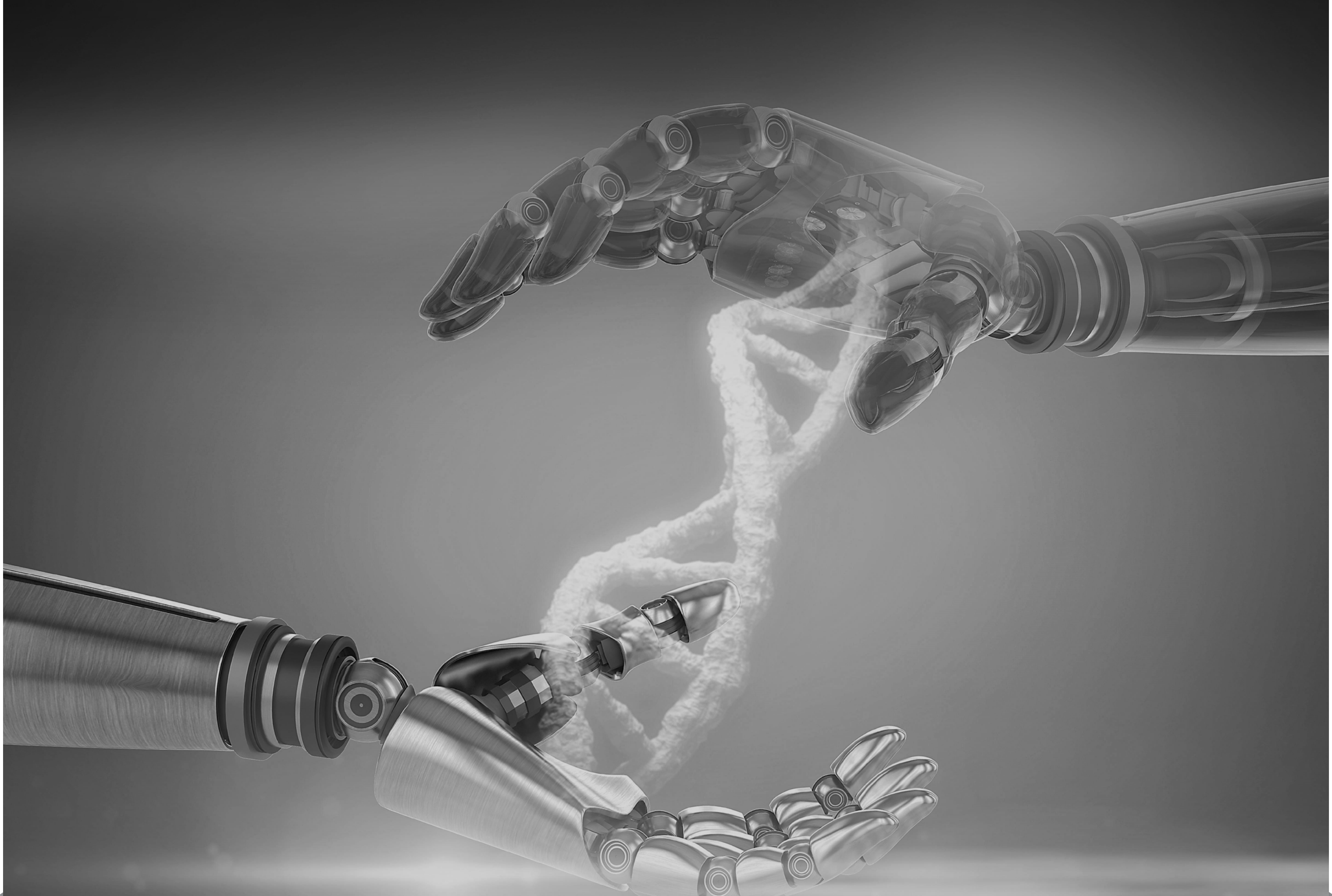
STOCKS DOWN UNDER

28 SEPTEMBER 2021

Emerging Stocks Down Under

How long are you going to wait before you demand the best for yourself?

