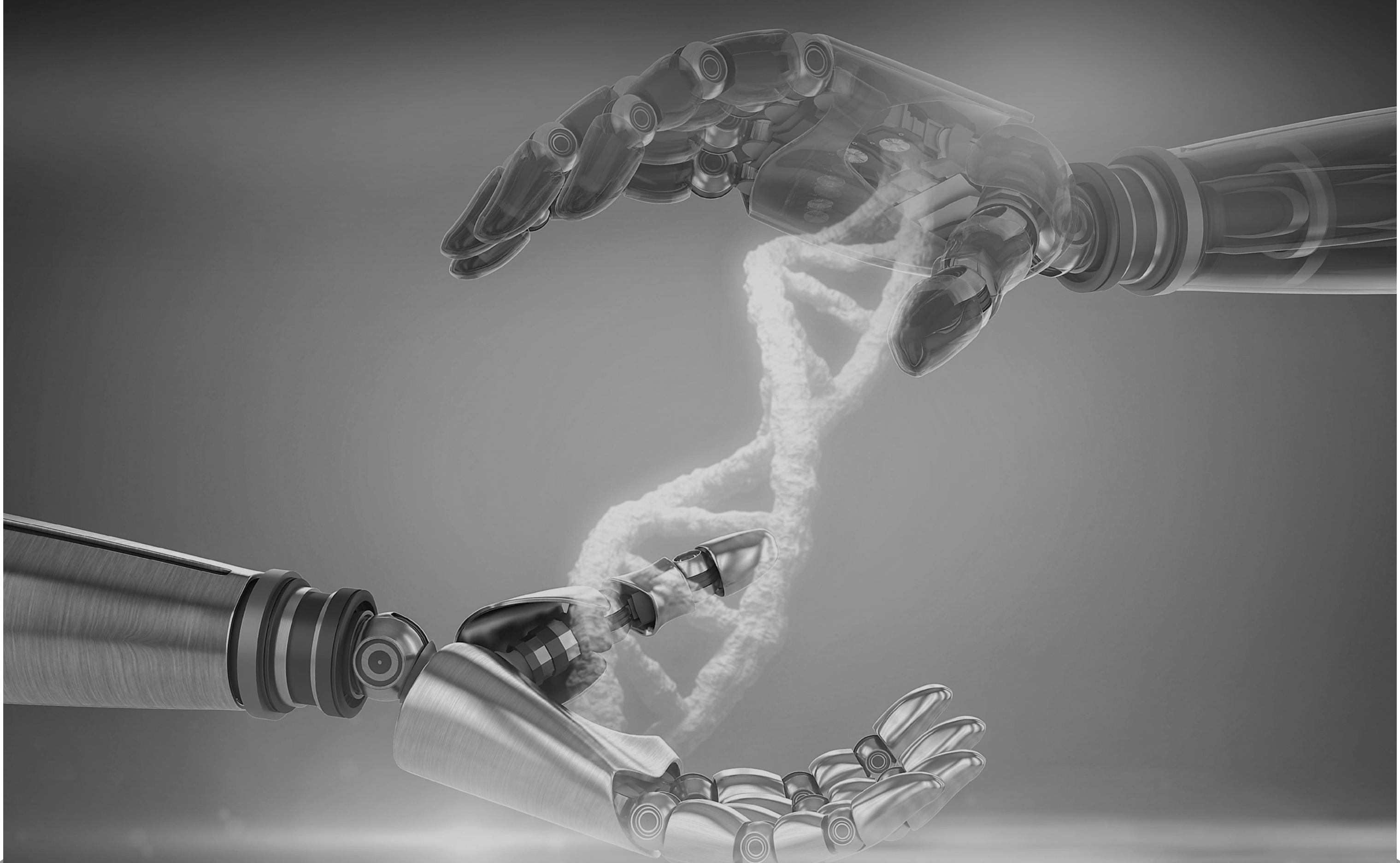
STOCKS DOWN UNDER

27 APRIL 2021

Emerging Stocks Down Under

"The only history that is worth a tinker's dam is the history we make today."

