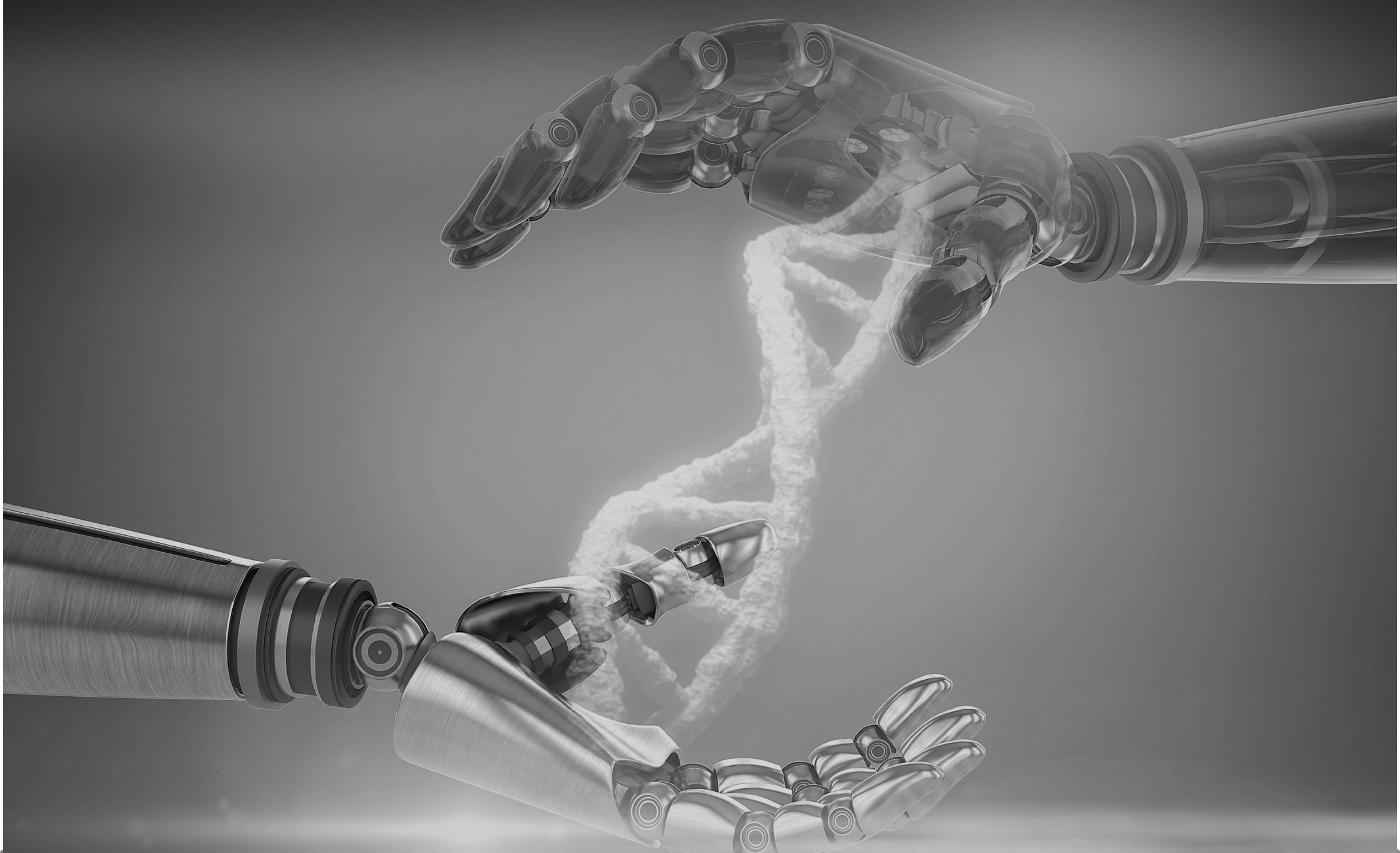
STOCKS DOWN UNDER

9 MARCH 2021

Emerging Stocks Down Under

"The future belongs to those who seize the opportunities created by innovation."