- Epictetus (unknown – 135 BCE), Greek Stoic philosopher



BIGTINCAN

Kick this can down the road for a bit

SMART PARKING

A smart place to park your money

DRONESHIELD

Shield your portfolio from missing out

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Stocks Down Under rating: ★★

ASX: BTH
Market cap: A$739M

52-week range: A$0.761 / A$1.561
Share price: A$1.37

Headquartered in Sydney, Bigtincan strives to take the sales game to a higher level with its mobile-focused, all-encompassing sales automation software. From a revenue perspective the company had an extremely strong showing during FY21, despite mounting losses, as management continues to push for growth. The market doesn't expect Bigtincan to generate an EBITDA profit before FY24. But with so much time between now and then, what are the chances that this can of profitability is going to be kicked down the road a little longer?

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52-week range: A$0.10 / A$0.265
Share price: A$0.21

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Share price chart

Source: Tradingview

The secret sales sauce of the 21st century

Bigtincan describes itself in an equally simple and complex way stating: 'Bigtincan enable customer-facing roles to be more productive, efficient and effective at their jobs – everyday'. That sounds great, but what does it mean exactly?

The Bigtincan sales platform is a mobile-focused platform first and foremost. Obviously, it is available on desktop computers as well, but the platform was designed to enhance a client's abilities to close and manage sales on the road, i.e. on mobile and tablets. It does that through what it calls its 'four pillars of sales enablement': sales content management, sales training and coaching, document automation and internal communication. To facilitate these four pillars and enhance Bigtincan's potential revenue sources, not all features are available on the base subscription plan (Bigtincan Enterprise). And while there are three subscription plans, i.e. Bigtincan Enterprise, Bigtincan Ultimate and Bigtincan Ultimate Plus, even the latter requires clients to pay extra to unlock all features. While this might seem inconvenient to the client, Bigtincan markets this as increased customisation to its client's specific needs. The platform also features over 100 third-party applications that enable integration with a client's existing systems.

Four pillars hold up this platform

As mentioned, Bigtincan's platform is focused on a four-pillar system, with the first being sales content management. This pillar attempts to make the sales process as easy as possible through a variety of solutions, including email templates and easily customisable emails, call scripts and slide decks as well as the ability to collate competitive scorecards and all sorts of internal documents (sales playbooks, past deal summaries, etc) in an easily accessible platform.

Bigtincan's sales training and coaching platform is called the Bigtincan Learning Hub that provides customisable 'microlearning' courses, as well as one-on-one video coaching capabilities (handy during a pandemic). The customisable training program allows for things like interactive quizzes, practice assignments and assessments, and the direct inclusion of Google Docs and many other Software-as-a-Service offerings the ability to interface via a URL. In the constantly evolving business world we live in, employees need constant training, especially when you factor in that 87% of training content is forgotten within 30 days, according to Bigtincan's own research. So, we think this sales training and coaching platform is very useful in a corporate sales environment.

Bigtincan's document automation pillar allows for clients to drastically decrease the time it takes to create sales and internal documents and presentations. According to Bigtincan's own research, this form of efficiency is more important than many businesses realise, with only 37% of a sales representative's time spent on selling. The platform is able to automate document and presentation creation by taking the data in the platform's connected databases and placing it in the slots on the template selected. These templates are fully customisable as well.

The last pillar is internal communication and this one is also the simplest. While calling it a direct copy of Facebook or Slack Messenger is wrong, saying that it highly resembles these messaging alternatives sounds about right. Keeping everything on one platform increases efficiency and decreases the risk of communications going unnoticed, since you are always on the same application. Hence, integrated direct messaging makes a lot of sense.

Slow and steady does not win this race

Slow and steady does not win the race when your company is not profitable and it seems Bigtincan's management must have this slogan printed somewhere as they adhere to it perfectly. During FY21, revenue jumped 42% to $43.9m, boosted by a 44% increase in subscription revenue to $42.5m. Even more impressive was the company's retention rate of 89% in FY21. Clearly, once you go Bigtincan, you hardly ever go back.

