finally returning to their offices?

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ASX: ONE
Market cap: A$ 32M

52-week range: A$0.032 / A$0.14
Share price: A$ 0.075

As part of the continual attraction of companies from other countries to the ASX, Oneview Healthcare is an Irish company based out of Dublin, that listed on 17 March 2016. Despite listing almost five years ago, Oneview is still in its operations' development stage as it continues to focus on creating its patient experience digital tool portfolio. The portfolio helps healthcare providers measure patient experience, optimise patient flow and allow virtual care and family visits, a need painfully underlined by COVID-19. The need is great, so how has Oneview been doing?

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Share price chart

Source: Tradingview

The platform

Praemium was founded in 2001 to develop a worldwide, flexible financial platform for financial products, like superannuation. What Praemium has been aiming for is to create a suite of products that makes it genuinely easy for investment professionals to manage their client's portfolios. The company has done a more than respectable job of accomplishing its goal, with its platform reaching $20.4bn in Funds Under Administration as of 31 December 2020 across more than 300,000 investor accounts and over 1,000 financial institutions.

Financial platform companies are an industry we have written about before in Stocks Down Under with HUB24 (ASX: HUB | Edition 15 February 2021) and Netwealth (ASX: NWL | Edition 12 October 2020) being our most recent reports. As we discussed in both of those articles, the Australian industry has been experiencing significant upheaval since the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry's final report was submitted on 1 February 2019. One of the main features of this turmoil has been the transfer of significant assets from the older, more established players to a newer and more innovative (and less scandalous) generation of companies. The question is, has Praemium been a part of this transition?

The answer for the most part has been yes. During FY20, Praemium saw total Funds Under Administration rise 26% to $20.3bn fuelled mostly by the Australian business which saw a 68% increase in net inflow year-over-year. The international platform has also been running on all cylinders, with a net inflow increase of 51% year-over-year. While not exclusively the United Kingdom, the majority of both the international division's growth and Funds Under Administration are within the United Kingdom. Moving forward to the most recent information, i.e. 1HY21, we find that total Funds Under Administration has jumped 69% to $34.3bn. Does this mean that Praemium's growth is accelerating?

An acquisition fuelled half the growth

To answer our above question, no this does not mean growth in Funds Under Administration has suddenly jumped. In fact, as the title suggests, 1HY21's amazing result was due to a major acquisition. Over $8bn in Funds Under Administration was acquired during 1HY21, bringing the total organic growth in Funds Under Administration to 30%. While 30% is still a highly respectable number, it is far less than the reported 69% post-acquisition.

All-in-all, 1HY21 was a strong half for Praemium and we are certainly not trying to take that away from them. However, the acquisition of Powerwrap, a financial platform, distorts Praemium's results and investors should be aware of this.

A strong company with strong recognition

Praemium is clearly doing a lot right. The industry in which it operates is still undergoing significant transformation despite the Royal Commission's report being released in February 2019 and this means innovators like Praemium are in a perfect position to capitalise on the funds up for grabs. Despite the strong growth the company has experienced in its international division, it is still mostly an Australian operation with 74% of its 1HY21 revenue and 100% of its EBITDA profits coming from Australia. We believe this is largely positive for the company. We believe the incumbent financial platform and portfolio service leaders, like AMP, will continue to struggle allowing Praemium to continue to siphon off their clients for the next few years.

Looking at Praemium's valuation, we see that the market is well aware of the company's performance and potential future growth, but is not overpricing the stock just yet. From an FY21 and FY22 EV/EBITDA perspective, Praemium is trading at 23x and 17x, respectively. This compares to the market's consensus forecast of 19.4% and 31% EBITDA growth during both years. We believe the accelerated growth during FY22 will be due to markets returning to some form of post-COVID-19 normalcy combined with the completion of integrating Powerwrap into Praemium's operations. Powerwrap currently has lower margins than Praemium and, therefore, caused margins to slightly decline during 1HY21. We believe this integration will provide a slight boost during FY22.

Looking at Praemium's future, we see a strong company walking a path to growth laid out by an industry whose incumbents are struggling to retain clientele. While this is certainly not an unknown stock to the market, we believe there is still room left on this valuation. Four stars from us.

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Source: Tradingview

COVID-19 office business that works

Over the Wire provides four main services to businesses in Australia and New Zealand: data networks and internet, voice, hosting, and security and management services. It's been a great company historically and we like it so much we're just going to call it 'The Wire' in this article. The Wire's stock significantly underperformed the market during 2020, declining 7%. No surprises there: This company's sole focus is business clients and the products and services The Wire deals in are mostly used directly in the office. And if there's one place people weren't spending much time in last year, it was offices.

The market's caution was justified, sort of, by FY20's results. When comparing 2HY20's results to 1HY20, we see slight declines in data networks (3%) and hosting (1%). Despite these declines, revenue still grew 4% as voice and security and services grew 12% and 32%, respectively. Most impressively, management managed to keep its gross profit margin more or less the same at 54% and increased EBITDA margin to 20%. The latter represents a 3%-point increase compared to 1HY20.

The four horsemen of profit

The Wire's business is split into four different divisions. Starting with the one that, at first glance, we might have assumed businesses' needed slightly less of in 2020, Data Networks and Internet. Currently this division operates mostly on three-year contracts for the provision of high-speed networks. Due to the demanding nature of business, The Wire not only needs to provide high-speed networks, but reliable and high-bandwidth networks as well. We believe these three-year contracts provided the company with a buffer that has allowed it to survive COVID-19 without as much damage to its customer base as some of its other peers.

The Wire's Voice division offers clients Session Initiation Protocol (SIP). SIP is one of the more flexible of the Voice over Internet Protocol (VoIP) systems and allows for phone calls, instant messaging conferences, and video and audio meetings. This means that the Wire is able to offer its Voice clients a highly customisable service – at the office or at home.