- Henry Ford (1863 - 1947), Founder of the Ford Motor Company



COG FINANCIAL SERVICES

A significant part of the Australian finance machine

ANSARADA GROUP

Shaking up the finance industry

99 TECHNOLOGY

More than 99 problems

COG FINANCIAL SERVICES

A significant part of the Australian finance machine

Stocks Down Under rating: ★★★★

ASX: COG
Market cap: A$ 165M
Dividend yield: 2.7% (100% Franked)

52-week range: A$0.033 / A$0.11
Share price: A$ 0.10

Are you an independent asset finance broker or a Small to Medium-sized Enterprise looking to finance some additional equipment? COG Financial Services has the services for you. Headquartered in Sydney, COG is a small, but growing organisation specialising in asset finance broking and lending through three separate entities. With only 17% of Australia's market share, is this company ready to become a much bigger cog in the great Australian finance machine?

READ MORE

ANSARADA GROUP

Shaking up the finance industry

Stocks Down Under rating: ★★★★

ASX: AND
Market cap: A$ 94M

52-week range: A$0.145 / A$1.68
Share price: A$ 1.10

Headquartered in one of Sydney's most famous areas, the Rocks, the Ansarada Group is hoping to achieve its fame through the development of 'Virtual Data Rooms' for Merger and Acquisition deals. The company has clearly built a better mousetrap as it achieved over 3,000 total customers around the world as of 1HY21. With a renewed focus on profitability and a share price rout of 26% since the 2021 share price on 15 February, we believe Ansarada is certainly worth a look right now.

READ MORE

99 TECHNOLOGY

More than 99 problems

Stocks Down Under rating: ★★★

ASX: NNT
Market cap: A$ 91M

52-week range: A$0.046 / A$0.12
Share price: A$ 0.079

99 Technology has its registered headquarters in Sydney, but the company's entire operations are in China. Outside of its need for an Australian 'top hat' address for ASX listing purposes, 99 Technology's true headquarters is actually in Shanghai, China. The company's main operations are providing online and mobile services to its Chinese-based business clients. With China being the only major economy to have expanded during 2020, at first glance 99 Technology seems to be in a great position to expand. But first impressions are not always the right ones.

READ MORE

COG FINANCIAL SERVICES

A significant part of the Australian finance machine

Stocks Down Under rating: ★★★★

ASX: COG
Market cap: A$ 165M
Dividend yield: 2.7% (100% Franked)

52-week range: A$0.033 / A$0.11
Share price: A$ 0.10

Are you an independent asset finance broker or a Small to Medium-sized Enterprise looking to finance some additional equipment? COG Financial Services has the services for you. Headquartered in Sydney, COG is a small, but growing organisation specialising in asset finance broking and lending through three separate entities. With only 17% of Australia's market share, is this company ready to become a much bigger cog in the great Australian finance machine?

Share price chart

Source: Tradingview

Multiple COGs make the machine run

COG Financial Services mainly operates through three consolidated entities: finance broking, aggregation and lending. These two divisions generated a total of $218.5m in revenue during FY20 resulting in EBITDA of $24m. However, the company is not currently profitable from a net income standpoint. During 1HY21, revenue increased 15% year-over-year to $129.6m, but EBITDA margins were the show's real star growing 6.5%-points to 20.6% year-over-year. This drastic increase in EBITDA margins resulted in $27.5m in EBITDA in the period, an increase of 73% year-over-year due mostly to margin expansion.

To better understand these results, we need to go through the company's various divisions. The finance broking and aggregation divisions focus on two areas of operation. The first is the taking a group of assets from financial brokers and pooling them in order to increase its desirability and profitability when sold to outside investors. The second is providing asset finance brokers with a range of financial products to facilitate the creation of customer-facing loan products. This division generates the vast majority of COG's revenue, EBITDA and growth generating $107m (10% growth year-over-year) and $15.6m (50% growth year-over-year) during 1HY21, respectively.

EBITDA growth is clearly due to margin expansion rather than revenue growth, and this was no accident. During 1HY21, management focused heavily on seeing this result come to fruition through two main initiatives: consolidation and cost savings. Management's cost savings plan was put into action due to the difficult economic conditions COVID-19 forced upon the world during 2HY20. Fortunately, Australia has recovered strongly during 1HY21 and, like many other companies, these cost savings ended up providing a solid boon for the company's profitability. What do we mean by consolidation, you ask? Acquisitions are an important part of this company, which we'll discuss in greater detail.