As we mentioned before, the market is expecting strong revenue growth from Bigtincan in the lead-up to its estimated profit of $1.1m in FY24. In FY22, the market expects 144.2% revenue growth. However, this is expected to decline slightly to 24.2% and 18.2% during FY23 and FY24 as the company becomes more established in the lead-up to profitability. The issue here is that a lot can change over the next three years, especially with a high growth company like Bigtincan. Therefore, we are far more confident in FY22's growth estimates than we are in FY23 and FY24's.

Still, these growth rates put FY22, FY23 and FY24's EV/Revenue ratios at 5.8x, 4.7x, and 3.9x, respectively. Fortunately for investors, but not for our rating, the stock has been on a tear over the last six months, rallying 57%. We believe the stock may be due for a slight cooling-off period. Therefore, while we believe in the company's product and in management's strategy, we are forced to kick this can down the road a bit and give it a two-star rating for now, based solely on valuation. We think it's just a bit too hot right now.

SMART PARKING

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Parking has never been smarter

What has become apparent over the last decade is that the most unusual sources of data, or even the most mind-numbingly boring data, is often where the most valuable insights can be found. As the character Axe says in TV-show Billions, 'everybody has access to the information. We just know how to analyse it better'.

Here is where companies like Smart Parking come into the equation. Since listing on the ASX in 2011, the company has developed a comprehensive parking technology called the SmartPark System. It includes a mobile application that provides customers with real-time updates and guidance on where they can find a parking spot. It enables them to pay for that spot and even offers a guidance feature to plan the best route to that spot, similar to the NSW's Opal app.

Technology is the differentiator

The customer-facing application sounds good, but it's certainly not enough to compete on the world stage alone. This is where Smart Parking really pulls out all the stops. It has an API-enabled cloud platform for its clients (the organisations that pay Smart Parking) to manage and view all available data, but it's the data collection and parking management technology that we believe makes Smart Parking unique. The company has an entire suite of technology at its disposal, far too much for us to go over here, but we want to highlight three aspects of it. Smart Parking has developed its own Automatic Number Plate Recognition (ANPR) system. While this technology is most commonly known as a tool for law enforcement, it offers serious benefits to companies, organisations and non-police government entities as well. For example, a shopping centre can instal an ANPR system in conjunction with Smart Parking's Pay and Walk machines as well as in-ground and surface-mounted vehicle detection sensors allowing corporate customers to identify regular shoppers, where they park, how long they stay and even what state they are from. But the benefits of this technology extend far beyond shopping centres and into office properties. For instance, an ANPR can be used to ensure only permitted or ticketed cars can park in a particular car park.

We mentioned above that all of this information and data is combined, analysed and presented to Smart Parking's customers through the web platform and its 'management' mobile app. This application is called Tessera and allows for management to quickly get a complete overview of all real-time statistics from Smart Parking's suite of technological solutions. This includes statistics on payments, vehicle detection and even allows parking officers to electronically tag vehicles and record evidence.

FY21 results were a mixed bag

Before diving into FY21's results, it is important to note that on 3 March 2021, Smart Parking won a dispute with an old UK management contract granting the company a $1.16m settlement. This is classified as a one-off benefit during 2HY21 and, therefore, needs to be taken into account when we look at the company's FY21 results.

FY21's results can only be classified as a mixed bag, although that is far from surprising. The company generated revenue of $20.7m, resulting in an EBITDA profit of $2.2m. While revenue declined 3.7% year-over-year, EBITDA grew $3.1m from FY20's loss of $900,000. And FY19 also saw an EBITDA loss. The strong growth in EBITDA was mainly the result of overhead costs and cost of sales declining significantly to $10.5m (FY20: $13.1m) and $8m (FY20: $9.3m), respectively.

We mentioned above that the decline in revenue was not unexpected and this is because a key part of Smart Parking's revenue comes from Parking Breach Notices, which were significantly down due to a COVID-induced lack of vehicle traffic. However, 4Q21 was really the first stage of recovery in traffic, with Parking Breach Notices jumping 278% year-over-year. We expect this recovery to continue strongly as the United Kingdom continues to open up, especially now that Prime Minister Boris Johnson has removed almost all COVID-19 restrictions in the United Kingdom as of 19 July 2021. The recovery should also be assisted by the 25% year-over-year increase in total parking sites to 619, with 1,000 sites expected by June 2023.