- Doctor Delos M. Cosgrove (b. 1940), President and CEO of the Cleveland Clinic



PYC THERAPEUTICS
Helping us all see better

SPRINT TECHNOLOGY SOLUTIONS
Don't start running just yet

YOJEE
Connecting the world

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Stocks Down Under rating: ★★★★

ASX: PYC
Market cap: A$ 460M

52-week range: A$0.04 / A$0.21
Share price: A$ 0.15

Formerly known as Phylogica, PYC Therapeutics is finally making headway with its delivery of RNA-based therapy in the treatment of ocular diseases. Since the company's first drug-delivery campaign in early 2020, PYC's share price has leapt to a high of 19 cents late in the year, from its previous low of 5 cents in the nightmare month of March 2020. As the company builds momentum towards human trials, there is already much investor excitement about the potential application of its cell-penetrating peptide technology in specific eye diseases.

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ASX: ST1
Market cap: A$ 203M

52-week range: A$0.12 / A$0.45
Share price: A$ 0.38

Headquartered in Melbourne is a small, but growing IT and telecommunications provider for the Small to Medium Sized-Businesses (SMB) segment of the market. Sprint Technology Solutions is aptly named as investors were sprinting to own this stock during 2020, driving the share price up 90% to $0.40 by the end of the year. This industry is seeing a significant amount of disruption from these would-be Telstra's and there definitely seems to be some room for a few innovators to take control of the space. The question is, does Sprint have the stamina to be one of them?

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Logistics, the word on everybody's lips since COVID-19 came crashing down on our supply chains. Yojee is a WA-based company whose cloud-based product allows companies to easily manage, track and optimise their freight movements every step of the journey. The company has a strong product line up as evidenced by the continued strong client sign ups over the years. But with the share price jumping 300% during 2020, can this logistics software company handle the weight of its current valuation?

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Share price chart

Source: Tradingview

Life-changing science

You've probably heard of gene therapy, which is medicine that corrects disease at the level of the genes that ultimately cause it. For a long time, gene therapy was considered science fiction. Thanks to advances in the knowhow behind the delivery of the medicine, it's rapidly becoming a science fact.

PYC Therapeutics' unique selling point is its use of cell-penetrating peptides (CPPs) in gene therapy, also known as RNA therapeutics. While the company is still in the development stage, it is going after the big money with a focus on hard-to-treat degenerative retinal diseases, including Retinitis Pigmentosa (RP), neovascular age-related Macular Degeneration (nAMD), Diabetic Retinopathy (DR) and autosomal dominant optic atrophy (ADOA).

RP is a genetic mutation and a leading cause of blindness in children, affecting about 0.3% of the global population. The company is looking at a specific sub-type of RP (RP11), which only accounts for 4,000-8,000 cases in Western countries. The condition is known to start as early as ten years of age, but may take decades to cause total blindness, leading to a reduced quality of life. A small patient population, perhaps, but the addressable market for RP is probably US$1bn.

Cell-penetrating peptides (also known as phylomers) are large molecules made up of amino acids, which can deliver a drug 'cargo' across the cell membrane and into the cell. After fourteen years of throwing its CPP technology at various conditions, something seems to have finally stuck with drug candidate VP-001 and RP. The company commenced active animal trials of that drug early in 2020 and expects to have toxicity data later this year. PYC Therapeutics raised A$41m in November to advance VP-001 and two other pre-clinical programs.

Why did it take so long to come together?

While RNA technology seems bewilderingly futuristic, the ability to target mutations inside cells is not actually the difficult part – the difficulty lies in finding the best mode of delivery to get RNA therapy to the right place. In PYC's case, it was the other way around. It had the delivery in the form of penetrating peptides, but it wasn't until the company made a deal with the Perth-based Lions Eye Institute, which does research into ophthalmic conditions, that PYC had the right drug candidate, in the form of an anti-sense oligonucleotide (ASO) construct.

ASOs are 'anti-sense' molecules in that they are made up of the same building blocks (nucleotides, or bases) in DNA but have the reverse sequence, meaning they are precisely able to turn-off or switch genetic mutations in the code. By using cell-penetrating peptides to deliver ASOs, PYC is finally applying its technology to an area of unmet need, with retinal diseases underrepresented with fewer treatment options.

In Retinitis Pigmentosa VP-001 has shown strong efficacy correcting deficits in the retina without increasing toxicity. That may be only in mice, but the evidence on toxicity is good to have as existing eye treatments may actually end up harming the good proteins in the long run.

