



Small Cap Stocks Down Under

📖 *Men will always be mad and those who think they can cure them are the maddest of all.* 🗨️

- Voltaire (1694 - 1778), French Enlightenment philosopher

8VI HOLDINGS

Bringing the markets to the masses

RMA GLOBAL

Conquering the US with RateMyAgent

HITECH GROUP AUSTRALIA

HiTech, but not HiPriced

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Bringing the markets to the masses

Stocks Down Under rating: ★★★★★

ASX: 8VI
Market cap: A\$182M

52-week range: A\$1.56 / A\$6.99
Share price: A\$4.10

Headquartered in Singapore, 8VI Holdings has two main offerings, VI App and VI College, placing it firmly in both the FinTech and EduTech industries. Despite being established in 2008 and listing in 2015, the stock has been a rather lacklustre for a long time, trading under \$1 since early 2018. However, everything changed on 14 October 2020 when the stock crossed the \$1 mark and began a meteoric rise to its 52-week high of \$6.99. The stock has since pulled back and we think this offers an opportunity to buy.

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ASX: RMY
Market cap: A\$95.9M

52-week range: A\$0.16 / A\$0.385
Share price: A\$0.185

When we last looked at RMA Global, the company which owns the RateMyAgent platform for rating real estate agents, it was February 2020 and the stock was riding high at \$0.64. Close to two years later RMA Global is changing hands at only around a third of what it was, but the business is still growing strongly. And the company is on the way to being cash flow positive before FY22 is out.

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Market cap: A\$74.9M
Dividend yield: 5.5% (100 Franked)

52-week range: A\$1.535 / A\$2.45
Share price: A\$1.93

HiTech Group, based in Sydney, serves the ICT industry by providing recruitment services for both part-time and full-time employees. The company has its own HiBase platform that it has built and optimised over two decades. In essence, HiTech is a consulting company that can help its clients fulfill everything from temporary contractual employment needs for specific projects to full-time management-level employees with industry clout. On the back of a financial performance in recent years, the share price has risen considerably and we think the company maybe a little too expensive right now.

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Share price chart



Source: Tradingview

An app and a college

8VI Holdings is the owner, operator and developer of two technology-based solutions and services, generating S\$17.6m in revenue during 1HY22 (period ending 30 September 2021) and an adjusted EBITDA of S\$6.2m (adjusted to remove government grants, one-time legal compensation income, stock-based compensation and secondary listing costs).

During FY21 (ending 31 March 2021) 8VI's revenue was broken into three main geographic segments, Singapore (40%), Malaysia (40%) and international (20%). Despite this information not being provided for 1HY22's results, management has stated that while Malaysia and Taiwan offer significant growth prospects, it expects Singapore's revenue share to grow towards 80% of total annual revenues. Therefore, we believe FY22's full year report will show that the majority of 1HY22's 54% revenue growth and 26.5% EBITDA growth came from Singapore.

The first is VI App, a value investing and proprietary stock analysis tool that compiles financial data and attempts to simplify complex data into simple visuals. The tool is developed through 8BIT Global, which is a licensed Financial Adviser approved by the Monetary Authority of Singapore. 8VI also connects the company's VI College graduates and its VI App subscribers through its Connect Vi Community platform. While not an exact comparison, the platform is similar to Hot Copper's forum section and is more of a complementary feature of the VI App to encourage user-engagement.

During 1HY22, 8VI released four new features, VI Score (ranks the company's quality based on historical financial and price performance), Dynamic Featured Bubble (displays trending bubbles and users' recent and most frequently engaged bubbles), on-demand translation (an incorporated click to translate feature) and a more in-depth post editor.

The second piece of technology is VI College, a series of programs, including the flagship 'VI Bootcamp', available in 29 cities across the Asia Pacific region, to help investors better understand and partake in value investing. As of FY21, 8VI claimed over 40,000 paying retail investors for its VI College.

The changes that led to a 600% rise in less than a year

We mentioned previously that prior to 14 October 2020, 8VI had historically traded below \$1 per share. But starting on 14 October 2020, the stock shot up 600% to its 52-week high of \$6.99 per share. One of the first catalysts that started the rise was the final resolution of the company's claims that its former directors Joshua Lin and Jessica Kao breached their directors' duties when the Taipei District Court of Taiwan ruled in the company's favour and granted compensation of NT\$11,711,723 and 69% of legal fees.