Currently, Smart Parking is trading at a trailing 12-month EV/EBITDA ratio of 9.7x, which we believe is not excessive with EBITDA growing so strongly, even after you consider the fact that operating expenses will likely rise during FY22 as the company brings on more employees. The United Kingdom is seeing significant traffic increases and we believe Smart Parking is perfectly positioned to take full advantage of this, making the stock a four-star opportunity, in our view.

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Source: Tradingview

Not coming, but here

One of the more interesting aspects of major conflicts in the 20th century has been the assumptions that have been made ahead of large conflicts. For example, in 1910, the British Chief of the Imperial General Staff, General Sir William Nicholson, said aviation was ‘a useless and expensive fad, advocated by a few cranks whose ideas were unworthy of attention’. In hindsight, this was obviously a ridiculously unimaginative statement, although many generals on both sides shared the view. Even during World War One, aeroplanes were used for recognisance alone.

Drones are of a similar vein of military short-sightedness. Yes, most have predicted how useful they will be in warfare, but few predicted the use of cheap, non-military grade drones to great effect in today’s conflicts. For example, in Yemen, the Houthis, who have no air force to speak of, have used $45 drones for everything from aerial surveillance and to assist in mortar attacks to being used as an airborne explosive. These attacks have been devastatingly cheap and effective.

However, the world is now taking note of drones outside of warzones. Everything from airports to nuclear power plants have suddenly become seemingly vulnerable. The risk is not only that a drone will be strapped with explosives, but everything from literally flying a drone (even accidentally) into a plane or using one to take pictures of a classified area (like a military base or nuclear reactor) has added to the risk potential. According to the Australian Transport Safety Bureau, the number of 'near encounters' between drones and aircraft has doubled in just three years to 194 during 2019, with expectations that these numbers will keep climbing. Clearly, something needs to be done, and fast.

DroneShield, the name says it all

Enter into the fray DroneShield, whose name really says it all. The company has a number of products already on the market, with operations in the United States, Australia and the United Kingdom. Its products include everything from handheld drone disablers to automated and fixed location systems. These products are all non-lethal and non-kinetic, forcing the drone to either land or return to its base of operations. These products can also be used to track drone activity in the area. The most important feature, in our view, is that most of DroneShield's technology is not considered sensitive enough to warrant a classified, dangerous or restricted designation across the board. This is extremely important, in our view, as the need for this type of technology is high in many sectors, including the military and telecommunications sector. The lack of red tape should significantly increase the adoption of DroneShield's proprietary technology.

However, it is important to note that some of DroneShield's technology is considered classified in one aspect, meaning the company has piqued the military's interest. On 9 September 2021, DroneShield announced it had received an Australian Defence Security Certification. This incredibly difficult-to-receive certification allows the company to work on classified information and assets with the Australian Defence Force, Australian Intelligence and Australian Law Enforcement. We believe this is a vital step in the company's march towards profitability. In fact, the recently announced defence and technology cooperation agreement between the United States, Australia and the United Kingdom (AUKUS) makes this certification perfectly timed in our view.

The first half was proof that adoption is at hand

DroneShield operates on a calendar year basis and released its 1HY21 results on 31 August 2021, which were extremely promising, in our view. Revenue jumped 87% during 1HY21, to $6.7m, while the net loss declined 61% to $452,416. Equally important is the fact that DroneShield continued to ramp up its research and development expense 53.3% to $2.3m and still managed to lower its net loss. Defence against drones is a burgeoning field that is getting lots of attention and DroneShield's increased R&D efforts are a clear signal that the company is aiming to be leader in this field.

Unfortunately, DroneShield is not covered by any broker analysts and management isn't providing guidance at this time. The stock is trading at a trailing 12-month EV/Revenue ratio of 6.8x, which we believe is on the high side. However, with profitability likely to be achieved during 2022 and increasing interest in the company's products likely to support high revenue growth going forward, we believe DroneShield is a four-star stock.

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