The company's latest drug candidate, PYC-001, is being targeted against the vascular endothelial growth factors (or VEGFs) in diseases like macular degeneration, which you may remember from our analysis of Opthea (ASX:OPT) on 2 February 2021. Although VEGFs can cause new blood vessels to enter and destroy the retina, VEGFs also have a 'pro-survival' role supporting and maintaining cells. Long-term use of therapies that inhibit VEGFs, such as Lucentis and Eylea, have the potential to disrupt the good-survival function. Those drugs collectively generate more than US$10bn in sales per year, so PYC's strategy to use ASOs to switch the outcome and silence new blood vessel growth is a potential gamechanger for those affected by nAMD or DR.

Try and try again until you succeed

While PYC's three drug programs are still in the pre-clinical stage, the company is laying the groundwork for a better class of treatment for those eye conditions, while it also furthers its own ambitions in other areas, including neurodegenerative diseases. In the long run, oligonucleotides will become an important feature in therapeutics, with demand for oligonucleotide synthesis in genetic research pushing the market value to $2.27bn in 2020. As VP-001 is the closest to human trials, the company is rapidly progressing its entrance to the US market through its engagement with US biotech investors while it continues to build its cash position (now US$44m).

Now that PYC is actively looking for American partners, investors will be dearly hoping that collaboration success comes a lot quicker this time. In saying that, the past seems inconsequential now that the company has found the right platform to address an unmet area of disease with the most up to date medicine.

Perhaps the most exciting aspect is where PYC and Biotech companies like it can take RNA therapies beyond degenerative eye diseases. It's early days, but it's a four star vision for us.

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Share price chart

Source: Tradingview

You need to take the leap

Sprint started back in 2005 as a telecommunications reseller, but transformed its business into an Information Technology (IT) and telecommunications provider in its own right through a series of strategic acquisitions. After acquiring LinkOne Group, Building Connect, Arinda IT and others, Sprint was able to offer its clients internet and voice (including mobile), cloud services, cybersecurity and IT management, connection and set-up services as well as third-party software. This transformation was completed on 14 October 2020 when shareholders approved changing the company's name from Sprint Telecom Limited to Sprint Technology Solutions Ltd. The company did not see the need to change it's ASX ticker.

Through its offerings, the company helps three categories of organisations: small to medium sized-businesses, essential services and government organisations. Despite operating for more than 15-years, Sprint is still pretty much an emerging company and its transformation from telecommunications reseller only really started to pay-off very recently. Let's look at this company's operations and see if this growth is a sprint or a sustained marathon.

Looking through the headline numbers

During FY20, Sprint only generated $34.4m in revenue and $3.7m in EBITDA. With numbers this small, it's clear that management still has a lot of growing left to do. Recurring revenues are a good yardstick for any company's ability to perform and compete by giving us a snapshot of it's ability to retain its clients. This is why we believe Sprint's recurring revenue is the most important indicator of the company's potential.

What we saw during 1HY21 was certainly excellent news and showed us where Sprint's strengths as an organisation lie. Total recurring revenue for 1HY21 was $21.1m, a year-over-year increase of 99%, and an impressive 63% growth on 2HY20's results.

Recurring revenue is split between data services ($7.9m), managed services ($7.7m), voice services ($2.4m), cloud solutions ($2m), security services ($0.9m) and other recurring revenue ($0.2m).

Unfortunately, while 99% growth sounds impressive, there is a fly in the ointment. Sprint's managed services business only came into existence on 20 August 2020 when it announced an agreement to acquire three managed IT service providers for $7.9m in shares. The issue that then arises is that the majority of 1HY21's recurring revenue growth was generated by newly acquired companies. Yes, Sprint had organic recurring revenue growth, but it was a lot less than the 99% year-over-year growth that the headline reported. The unfortunate part is it is unclear what the split between organic and acquisition-based is.

The market is uncertain

Sprint is in an interesting position right now. Australian businesses and organisations are quickly returning to their offices and will need Sprint's products and services. However, the market is currently heavily undervaluing this company's shares based on FY21's expected full-year EBITDA growth. You see, the market expects Sprint's FY21 EBITDA to growth by 222% to $12m, but its FY21 EV/EBITDA ratio is only 16.5x. This indicates that the market is unsure of what to make of 1HY21's results following the company's transformation.