While the $18.2m in revenue generated by the lending division only accounts for 14% of total revenue, this division is experiencing strong year-over-year growth (58%) and it generated 44% of total EBITDA. While the financial broking and aggregation division increased its EBITDA by 50% year-over-year through margin expansion, the lending division's 81% EBITDA growth during 1HY20 was due to a combination of revenue growth and COVID-19 related cost-cutting. Fortunately, this division is focused on asset finance lending. Despite business investment growing slower than the Reserve Bank of Australia would like, there is still plenty of room for this division to expand its operations. We remain optimistic that 1HY21's 58% increase in revenue was not a one-time fluke.

Acquisitions remain an important growth driver

COG is still a small operation, but one with grand aspirations. This means that the company has decided to actively look for acquisitions to accelerate its growth. When looking at these acquisitions, we are pleased to report that the majority of those in FY19 and FY20 was paid with cash, not equity. Despite this, the company's balance sheet is quite strong, with only $42m in debt and $95.8m in cash as of 1HY21.

During 1HY21, COG acquired an additional 19.2% interest in Westlawn, bringing its total ownership to a controlling 51%. While Westlawn's EBITDA result is not specified, the company's net profit margin contributed to COG heavily indicated by management to be higher than COG's overall margin of 23%. As we mentioned above, this was the main contributor to the finance broking and aggregation division's EBITDA margin expansion.

Modest valuation given its growth profile

We see two primary risks for COG going forward: liquidity and guidance. The liquidity risk comes from the fact that the company has only seen an average of 910k shares traded on a daily basis over the last three months. While this might sound significant, we would remind our readers that COG's 52-week high is only $0.11, or $100,100 in average daily value traded. This means the share price is volatile and if investors start scrambling to get out for some reason, it can be easy to be left holding the bag.

The second risk is the lack of guidance due to COVID-19 market conditions. This is compounded by the fact that the company has not generated enough interest to be followed by any analysts, which means there are no current earnings estimates available. In turn, that limits investor interest in the stock.

With that said, we believe COG runs a well-oiled machine with a strong balance sheet and a historical track record of strategic acquisitions. Additionally, the company is only trading at a trailing 12-months EV/EBITDA ratio of 9.4x, although it is not profitable from a net profit standpoint. While we expect 2HY21's EBITDA growth to be lower than 73% due to a lack of margin expansion, like we saw during 1HY21, we certainly don't expect EBITDA growth to drop below 20%. The current Australian business investment climate is favourable and as companies continue to come out of COVID-19 hibernation, we believe COG will have plenty of opportunities. It's four stars from us.

ANSARADA GROUP

Shaking up the finance industry

Stocks Down Under rating: ★ ★ ★ ★

ASX: AND
Market cap: A$ 94M

52-week range: A$0.145 / A$1.68
Share price: A$ 1.10

Headquartered in one of Sydney's most famous areas, the Rocks, the Ansarada Group is hoping to achieve its fame through the development of 'Virtual Data Rooms' for Merger and Acquisition deals. The company has clearly built a better mousetrap as it achieved over 3,000 total customers around the world as of 1HY21. With a renewed focus on profitability and a share price rout of 26% since the 2021 share price on 15 February, we believe Ansarada is certainly worth a look right now.

Share price chart

Source: Tradingview

Let's get buying

Mergers and Acquisitions (M&A) is a massive industry with 57 'megadeals' worldwide announced during the second half of 2020 alone. If that does not sound all that impressive, PWC's Global M&A Industry Trends report defines a 'megadeal' as a deal value above US$5bn. PWC also states that the combined total of these 57 'megadeals' during second half of 2020 was approximately US$688bn. This is an unsurprisingly sharp increase from the first half of 2020's 27 announced 'megadeals' with a total value of US$266bn.

To put things in an easier to grasp perspective, let's compare 2020's global M&A deals to the ASX's total listed entities. As of 1 April 2021, only 77 are currently worth over US$5bn ($6.6bn). That's seven less than the total number of 'megadeals' conducted worldwide during 2020 alone. Remember, this is only the 'megadeals.' During 2020, the total global M&A deal value announced during 2020 was $4tn (US$3.1tn), 160% of the ASX's total listed entity market capitalisation as of market close on 1 April 2021 ($2.5tn).