However, while this was clearly good news, this alone did not warrant the stock's subsequent rise. To understand what changed, we have to look back a little further. FY20 was the first year the company generated a profit (S\$1m Net Profit After Tax and S\$1.2m EBITDA), but at the same time, revenue declined 51.3% to S\$22.3m and it was far from clear to shareholders that this profit would last. Therefore, it was not until management started releasing initial data for FY21 that renewed interest from investors became clear. In fact, on 19 October 2020, the ASX presented 8VI with a letter asking for an explanation for the unusual action in the stock price. One of the reasons management pointed to was 8VI's 30 June 2020 Quarterly Activities and Cash Flow Report, which put cash receipts from customers at S\$4.9m, indicating larger quarterly cash receipts than during all of FY21.

To summarise, the reason 8VI's stock price entered a new normal on 14 October 2020 was because the company's products finally gained enough traction to generate significant growth.

The recent pull-back provides opportunity

If we bring 8VI's 52-week trading high of \$6.99 into today's trailing 12-month EV/EBITDA calculation, we see the current 13.5x multiple jump to 23.4x, a level which we believe more accurately values 8VI going forward. Investors do have to weigh the risk associated with the company using the Singapore Dollar as its basis for its reporting, but it is important to note that the Singapore Dollar is not an exceptionally volatile currency. Over the last year, it traded between a low of \$0.95 and a high of \$1.05 per S\$1. Over the last five years, S\$1 never crossed below \$0.90 per and its highest was just under \$1.20, but that was only for a few months. The currency never crossed \$1.10 outside of that period. Therefore, we don't believe currency risk is significant with 8VI.

While recurring revenue is still low, 32.7% as of 1HY22, it has been growing rather significantly compared to FY21 and FY20 when it was 29% and 20%, respectively. Based on management commentary, we expect recurring revenue to continue to increase in importance over the next few years. Additionally, while 8VI does have an online education component, we don't believe the return to in-person classrooms is a risk to the company's earnings like many of its online education peers.

8VI is solely focused on the equity markets and even though we believe the era of easy and consistent gains is over, we don't believe the renewed interest among retail investors will dissipate anytime soon. Therefore, we don't believe there is significant risk that the traction 8VI gained during COVID-19, will reverse over the next few years. Four stars.

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Share price chart



Source: Tradingview

When David Williams is buying a stock, we at Stocks Down Under sit up and take notice. After all, this is the man who helped propel Medical Developments International (ASX: MVP | [see 7 February 2020 report](#)) and Polynovo (ASX: PNV | [see 8 February 2021 report](#)) to glory while serving as Chairman of both companies. So, this month, when Williams had been actively buying RMA Global stock, we figured we'd better check it out.

Keeping real estate agents honest

Let's recap what RMA Global does with its RateMyAgent platform. RateMyAgent provides independently verified ratings of real estate agents. Say you are selling your house in Sydney and you are looking for an agent. You visit [ratemyagent.com.au](#) and look up the area you live in. Up comes a series of agent profiles. You can read reviews from people who have dealt with these agents, find out the value of properties they have helped move and you can see where they rank compared to each other in that neighbourhood. And most importantly, you can see how many stars the reviewers have given the agents. It's the same principle as the ratings on Uber or eBay, but with a verification step built in just to increase the trust level.

The reason why RateMyAgent is such an important innovation is that, traditionally, real estate agents have been among the least trusted members of the community. In 2017 when the market research firm Roy Morgan conducted their annual 'Image of Professions Survey' in Australia, it found that nurses and doctors

were the most trusted professionals Down Under, with 94% and 89% respectively of Australians aged 14 and over rating these professions as 'high' or 'very high' for their ethics and honesty. Accountants only enjoyed the same view from 50% of those surveyed, while for business executives the figure was 18%. For real estate agents it was 7%. That's right ... only 7%!

But it was always a low-rated profession - back in 1983 you could only get 11% of Australians to say that real estate agents had high ethics and honesty. It's a little different in the US, where Gallup found, in 2018, that 25% of Americans rated real estate agents highly on ethics and honesty, but the industry was still low on the esteem scale, with 19% rating the same group of professional as 'low' or 'very low'. What all this is telling you is that RateMyAgent is a product with global potential whose time has come - people desperately want to know who's trustworthy in the real estate game and agents want to be able to market themselves as one of the 'good guys'.

Taking the market by storm

No wonder, then, that RateMyAgent has taken the market by storm. In Australia about 75% of all the active agents in the entire country are now on the platform. It's growing strongly in New Zealand and the United States. And after that there will likely be other markets to go after, such as Canada.

The agents love RateMyAgent because it provides a great way to market their businesses, not just on the platform but via social media. And they're prepared to pay valuable subscription fees as well as 'promoter fees' to be there. RMA has been clever about the way it has grown its user base. Agents can connect to the platform more or less for free, but once the utility of the platform becomes clear those agents quickly become paying customers and then start upping their spend once they get returns on that investment.

