

Boku

Growth on track

Capital markets day

Boku's capital markets day (CMD) highlighted the strength of the company's platform, the growth drivers for the direct carrier billing business and outlined the progress of the newer identity services business. The recent trading update confirmed that the company is on track to meet our FY19 estimates, and recent contract announcements provide further support to the company's growth outlook.

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
12/18	35.3	6.3	0.02	0.0	113.4	65.6
12/19e	53.0	9.5	0.02	0.0	96.5	43.6
12/20e	70.0	22.3	0.06	0.0	31.4	18.6
12/21e	80.9	29.7	0.08	0.0	22.8	14.0

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

Strategy: Simplifying mobile transactions

At the recent CMD, Boku outlined its overall strategy to support mobile commerce by enabling consumers to undertake transactions on mobile devices in a simple and secure manner. Having invested more than \$100m in its platform to date, it has connections to 183 carriers in 58 countries. The platform has been built to scale and is operating at just over a third of its maximum capacity. With direct carrier billing and identity verification services live on the platform and driving significant growth in the medium term, we expect the company to add additional services that make use of the platform and network Boku has created to drive growth in the longer term.

Recent contracts support growth forecasts

Boku recently announced a new merchant, DAZN, in the sports streaming market. Notably, the contract is the first to offer the ability to pay via broadband or pay TV bills. Boosting its presence in South-East Asia, Boku has integrated with GrabPay, a mobile wallet available in eight countries. These new contracts and the recent trading update support our forecasts for FY19–21.

Valuation: Confidence returns

The stock has gained 97% year to date, reacting positively to FY18 results and in our view, as investors have gained confidence that the identity services business is making progress towards FY19 targets. On an EV/EBITDA basis, Boku is trading at a premium to peers in FY19–20e, but this declines to a discount by FY21e. On a P/E basis, Boku trades at a premium to peers for FY19–21e, albeit reducing to a much smaller premium by FY21e. Boku's strong cash generation is reflected in its above average free cash flow yield for FY20 and FY21. Confirmation of contract extensions and new merchants for the Identity business could drive further upside from this point.

Software & comp services

30 May 2019

Price **138.5p**

Market cap **£339m**

\$1.27:£1

Net cash (\$m) at end FY18 28.9

Shares in issue 245.0m

Free float 86.3%

Code BOKU

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 4.9 68.9 38.2

Rel (local) 8.8 67 47.5

52-week high/low 184p 69p

Business description

Boku operates a billing and identity verification platform that connects merchants with mobile network operators in more than 50 countries. It has c 180 employees, with its main offices in the US, UK, Germany and India.

Next events

H119 trading update July 2019

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Capital markets day highlights

On 22 May, Boku held its first CMD. The main areas covered were as follows:

Group strategy – mobile transactions made simple

In a world where consumers are spending increasing amounts of time on their mobile, consuming content and transacting online, Boku aims to make these mobile transactions as simple and secure as possible. It does this by removing friction in the process (eg for signing up or making payments on the mobile) while maintaining security. The company aims to provide the tools for merchants to discover, register, validate, transact with, deliver to and retain customers.

Its platform connects merchants and mobile carriers, and currently supports two services: direct carrier billing and identity verification. In the longer term, additional services that can take advantage of the network that Boku has created are expected to be added.

Platform built to scale

Mike Cahill, COO, highlighted the investment in the platform that is allowing Boku to scale its business efficiently. Operated out of two data centres and using Google Cloud Platform and Amazon Web Services, redundancy is built in at all levels. The two data centres run on an active/active basis and can failover in around one second. The platform has handled peak transaction volumes of 220 per second and is designed to handle peak volumes of up to 600 per second. In 2018, the platform saw no unscheduled downtime and was able to fend off all cyber-attacks.

Incremental volumes can now be processed at a much lower cost per transaction.

Currently, the platform operates across 58 countries and is connected to 183 carriers, with 267 connections (176 for payments/81 for payments & core identity/10 for payments & full identity).

DCB growth: New merchants, more carrier connections, digital content consumption

The company has always been clear about the appeal of its direct carrier billing (DCB) service to merchants – the payment method is used as a customer acquisition and retention tool, with the fee paid by the merchant being a combination of a payment processing fee and customer acquisition cost.

The company outlined the main growth drivers for the DCB business as follows:

- Signing up new merchants.
- Adding more carrier connections for existing merchants.
- Underlying growth in digital content (music streaming, video streaming, gaming).

The company has seen strong growth in total payment volume (TPV) over the last two years: 207% in FY17 and 109% in FY18, from a combination of the factors described above. Last week's trading update confirmed ongoing TPV growth, with TPV of \$1.6bn for the four months January to April 2019 (+64% y-o-y), driven by growth in average monthly active users of 56% y-o-y (from 9.4 million to 14.6 million). This supports our forecast for TPV of \$5.29bn for FY19 (+49% y-o-y).