We happen to agree with the market on this one. Sprint seems to have a strong product offering. Still, with the current market volatility due to concerns over interest rates, we would feel a lot more comfortable with this stock after seeing more proof of organic growth. Therefore, its three stars from us for now.

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Share price chart

Source: Tradingview

I feel the need, the need for efficiency

COVID-19 showed us all the importance of proper and efficient logistics. Society, as we know it, cannot function without effective and consistently functional global trade. As Australia expands, and even as it shifts away from being heavily focused on resource extraction and export, our population's growing needs and demands will cause ever-increasing demands on Australia's logistics network. The fact that anyone of us could walk into a pub and order a glass of Japanese whiskey as soon as the lockdown ended was a minor miracle that we mostly took for granted.

Here's the thing though, logistics is a complicated business and a lot can go wrong. The World Shipping Council commissioned a study that found that 568 containers are lost at sea each year. While that may seem like a lot, the Huffington Post reported that as of July 2014, between 5m and 6m shipping containers are crossing the sea at any given time. How is anybody, even shipping companies, supposed to manage this all and only lose 568 containers each year? This is where companies like Yojee come in.

What makes the world go round?

It's the services and products you never hear about that make the world go round. Yojee's product is shaping up to be one of these unsung heroes of the modern world. The company's product is a cloud-based platform that allows logistics businesses large and small to track their entire logistics operations by focusing on three main areas: overall operations, driver solutions and partner management.

The company has a web-based platform that allows a complete overview of customers' current logistics operations. This includes real-time data insights, the ability to assign delivery jobs, route planning and up-to-date operations monitoring. Without going into too much detail, the one feature we want to highlight is the route planning system. This feature is powered by artificial intelligence allowing a customer to do significantly more than just plotting a logistics plan or route. Yojee's artificial intelligence uses an organisation's data to plan the most efficient route possible. Combine this with its integration into the overall web platform, and an organisation's efficiency receives a rather significant boost.

As Yojee's platform is cloud-based, drivers and other employees can utilise a mobile application that seamlessly integrates with the web-based platform. This allows for all sorts of updates, such as new jobs and routes, to be instantly transmitted from anywhere. The reverse is also true. The application allows drivers to provide electronic proof of delivery instantly as well as real-time location updates and communicate any problems that arise.

What about an organisation's subcontractors or partners? Yojee's developers have realised this is a common need among its customers and created the platform with partner management in mind. Integrated into the cloud-based platform is the ability to sign-up, manage and collaborate with an unlimited number of partners for no extra charge. By combining outsourced deliveries with the rest of the platform, Yojee believes its customers gain an edge in efficiency and performance.

Who cares and why?

As with any business, the question must be asked "who cares"? It turns out a lot of people. The logistics industry is currently undergoing a significant transformation as the majority of the current systems were built in the 1990s and early 2000s. This means that from sender to recipient, Yojee estimates that around five separate systems are being used to manage a single delivery during overseas' transport. Despite Yojee's platform still being in the rollout phase, which means the company is not currently profitable, initial feedback from the six revenue-generating projects shows that clients have seen an 89% improvement in delivery efficiency.

As of 1HY21, Yojee has signed up eight unique accounts across eight separate countries, two of which in the last quarter alone. The company has currently fully integrated six of these accounts and earns revenue from them through monthly platform subscription fees and a fee per transaction managed by the software. The fee per transaction depends on the client's contract. Management stated that its platform rollout is currently on track and it expects to continue signing new agreements throughout 2021, although they did not give specifics.

A company with promise

With a market capitalisation of $176m, Yojee is a company that has recently moved from product development to product rollout. However, due to the lack of guidance from management or analyst projections by the market, it is unclear when investors should expect this company to begin generating a profit.

However, we believe Yojee's platform clearly fills a need in the marketplace and nothing proves this more than the 89% improvement in delivery efficiency clients are currently reporting. Investing in Yojee is a bet on the adoption rate of the company's platform rather than on hard earning projections. We believe the platform shows promise and early results, and therefore, its four stars from us.

Pitt Street Research Pty Ltd

95 Pitt Street, Sydney, NSW 2000, Australia

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