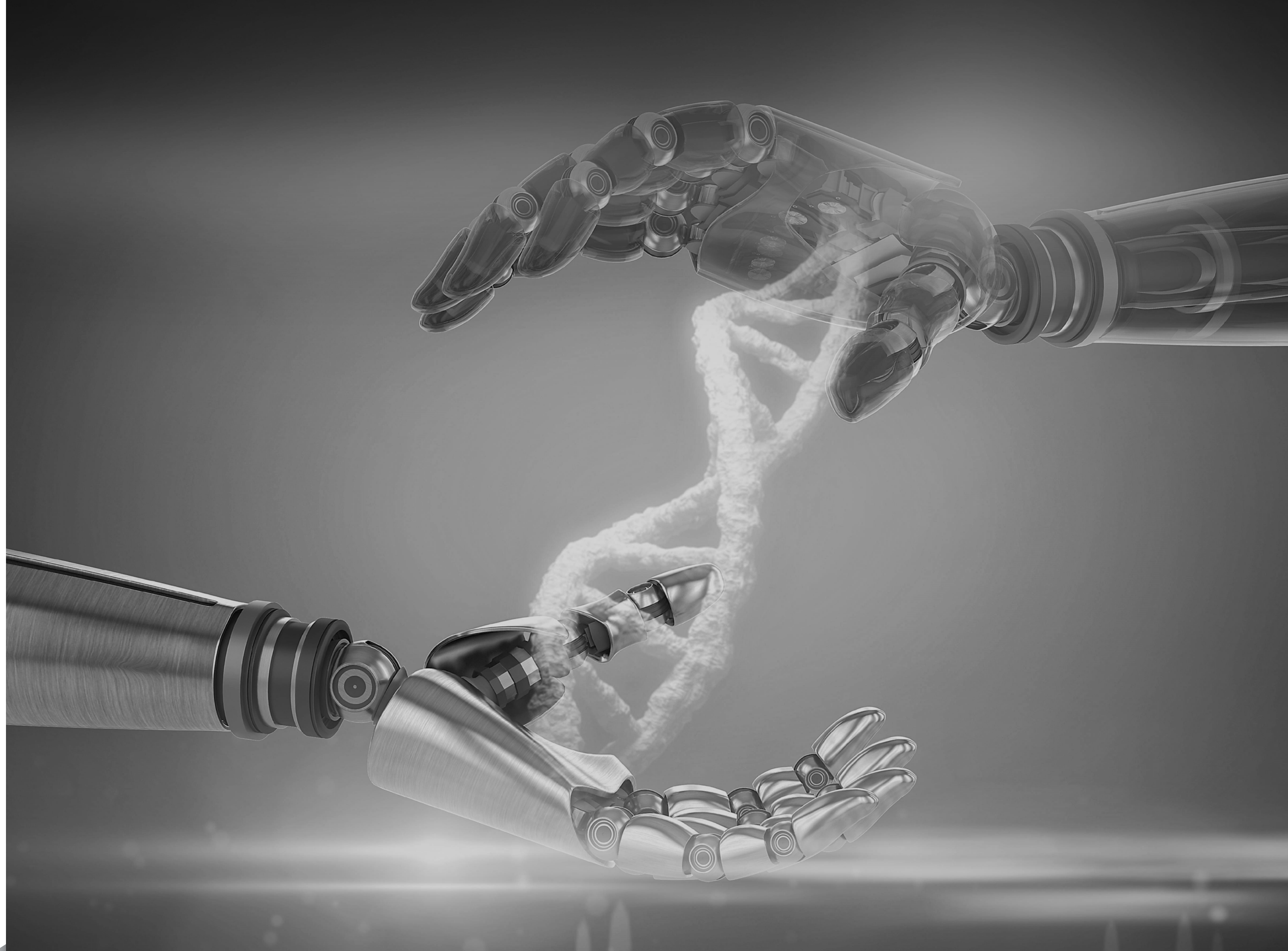
STOCKS DOWN UNDER

24 JAN 2023

Emerging Stocks Down Under

Fallible emotional people determine [the] price, cold hard cash determines the value.

- Christopher Davis (b. 1967), Fund manager & grandson of Shelby Davis Sr.