Identity services: Geographic expansion underway

Boku Identity is already live in the US and the UK. The company has the technical capability to undertake identity verification in 42 countries, across 91 carriers, and is aiming to extend these capabilities to a further 20 countries by the end of 2019. Crucially, the identity services business operates using the same platform as direct carrier billing.

The company already supports a number of multinational merchants including MoneyGram, PayPal, Square, Uber, and Western Union. While the direct carrier billing service tends to be used by digital content merchants, the identity verification service can be used by merchants in a wider range of verticals, including financial services, on-demand services and government services. We expect growth in this business to come from a combination of extending identity verification services to new countries for existing merchants and signing up new merchants.

In the trading update, Boku noted that the number of phone numbers monitored in January to April 2019 totalled 69.8m (+458% y-o-y) and that billable transactions grew 106% y-o-y to 102m. We assume that the company has provided volume discounts such that revenue growth will lag volume growth this year, but nonetheless should still be strong.

New contracts announced for payments business

Prior to the CMD, Boku announced two new contracts in its payments business.

GrabPay wallet – access to eight South-East Asian markets

Boku has announced an integration with GrabPay, the mobile wallet developed by Grab Holdings Inc (Grab). Grab is a 'super-app' that provides a variety of on-demand services in eight South-East Asian countries (Cambodia, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) including taxis, food delivery, car hire and electric scooter hire. Grab's integration with the Boku platform means that merchants can offer GrabPay as a payment mechanism. Boku will then act as the processor of payments, collecting from GrabPay and paying across to the merchant. In the same way that digital content merchants use Boku as a combined customer acquisition tool and payment processor, we expect this will appeal to global merchants wanting to access consumers in South-East Asia.

Mobile wallets are a common payment method in Asia, and this contract marks the first such relationship for Boku. We view this type of integration as a way for Boku to increase its presence in Asia, as direct carrier billing is not commercially attractive in countries such as India or China.

New sports streaming merchant DAZN

Boku announced a global partnership with DAZN, a pure-sport live and on-demand streaming service. This will allow subscribers to sign up and pay for the service using their mobile phone, broadband and pay TV accounts. This is the first time that Boku has enabled payment via internet service provider and traditional broadcast TV billing systems, expanding its consumer addressable market. DAZN currently operates in nine countries – Austria, Germany, Japan, Switzerland, Canada, Italy, the US, Spain and Brazil – and has ambitions to expand further geographically. The payment capabilities are targeted to go live later this year.

Notably, Ben King, DAZN's SVP Global Distribution and Business Development, who presented at the CMD, previously worked at Apple for 12 years where was involved in the services side of the business, in particular iTunes, Apple Music and the App Store. Apple started using Boku for carrier billing in 2015, and we assume that the experience of the successful use of this billing mechanism as a customer acquisition tool helped in the decision for DAZN to integrate with Boku.

Changes to estimates

In its trading update, the company confirmed it is on track to at least hit its \$52m revenue target for FY19, with c 15–20% of revenue from the Identity business, and expects adjusted EBITDA growth

of 45-50% y-o-y. Trading in the Identity business is gaining momentum and gross margins are expected to remain strong.

We make no changes to our revenue and EBITDA forecasts. We have increased our forecast for share-based payments for FY19-21 reflecting the higher share price at the time the shares were granted, although this has no impact on normalised forecasts. The company guided to slightly higher capitalised development costs in FY19, as it invests in integrating the Identity business with the existing Boku platform. We have increased our capitalised development spend from \$0.3m to \$0.9m in FY19 and assumed a slightly higher level in FY20 and FY21 (from \$0.3m to \$0.6m in both years). This increases the amortisation rate, which results in a 3.2% cut in normalised EPS in FY19, and 1.5% in FY20 and FY21. Our net cash estimate falls from \$80.4m to \$79.2m by the end of FY21.