RMA Global is still a small company and not yet profitable, but it is growing fast. In FY21 revenue rose 53% to \$11.3m. The big growth driver right now is in the US market, which is obviously going to be huge for RMA, not just because of the size of the country, but because of the sheer number of agents. Unlike Australia, there are agents to handle both sides of a property transaction, so per capita there are more agents that RMA can serve. As of September 2021, there were about 156,000 agents on the US platform, up 93% on September 2020. Reviews over there are rising even faster, up 265%, and we think there's virtuous circle here – the more reviews, the more agents want to be on the platform. It's called the network effect, i.e. the utility of a platform becomes higher the more people come on the platform. So, it's self-reinforcing.

Like any good digital platform story in the early stages of taking the world by storm, RMA is currently focused more on connecting users to the platform than in growing revenue from those users. Revenue, however, is piling up fast. In the September 2021 quarter, cash receipts from customers rose 43%, to \$3.8m. Operating cash outflow of \$2.1m in that quarter reflects the fact that RMA is investing in its US headcount, so it can grow the business over there. As at the end of the quarter there was \$8.6m cash. Full year EBITDA has not happened yet, but the company expects to be cash flow positive on a monthly basis before FY22 results are released. Four stars from us. Check out the interview we did with Chairman David Williams earlier this week [here](#).

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Source: Tradingview

A tried and tested method

Established in 1993, HiTech Group Australia has been helping its clients source talent ever since, slowly improving its processes and methods along the way. The name 'HiTech' does not allude to the company having a proprietary software or technology that gives it a technological edge, but rather the fact that the brunt of its clients is from the ICT industry.

The company has a tool called HiBase, which allows it to scan for prospective employees quickly. However, the tool is more like a database. It is something that the company has been continuously advancing and adding to through the years. But at its core, HiTech is a consulting company. It can help its clients find employees that can fulfill projects within the organisation or find a team to outsource specific projects to. Its expertise and experience in the ICT field allow the company to service specific needs for its clients. For example, it can find and put together a cohesive team for a particular project related to cloud infrastructure by leveraging its HiBase platform and find people that specialise in cloud infrastructure platforms.

While ICT-related projects form the vast majority of the company's business, it also provides other services. The company covers everything from administrative support to sales and finance. Federal and state governments form a large portion of the company's client base, but the company also serves large private enterprises, including the likes of AT&T and CITRIX.

As consistent as you can get

Like most other talent acquisition companies, HiTech engages directly with its clients and job seekers. The company's website has a section where prospective employees can look for something within their domain. The company also provides tools to ensure smooth operations during projects, such as timesheets to log the hours worked. The company does all of this through its HiTech Personnel platform.

Over the last few years, HiTech has been making all the right decisions regarding finding clients and strategy execution. As a result, the company has enjoyed a highly consistent period of growth. Revenues have increased from \$15m in FY15 to \$42m in FY21. Net profits have similarly risen from \$800k to \$3.6m during that time.

The reason behind this performance has been the growth in the core business. By the end of FY16, HiBase had over 300,000 personnel in its database. The company has prioritised growth based on expanding into high-margin businesses, such as Software as a Service (SaaS), cloud infrastructure and cybersecurity. Over time, this should lead to revenues becoming increasingly recurring in nature. Going forward, HiTech plans to make accretive acquisitions to increase its market share further and continue its organic growth plan of moving into upmarket services. Considering the current state of the ICT market in Australia, we think further growth is pretty much guaranteed.

Upmarket services, upmarket share price

According to Deloitte, the ICT workforce grew by over 33,000 workers in 2020 to reach a new peak of over 800,000 total workers. By 2026, the number is expected to cross 1.1m. With an increasing demand for workers in the technology sector in the wake of the pandemic, it is pretty safe to assume that HiTech has got some good times ahead.

After seven years of revenue and profit growth, it is clear that management knows how to increase its client base and the number of workers it provides access to. In the last two years, the company has increased its focus on discrete ICT projects that require secrecy, winning numerous 'Statements of Work'-based projects for government clients.

At the end of FY21, the company had over 380,000 personnel on its HiBase platform. It used its predictive intelligence tool to source talent for clients. Its services team now operates on a Project Delivery as a Service (PDaaS) model, allowing clients to access structurally managed tools and resources at a predictable cost.

Following the shares recent pullback from around \$2.40 to its current price, we believe HiTech has become fairly attractive again. We only have trailing 12-month data available, but on that basis the stock is trading at an EV/Revenue of 1.7x (FY21) and an EV/EBITDA of 13.8x. Given the company's most recent FY EBITDA growth rate of 20.6%, we believe that valuation is very reasonable. Additionally, the stock is finding quite a bit of support around \$1.90. So, this one is four stars for us.

Pitt Street Research Pty Ltd

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