One platform to rule them all

Ansarada's platform was created in 2006 and has grown to become all-encompassing during its 15 years of operation. This platform can be used for M&As, asset sales and audits, or capital raises, but it's main focus is M&A. This type of platform is far from unique, but what sets Ansarada's platform apart is its multitude of features and simplified pricing structure. There are a number of features that set Ansarada apart, but we are just going to focus on a few of the more significant ones.

One of the main functions that separate the company's platform from its competitors is its simplified pricing structure. Ansarada's pricing structure is based on a per-user basis charged either monthly or annually with unlimited data use, all included. Ansarada also sets itself apart by offering a free trial to new clients. When reviewing the company's three main competition (Intralinks, Datasite and Firmex) only Firmex also has a free trial offer.

The last feature we want to highlight is the company's proprietary AI-Assisted Deal Prediction system. To properly explain this system, we would need 20 more pages and an hour of your time, but the gist of it is that it significantly increases a deal's efficiency through automatically sorting documents, single-click report creation and even the ability to predict the outcome of a deal. By day seven, the company claims that its deal outcome predictions are 97% accurate, quite an impressive claim.

Most of these features may not seem all that special, especially the ability to access a free trial, but many of the company's competitors act like we are still living in the early 2000s. Unfortunately, this is not uncommon in the finance industry as it can be extremely difficult to build alternatives from scratch. A perfect example of this is Dealogic's dominance in investment banking statistics (Dealogic is not a competitor of Ansarada). This analyst can confirm that the software looks and acts like it's from the early 2000s suffering from frequent freezes, crashing and an overcomplicated user interface.

15 years of development have led to FY21

During 1HY21, Ansarada finally broke 3,000 clients after growing 12% year-over-year to 3,020 exactly. The vast majority of the company's revenue comes from subscription fees, with 79% of the company's total $15.8m in revenue during 1HY21 being generated from these fees. The remainder is generated from fees on the transactions taking place on Ansarada's platform. Despite revenue dropping 9% during 1HY21, the company is profitable, generating $2.2m in EBITDA, an increase of 340% year-over-year.

FY21 is the first year that Ansarada's business is profitable. The company has begun focusing outside of the Australian and New Zealand markets for its future growth. We expect the company's EBITDA profitability to continue to advance now that the business is more mature and prepped for future expansion.

The market seems to agree with us here. The current consensus has FY22 EBITDA growing at a year-over-year rate of 137%, to $5.6m. This is expected to be followed by growth beginning to decline down to a more sustainable level of 44% starting in FY23. We expect growth after FY23 to stabilise around 20% as this is more in line with market growth rates. Fortunately, Ansarada is expected to see plenty of EBITDA margin expansion over the next couple of years. The company's FY22 and FY23 EV/EBITDA ratios are 14.4x and 10x, respectively, not much given the strong EBITDA growth that we're expecting.

The truth is this industry is ripe for modernisation and disruption, and we believe Ansarada has built a significantly better mousetrap than its current competition. The company has proved its worth in the Australian and New Zealand markets and is now looking to expand internationally. We believe this is a straightforward four-star opportunity, especially considering its recent pullback in share price.

99 TECHNOLOGY

More than 99 problems

Stocks Down Under rating: ★★★

ASX: NNT
Market cap: A$ 91M

52-week range: A$0.046 / A$0.12
Share price: A$ 0.079

99 Technology has its registered headquarters in Sydney, but the company's entire operations are in China. Outside of its need for an Australian 'top hat' address for ASX listing purposes, 99 Technology's true headquarters is actually in Shanghai, China. The company's main operations are providing online and mobile services to its Chinese-based business clients. With China being the only major economy to have expanded during 2020, at first glance 99 Technology seems to be in a great position to expand. But first impressions are not always the right ones.