The Hosting division offers three main services: infrastructure, PBX and data centre colocation. Basically, this means The Wire offers cloud-based servers, storage and networks, as well as a hosted telephone system, while also allowing clients to rent space in its data centre to place their servers where the company can be confident in their physical security. Again, companies require these services no matter where their employees are working from.

The last division, and most COVID-19 friendly, is the Security and Management Services. This division provides three main roles: outsourced IT services, cyber security equipment and security applications and services, like firewall management and content filtering.

Notice a pattern here? People may have been spending less time at the office in 2020, but they still needed the kind of services The Wire is good at, even if it was delivered at home.

Hated by the market

Anything that relies on or facilitates offices was completely out of favour during the majority of 2020 due to COVID-19 and The Wire was no expectation. We believe this was a mistake for two main reasons. The first is how marginal the reported impact was on 2HY20's results. The Security and Management Services division saw a 32% increase in revenue compared to the first half, to $4.2m, and the Voice division increased 12% to $10.4m. Combine this with the lack of significant revenue damage in the company's two other divisions, and this tells us that, despite The Wire's reliance on business clientele, they should not have been lumped in the office crowd by investors.

The second reason is that we believe, as the evidence is currently showing, that commentary on the death of the office was completely overblown. Melbourne's CBD office occupancy more than doubled during January to 31% from 13% in December and Sydney has reached 45%. While this is still a far cry from pre-COVID-19's rate of 94%, we believe this proves that the CBD's death has been greatly exaggerated. Don't get us wrong, the CBD's are hurting and will be for a while, but The Wire is still a small company with only $74.7m in revenue in FY20. The recovery of the CBD offers a lot of opportunity for an innovative up-and-comer like The Wire, in our view.

Right time, right valuation

With businesses beginning to consider a return to the office more seriously around Australia, we believe The Wire is primed to take advantage of the situation. The market is currently expecting a 52% year-over-year increase in EBITDA for FY21. Yet, the shares are only trading at an FY21 EV/EBITDA multiple of 9x.

The company has shown strong growth, both before and during COVID-19, and with 2021 likely to see a strong increase in staff returning to offices, we are confident this company should be able to benefit. Four stars from us.

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Share price chart

Source: Tradingview

We all need connection

Oneview Healthcare was founded in 2008 with the goal of developing a technology-based portfolio or products and services that improve the care experience for healthcare staff and the patients they serve. The company first listed in April 2016 at $3.58. The stock quickly rose to its all-time high of slightly over $6.50 during December 2016, but by the end of January 2017, investors' perception went from amazing to terrible, rather rapidly. The stock ended 2017 below $2.10, kept on falling and ended 2020 below $0.05.

This is a case of a company failing to deliver on its projections and promise. After peaking during CY16 at €9m, Oneview has consistently reported declining revenue every year, with one exception. During CY18 Oneview generated €8.2m in revenues, a 30% increase from CY17's €6.3m. However, this was a one-time jump and revenues declined to €6.6m over the last 12 months.

The product and COVID-19

So far, the industry has not been picking up what Oneview has been putting down. COVID-19 has provided the company with, what we see as, a last chance at success. Fortunately, management has developed a new strategy that it has deployed during the pandemic, to be fully launched at the end of the first quarter of 2021. This product has two levels: Cloud Start and Cloud Enterprise. Cloud Start is set to be available via a bundle with Samsung tablets that includes digital services at the patient bedside, including rounding (i.e. doctors and nurses rounds), visitation, education and language translation, all virtual. If an organisation finds this product useful, they can upgrade to the second level, Cloud Enterprise, which allows additional features, such as meal ordering, personalised education and more concierge services. Both levels allow for third-party apps, such as streaming services, to be installed and interact with the product.

If there was one event that could show the healthcare industry that they needed this product, it was COVID-19. The need for as many services as possible to be virtualised for the safety and efficiency of everybody involved has been shoved roughly into the world's face by this pandemic. That's the catch, though: If Oneview cannot turn its spiral around with COVID-19, we find it extremely unlikely that they will ever be able to do so.

CY20 earnings up at-bat

Two days from the date of this publication, so on 25 February 2021, Oneview will release its 2020 full-year results before the market open. Unfortunately, we are not expecting a positive result. The main reason for this is the business update on 30 September 2020. The main highlight from this update was guidance of between 40% and 50% revenue growth when comparing the first half of 2020 to the second half. Total revenue during the first half declined 15% year-over-year to €3m, despite the number of beds currently using its product having increased by 30%.

Additionally, the company has not released any announcements since this 31 August 2020 update on new client acquisition; something management has done consistently in the past. The only announcement of that type was Samsung's agreement to offer a bundle tablet with its first level cloud product to its United States distributors. However, as we said, this is slated to begin in February 2021. Therefore, we expect 2020 to be rather on par with the unexciting guidance and 2021 to be the true last chance.

Flip a coin

We believe the company's current market capitalisation of $32m is effectively the bottom of the barrel based on the intellectual property the company owns. What we mean to say is this, we think 2021 is the last chance. If management cannot turn this company around during COVID-19, which is a perfect case study on why this product is needed, then we find it unlikely it will survive much longer.

There is one other possibility that we believe must be considered. At $32m for the entire company and with the demand for this type of product, we believe it is well within the realm of possibility that a larger company will seek to acquire the intellectual property, either through hostile or non-hostile means.

Due to the bottom of the barrel valuation and the possibility of a buyout, we are rating this company four stars, but only for those investors with an appropriate risk appetite. 2021 may be this company's last shot, but we believe the Samsung deal and COVID-19 have certainly given them a fighting chance.

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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.

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