POINTERRA

Growing even without investors noticing

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Stocks Down Under rating: ★ ★ ★ ★

ASX: 3DP
Market cap: A$152.5M

52-week range: A$0.17 / A$0.40
Share price: A$0.23

Capturing 3D data is one thing. Storing it and working on it on a desktop or on the industrial front line is another thing altogether, especially when you are dealing with enormous data sets. This is where Pointerra comes in. Although the company's share price is down nearly 50% in the last year, it is still more than triple what it was in mid-2020 when Rich Lister and tech entrepreneur Bevan Slattery bought a substantial shareholder – a transaction that sent shares from 5 cents to over 90 cents in just 7 months. And Pointerra could become profitable in FY23.

Share price chart

Source: Tradingview

Dealing with 3D data sets is a big hassle

Pointerra is named after so-called pointclouds, sets of data points that can represent anything that is scanned in 3D. The data is collected using Lidar (light detection and ranging), which can be captured in the air or on the ground. Pointcloud users include surveyors, engineers, asset managers and city planners, just to name a few. The company's solution enables users of pointclouds to work with their datasets in a smooth and seamless fashion – storing, managing, visualising, analysing and sharing point clouds and data sets. The data can be collected either aerially or on the ground, for instance by surveyors. One of Pointerra's most prominent clients is Amazon, which has used Pointerra to develop a scalable yard mapping and analytics methodology for Amazon's distribution centres. A successful 12-month pilot project is expanding to 200 sites in the USA with the potential to grow to more than1,000 sites in North America and Europe.

Pointerra sells its products via a subscription model. A typical utility customer pays $5,000-$15,000 per month, but fees vary dependent on the size of the customer and the amount of data stored on Pointerra's services. Although the company has its origins in Australia, it is focused on the US market, particularly targeting the utilities sector.

Strong ACV growth

Pointerra measures its success in Annual Contract Value (ACV), which is the annualised value of all current contracts combined. As at 31 October 2022, this amounted to US$20.1m, a figure that has grown from US$11.7m just 12 months earlier. This was not just because of new clients, but also because existing clients were increasing their spend on the platform.

One reason for this was the Hurricane Ian storm in the USA. Pointerra supported Florida's state-owned utility company with its Hurricane Ian response. Its profile was raised globally among utilities companies that are anticipating an impact by similar extreme weather events. Also helping the company was the return to in-person trade shows in Australia and the USA. There were good signs in Pointerra's statutory results too. Revenues increased 126% to A$10.3m and the EBITDA loss narrowed to $400k.

The valuation multiples look reasonable

There is only one analyst covering Pointerra who expects $19.7m in revenue and a $7.8m EBITDA profit in FY23, the former figure representing 91% growth. In FY24, $44.7m in revenue and $29m EBITDA is expected, up 126% and 271% from FY23. The analyst's target price is 95c, a hefty premium to yesterday's 23c a share closing price.

The company's valuation multiples for FY23 look a big steep, with a 19.1x EV/EBITDA and a P/E of 28.1x. But FY24, which starts in 5 months, looks more modest, however, with an EV/EBITDA of 5.2x and a P/E of 9.8x. Last time we covered Pointerra, in late 2020, we decided to look at the company from a P/ACV perspective. Back then, it was trading at a hefty multiple of 45x given its ACV was US$4.9m. But today, it is trading at 5.5x P/ACV, much more attractive.

Although these multiples appear reasonable, they assume that high levels of revenue growth will continue and that the company's earnings turn positive. If the latter is not achieved, investors can forget about any prospect of the 95c a share target, even if Pointerra could grow its revenue. The company will also need to invest further in its platform and while these could drive margin growth in the longer term, it risks compressing margins in the shorter term. With a cash balance of just $3.6m, there is also a realistic chance that the company will need to undertake a capital raising in the near future. With customer receivables of $3.5m, the need is hardly urgent, but there is a risk nonetheless.

It's realistic to expect some growth

We don't see 3DP reaching 95c a share in the short to medium term, but we do see clear upside from its current share price, which is why we are giving it four stars. This is assuming that it can grow its revenues and also become EBITDA positive. We take courage from the fact that the company is still substantially ahead of where it was three years ago.

Also pleasing to us is the fact that Bevan Slattery has continued to hold his shares, even though he could easily sell out. After all, he is sitting on a near four-fold profit from the 5c per share he paid a few years ago and has sold some of his Megaport shares while holding Pointerra. By continuing to hold, he most likely thinks that there is more value to be created here. Even putting Slattery's investment to one side, we like the company's technology, the stickiness of its users and how it has continued to grow its user base in a period when many other tech companies' user numbers are going in the other direction. Once again, it's four stars from us.

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