STOCKS DOWN UNDER

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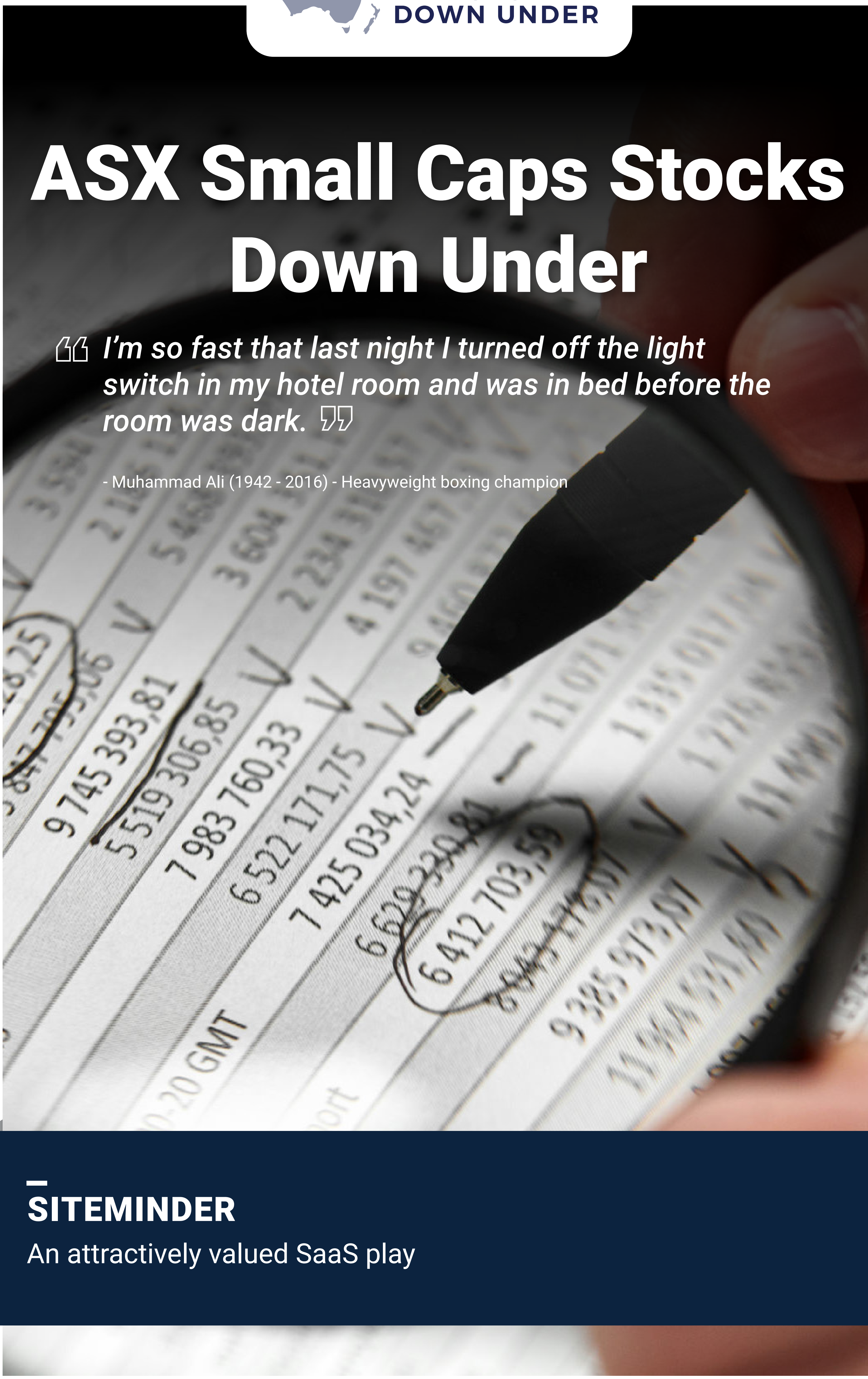
ASX Small Caps Stocks Down Under



"I'm so fast that last night I turned off the light switch in my hotel room and was in bed before the room was dark."

- Muhammad Ali (1942 - 2016) - Heavyweight boxing champion

SITEMINDER

An attractively valued SaaS play

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Stocks Down Under rating: ★ ★ ★ ★

ASX: SDR
Market cap: A$940M

52-week range: A$2.68 / A$6.42
Share price: A$3.42

SiteMinder is a company that we wrote about roughly 12 months ago. The company has a SaaS platform that manages all of a hotel's need to operate in the digital space, from guest data, reservations, UX design, web analytics and managing third-party hotel listings. Unless you've never booked a hotel online, there's a good chance that you have contributed to Siteminder's revenue. SiteMinder listed at the end of 2021 and initially rose on the hope that 2022 would be a rebound for travel and that the company could cash in. But during the 2022 Tech Crunch, investors have become increasingly deaf towards companies that are not profitable yet. We think this stock is four stars, though.

