

Boku

Strong growth continues in H1

H118 trading update

Software & comp services

Boku's H1 trading update confirms the company continues to see strong growth in total processed value (TPV) and revenues. Positive EBITDA for H118 supports our forecast for Boku to report its first full year of EBITDA profitability in FY18. The company anticipates meeting earnings expectations for FY18. We see the potential for revenue upside in FY18 to be reinvested in longer-term growth opportunities, providing support to the share price. We maintain our forecasts pending interims in September.

Year end	Revenue (\$m)	EBITDA* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	EV/EBITDA (x)
12/17	24.4	(2.3)	(0.03)	0.0	N/A	N/A
12/18e	32.7	4.9	0.01	0.0	171.0	63.7
12/19e	40.1	11.6	0.03	0.0	46.9	26.7
12/20e	47.8	18.5	0.06	0.0	26.3	16.7

Note: *EBITDA and EPS (diluted) are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Transaction volumes drive strong revenue growth

Boku processed volumes worth \$1.5bn in H118 (+153% y-o-y, +42% h-o-h) and expects to report revenues of \$16.5-17.0m for H118 (vs \$10.2m in H117 and \$14.2m in H217). As we have previously noted, revenue growth lags TPV growth due to the changing mix of transaction types. Adjusted EBITDA was positive for H118, as was the case in H217. By the end of H118, monthly active users hit 10.3m, up from 4.7m at the end of H117 and 8.1m at the end of FY17. Cash at the end of H118 stood at \$30m, and averaged \$23.1m during June. This compares to our end FY18 forecast of \$23.9m, and reported cash of \$18.7m at the end of FY17.

On track to meet FY18 earnings expectations

We maintain our forecasts, but based on the H1 take rate (ie margin earned on TPV) we believe there is upside risk to our revenue forecasts for FY18. With earnings on track to meet expectations for FY18, we see scope for the company to reinvest some of the revenue upside in future growth opportunities. Management noted that it was encouraged by the reaction to its mobile identity offerings and we expect to hear more about these opportunities, as well as the level of H1 profitability, when the company reports interims in September.

Valuation: Reflects strong growth potential

Near-term EV/EBITDA and P/E multiples are at a premium to peers, but in our view are justified by the company's strong sustainable earnings growth potential. Data point to evidence that Boku is meeting or beating its current plan include updates on new major merchant wins, existing merchant roll-outs to new carriers and/or new geographies, TPV growth, and tracking the performance of current key merchants. In the longer term, we expect to see new products developed to extend the services that can be offered by merchants and MNOs, and could see bolt-on acquisitions to acquire technology or customer relationships.

5 July 2018

Price **115.5p**

Market cap **£247m**

\$1.32:£1

Net cash (\$m) at end FY17 16.2

Shares in issue 214.0m

Free float 35.4%

Code BOKU

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 13.2 36.8 N/A

Rel (local) 14.8 27.0 N/A

52-week high/low 114p 59p

Business description

Boku is the largest independent direct carrier billing (DCB) company. DCB uses a consumer's mobile bill (pre-paid credit or post-paid monthly bill) as the means to pay for digital content or services. Boku operates a billing platform that connects merchants with mobile network operators (MNOs) in more than 50 countries. It has 148 employees, with its main offices in the US, UK, Germany and India.

Next events

H118 results September 2018

Analyst

Katherine Thompson +44 (0)20 3077 5730

tech@edisongroup.com

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Exhibit 1: Financial summary