Share price chart

Source: Tradingview

A strong Chinese recovery

According to an article in the Wall Street Journal on 18 January 2021, China was the only major economy to report economic growth during 2020. It is important to note, though, that Chinese economic growth figures are notoriously unreliable and the exact figures should always be assumed to be at least slightly exaggerated. The great debate over China's historical economic growth is not if its economic growth is overstated, but by how much. Although it is widely believed that while 2020's reported economic growth of 2.3% is certainly higher than it truly was, China's economy did manage to expand during 2020 as the country managed to recover from the early COVID-19 fallout. There are risks to the Chinese economy, most notably record amounts of commercial and individual debt. Still, the current consensus is that China's economy will continue to recover and grow.

One stream with two sources

99 Technology generates revenue through two divisions: cloud-delivered services and the mobile solutions platform. Unfortunately, these divisions' individual revenue and profit numbers are not broken out in the company's reporting, though. The cloud-delivered services division provides customised cloud-based products and systems to its business clients. For example, 99 Technology offers insurance supply chain management, offline to online integration, loyalty marketing program development and online insurance, to name a few.

The mobile solutions platform has two main focuses: virtual products and big data analysis. This division's products and services include mobile commerce marketing, customer behaviour data analysis, business cost procurement tools and its own mobile business to business 99 Marketplace. The 99 Marketplace is a mobile application that offers banks and other large institutions access to mobile applications, marketing services and other virtual products developed specifically for these types of businesses.

Everything is not what it seems

Due to all of 99 Technology's operations in China, its earnings are most accurately depicted in its operating currency, the Chinese Yuan or RMB. The company has only one relevant source of income: commission and service. During 2020, commission and service revenue generated RMB231m or 99.9% of the company's total 2020 revenue, growing 22.5% year-over-year.

On the face of it, EBITDA grew an outstanding 84.4% year-over-year to RMB73.9m during 2020. However, this is extremely misleading as RMB33.7m of this amount is due to a GST refund. Excluding this amount, we can see that the company's EBITDA remained essentially flat at RMB40.2m during 2020. EBITDA amounted to RMB40.1m during 2019.

One of the main reasons behind this flat EBITDA result, following a 22.5% increase in revenue, is an unexplained 38% increase in selling expenses. Management offers no footnotes or explanations in their press release, results presentation or annual financial report filing with the ASX. Even more confusing is the specific comment that "management cost controls result(ed) from more efficiency in operations." However, this could be a comment on the 7% drop in administration expenses compared to 2019, but the comment is not clear as to what line item it is referencing.

The company also did not experience any significant changes in its balance sheet or statement of cash flows compared to 2019, explaining this increase in selling expenses. One explanation that we have considered is that the increase was directly due to COVID-19, but management does discuss COVID-19's impact in all three of its 2020 annual ASX fillings without any mention to this expense. This indicates to us that this is likely a permanent increase unrelated to COVID-19, but we can't be sure.

Much more than 99 problems

We believe that 99 Technology has a lot of risks, but we wanted to highlight two of them, liquidity and transparency risk. Despite the ASX's February 2021 edition of the Foreign Entity Report quoting approximately 64% of 99 Technology's 1.2bn quoted shares being held in Australia, the company has rather shockingly low liquidity. Using yesterday's closing price of $0.08, over the last three months the average daily value traded was $12,000. For investors trying to sell their shares, this will likely be a multiday endeavour.

Unfortunately, lack of financial transparency is not an uncommon phenomenon when dealing with ASX-listed Chinese companies. In the case of 99 Technology, we would like to know basic statistics on 99 Marketplace, like revenue figures or number of customers. There is really no information on the company's online insurance business either and we find that concerning.

All-in-all, we would recommend our readers avoid this company. There is a significant lack of transparency on its operations and the liquidity is virtually non-existent. Three stars from us.

Pitt Street Research Pty Ltd

95 Pitt Street, Sydney, NSW 2000, Australia

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

Stocks Down Under (Pitt Street Research AFSL 1265112) provides actionable investment ideas on ASX-listed stocks. The Content has been prepared for general information purposes only and is not (and cannot be construed or relied upon as) personal advice nor as an offer to buy/sell/subscribe to any of the financial products mentioned herein. No investment objectives, financial circumstances or needs of any individual have been taken into consideration in the preparation of the Content. Financial products are complex, entail risk of loss, may rise and fall, and are impacted by a range of market and economic factors, and you should always obtain professional advice to ensure trading or investing in such products is suitable for your circumstances, and ensure you obtain, read and understand any applicable offer document