Share price chart

Source: Tradingview

Two Mikes build SiteMinder

SiteMinder was co-founded by Mike Ford and Mike Rogers in 2006. The pair saw there wasn't a way for hotels to exchange booking information with aggregators, such as Wotif and Booking.com. The company began with that flagship solution and slowly grew its client base and solutions over the years. Within less than a decade, the annual flow of gross hotel revenue was over US$10bn and it had over 20,000 hotel customers. Current CEO Sankar Narayan joined the company at the end of 2018, having previously been Xero's CFO.

The global pandemic hit the company, but not substantially. Between FY19 and FY21, subscription properties fell from 34,100 to 32,400, while churn grew from 1% to 1.6%. And unlike travel companies that are only exposed to Australia, it recovered faster throughout CY21 as travel bounced back across Europe and North America.

When Private Equity is selling, why should you be buying?

Last year, we expressed a view that SiteMinder was too expensive considering its valuation at the time and that some shareholders were using the IPO to exit. Of the $627m raised at the IPO, just $90m went to the company, with the balance going to shareholders cashing out. Venture Capital (VC) firm TCV exited completely, parting ways with a 22.4% stake, while Les Szekely and Mike Ford sold over half their holdings.

Whenever existing shareholders sell at IPO, especially if it is Private Equity or VC's, it is a bad sign, because they usually do so at high valuations and the implicit lack of confidence they have that the company can go higher – why would they sell if they thought the company could go higher? We said that SiteMinder's valuation (at 15.1x forward EV/Revenue) was 'priced for perfection', leaving little room for error. We see this pattern time and again when Private Equity/VC list their portfolio companies.

In its first annual results as a listed company, for the 12 months to 30 June 2022 (FY22), SiteMinder reported $116m revenue, up 15.1%. Although this exceeded consensus estimates, there were a few things that left investors disappointed. First, the company made a substantial net loss of $40.7m on an underlying basis and $110.4m on a statutory basis. The latter reflected IPO costs and the cost of revaluation of embedded derivatives on preference shares now that the company was public. Second, the company pushed forward its timeline to hit free cash flow-break even by 12 months, to the end of CY24. And third, even though the company grew its revenue, it was behind the typical >30% pre-COVID revenue growth figure.

Valued well below other ASX-listed SaaS stocks

Let's look at consensus estimates for future years. For FY23, analysts expect $148m in revenue and a $19.1m EBITDA loss, representing 27% growth and a 13% improvement versus last year respectively. Analysts are expecting revenue to grow by 27% in both FY24 and FY25, to $187m and $237m, followed by just 19% growth in FY26 to $282.9m.

Turning to the EBITDA line, a small loss of $390k is called for in FY24, followed by a $20.4m profit in FY25, growing to $36.8m in FY26. The company is only expected to become NPAT positive in FY26. Goldman Sachs estimates that the company's $118m liquidity should be enough to see it through without a capital raising. But in our view, there is still a risk it may end up raising capital, either if its cash burn is higher than expected or if it sees M&A opportunities.

The company's EV/Revenue multiples are 6x for FY23 and 4.7x for FY24. Its EV/EBITDA for FY25, the first EBITDA positive year, is 38.4x. This is higher than tech darlings WiseTech and Xero, which are priced at 25.1x and 23.7x, but their EBITDA growth rate is substantially lower. On top of that, FY25 is SiteMinder's first year of being EBITDA positive. So, we prefer to look at EV/Revenue, because it is just a fairer comparison. On that basis, Wisetech is valued at 42x and 33x for FY23 and FY24 respectively, while Xero is valued at 42x and 32x for both years. In our view, this makes SiteMinder a steal at just 4.2x FY24.

Looking at the stock's share price chart with a technical analysis hat on, we can see that it broke the down trend last week when it crossed the $3.28 mark. This downtrend has basically been in place since the IPO, but now looks broken. If SiteMinder can successfully hold the $3.20-$3.40 price range, i.e. it confirms the breakout, we see upside to at least $4.30 in the near to medium term, and potentially $5.40 a bit longer term.

Not everyone's cup of tea

We realise SiteMinder may not be to every investor's liking, given that it's not yet profitable and may need more capital down the line. So, investors that should buy SiteMinder stock are those who think the company may outperform consensus estimates. Additionally, if you think we have seen peak inflation expectations and interest rates will come down starting late 2023 or early 2024, this Tech stock may be for you as that sort of interest rate environment will trigger a risk on mentality in the market in the course of 2023. At Stocks Down Under we fall into that category of investor.

Additionally, SiteMinder should be benefiting from the travel boom in a way it didn't in CY22. For those investors we think SiteMinder is four stars. Risk-averse investors, however, should more suitable opportunities elsewhere.

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Stocks Down Under gives you an information advantage to better invest and trade in ASX-listed stocks!