	\$'m	2014	2015	2016	2017	2018e	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		18.3	19.2	17.2	24.4	32.7	40.1	47.8
Cost of Sales		(4.1)	(4.0)	(3.2)	(2.3)	(2.4)	(2.7)	(3.1)
Gross Profit		14.2	15.2	14.0	22.1	30.3	37.4	44.7
EBITDA		(9.6)	(11.4)	(12.3)	(2.3)	4.9	11.6	18.5
Normalised operating profit		(9.8)	(12.4)	(13.8)	(4.0)	3.5	10.4	18.1
Amortisation of acquired intangibles		(0.8)	(1.9)	(1.7)	(1.3)	(1.3)	(1.3)	(1.3)
Exceptionals		(2.1)	(0.1)	(2.4)	(2.2)	0.0	0.0	0.0
Share-based payments		(1.7)	(1.8)	(2.1)	(0.9)	(1.2)	(1.2)	(1.2)
Reported operating profit		(14.4)	(16.2)	(19.9)	(8.4)	1.0	7.9	15.6
Net Interest		(0.6)	(0.4)	(1.2)	(2.4)	(0.8)	(0.6)	(0.6)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	(17.1)	0.0	0.0	0.0
Profit Before Tax (norm)		(10.4)	(12.8)	(15.0)	(6.4)	2.7	9.8	17.5
Profit Before Tax (reported)		(15.0)	(16.6)	(21.1)	(28.0)	0.2	7.4	15.0
Reported tax		(0.4)	(0.4)	0.5	(0.1)	(0.1)	(0.4)	(1.5)
Profit After Tax (norm)		(7.8)	(9.6)	(11.2)	(4.8)	2.1	7.8	13.8
Profit After Tax (reported)		(15.4)	(17.0)	(20.6)	(28.1)	0.2	7.0	13.5
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		(7.8)	(9.6)	(11.2)	(4.8)	2.1	7.8	13.8
Net income (reported)		(15.4)	(17.0)	(20.6)	(28.1)	0.2	7.0	13.5
Basic average number of shares outstanding (m)		21.3	27.4	140.1	150.3	213.6	213.6	213.6
EPS - basic normalised (\$)		(0.36)	(0.35)	(0.08)	(0.03)	0.01	0.04	0.06
EPS - diluted normalised (\$)		(0.36)	(0.35)	(0.08)	(0.03)	0.01	0.03	0.06
EPS - basic reported (\$)		(0.72)	(0.62)	(0.15)	(0.19)	0.00	0.03	0.06
Dividend (\$)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		N/A	4.7	(10.4)	42.0	33.8	22.7	19.4
Gross Margin (%)		77.6	79.1	81.4	90.7	92.8	93.3	93.5
EBITDA Margin (%)		(52.5)	(59.2)	(71.4)	(9.5)	14.9	29.0	38.8
Normalised Operating Margin		(53.2)	(64.4)	(80.0)	(16.5)	10.6	25.9	37.7
BALANCE SHEET								
Fixed Assets		32.7	30.8	26.8	26.9	25.1	23.3	21.3
Intangible Assets		32.5	30.1	25.7	25.8	23.6	21.6	20.4
Tangible Assets		0.2	0.7	0.5	0.4	0.5	0.5	0.7
Investments & other		0.0	0.0	0.6	0.7	1.1	1.1	0.3
Current Assets		72.5	53.0	48.9	79.3	92.7	116.5	144.4
Stocks		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors		59.7	43.3	37.1	59.1	67.4	80.6	91.4
Cash & cash equivalents		12.0	9.0	11.3	18.7	23.9	34.5	51.6
Other		0.7	0.6	0.5	1.4	1.4	1.4	1.4
Current Liabilities		(69.6)	(65.5)	(61.0)	(77.5)	(87.8)	(101.5)	(112.7)
Creditors		(64.6)	(60.4)	(54.9)	(75.0)	(85.3)	(99.0)	(110.2)
Tax and social security		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term borrowings		(5.0)	(5.1)	(6.1)	(2.5)	(2.5)	(2.5)	(2.5)
Other		0.0	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.0)
Long Term Liabilities		0.0	(0.3)	(15.2)	(0.1)	(0.1)	(0.1)	(0.1)
Long term borrowings		0.0	(0.2)	(15.1)	(0.0)	(0.0)	(0.0)	(0.0)
Other long term liabilities		0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Net Assets		35.5	18.0	(0.4)	28.6	30.0	38.2	52.9
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		35.5	18.0	(0.4)	28.6	30.0	38.2	52.9
CASH FLOW								
Op Cash Flow before WC and tax		(9.6)	(11.4)	(12.3)	(2.3)	4.9	11.6	18.5
Working capital		9.3	11.6	(3.4)	1.0	2.0	0.6	0.3
Exceptional & other		(1.6)	1.1	4.2	(5.5)	0.0	0.0	0.0
Tax		(0.0)	(0.0)	(0.0)	0.0	(0.4)	(0.4)	(0.7)
Net operating cash flow		(1.9)	1.3	(11.5)	(6.8)	6.5	11.8	18.2
Capex		(1.1)	(3.6)	(1.5)	(0.3)	(0.5)	(0.6)	(0.6)
Acquisitions/disposals		5.9	0.3	0.0	0.0	0.0	0.0	0.0
Net interest		(0.3)	(0.3)	(0.3)	(0.9)	(0.8)	(0.6)	(0.6)
Equity financing		0.2	0.1	0.1	19.8	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		0.6	(0.0)	0.1	(1.1)	0.0	0.0	0.0
Net Cash Flow		3.3	(2.2)	(13.1)	10.6	5.2	10.6	17.0
Opening net debt/(cash)		(4.9)	(7.0)	(3.6)	9.9	(16.2)	(21.4)	(32.0)
FX		(1.2)	(0.8)	(0.4)	0.4	0.0	0.0	0.0
Other non-cash movements		0.0	(0.4)	(0.0)	15.1	0.0	0.0	0.0
Closing net debt/(cash)		(7.0)	(3.6)	9.9	(16.2)	(21.4)	(32.0)	(49.0)

Source: Boku, Edison Investment Research

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