Exhibit 1: Changes to estimates

\$m	FY19e				FY20e				FY21e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	Old	New	Change	y-o-y
DCB revenues	43.0	43.0	0.0%	22.0%	52.0	52.0	0.0%	20.8%	58.4	58.4	0.0%	12.3%
Identity revenues	10.0	10.0	0.0%	N/A	18.0	18.0	0.0%	80.0%	22.5	22.5	0.0%	25.0%
Total revenues	53.0	53.0	0.0%	50.3%	70.0	70.0	0.0%	31.9%	80.9	80.9	0.0%	15.6%
Gross profit	44.2	44.2	0.0%	34.9%	57.6	57.6	0.0%	30.3%	65.8	65.8	0.0%	14.3%
Gross margin	83.3%	83.3%	0.0%	-9.6%	82.3%	82.3%	0.0%	-1.0%	81.4%	81.4%	0.0%	-0.9%
EBITDA	9.5	9.5	0.0%	50.6%	22.3	22.3	0.0%	133.9%	29.7	29.7	0.0%	33.4%
EBITDA margin	18.0%	18.0%	0.0%	0.0%	31.8%	31.8%	0.0%	13.9%	36.7%	36.7%	0.0%	4.9%
Normalised operating profit	7.0	6.8	-2.8%	41.4%	20.5	20.2	-1.5%	195.6%	28.0	27.6	-1.4%	36.2%
Normalised operating margin	13.3%	12.9%	-0.4%	-0.8%	29.3%	28.9%	-0.4%	16.0%	34.6%	34.1%	-0.5%	5.2%
Reported operating profit	3.7	0.8	-77.5%	-134.5%	17.8	14.2	-20.2%	1606%	25.5	21.8	-14.5%	53.5%
Reported operating margin	7.0%	1.6%	-5.4%	8.4%	25.5%	20.3%	-5.1%	18.7%	31.6%	27.0%	-4.6%	6.7%
Normalised PBT	6.2	6.0	-3.2%	41.0%	19.8	19.5	-1.5%	224.6%	27.3	26.9	-1.5%	38.0%
Reported PBT	2.9	(0.0)	-100.0%	-100.0%	17.1	13.5	-21.1%	N/A	24.9	21.2	-14.9%	57.0%
Normalised net income	4.9	4.7	-3.2%	41.0%	15.6	15.4	-1.5%	224.6%	21.6	21.3	-1.5%	38.0%
Reported net income	2.7	(0.0)	-100.0%	-100.0%	15.4	12.1	-21.1%	N/A	21.2	18.0	-14.9%	48.3%
Normalised basic EPS	0.021	0.020	-3.2%	28.2%	0.061	0.061	-1.5%	204.5%	0.085	0.083	-1.5%	37.6%
Normalised diluted EPS	0.019	0.018	-3.2%	17.5%	0.057	0.056	-1.5%	207.8%	0.078	0.077	-1.5%	37.6%
Reported basic EPS	0.011	(0.000)	-100.0%	-100.0%	0.060	0.048	-21.1%	N/A	0.083	0.071	-14.9%	47.8%
Net debt/(cash)	(29.1)	(28.5)	-2.1%	-1.2%	(51.1)	(50.2)	-1.8%	76.0%	(80.4)	(79.2)	-1.5%	57.8%
TPV (\$bn)	5.29	5.29	0.0%	49.1%	6.81	6.81	0.0%	28.9%	8.11	8.11	0.0%	19.0%
Take rate	0.81%	0.81%	0.0%		0.76%	0.76%	0.0%		0.72%	0.72%	0.0%	

Source: Edison Investment Research

Exhibit 2: Financial summary

	\$'m	2014	2015	2016	2017	2018	2019e	2020e	2021e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue	18.3	19.2	17.2	24.4	35.3	53.0	70.0	80.9	
Cost of Sales	(4.1)	(4.0)	(3.2)	(2.3)	(2.5)	(8.8)	(12.4)	(15.0)	
Gross Profit	14.2	15.2	14.0	22.1	32.8	44.2	57.6	65.8	
EBITDA	(9.6)	(11.4)	(12.3)	(2.3)	6.3	9.5	22.3	29.7	
Normalised operating profit	(9.8)	(12.4)	(13.8)	(4.0)	4.8	6.8	20.2	27.6	
Amortisation of acquired intangibles	(0.8)	(1.9)	(1.7)	(1.3)	(1.3)	(1.3)	(1.3)	(1.0)	
Exceptionals	(2.1)	(0.1)	(2.4)	(2.2)	(1.4)	0.0	0.0	0.0	
Share-based payments	(1.7)	(1.8)	(2.1)	(1.5)	(4.6)	(4.7)	(4.7)	(4.7)	
Reported operating profit	(14.4)	(16.2)	(19.9)	(9.0)	(2.4)	0.8	14.2	21.8	
Net Interest	(0.6)	(0.4)	(1.2)	(2.4)	(0.6)	(0.8)	(0.7)	(0.6)	
Joint ventures & associates (post tax)	0.0	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	0.0	
Profit Before Tax (norm)	(10.4)	(12.8)	(15.0)	(6.4)	4.3	6.0	19.5	26.9	
Profit Before Tax (reported)	(15.0)	(16.6)	(21.1)	(28.5)	(3.0)	(0.0)	13.5	21.2	
Reported tax	(0.4)	(0.4)	0.5	(0.1)	(1.3)	0.0	(1.3)	(3.2)	
Profit After Tax (norm)	(7.8)	(9.6)	(11.2)	(4.8)	3.4	4.7	15.4	21.3	
Profit After Tax (reported)	(15.4)	(17.0)	(20.6)	(28.7)	(4.3)	(0.0)	12.1	18.0	
Minority interests	0.0	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	0.0	
Net income (normalised)	(7.8)	(9.6)	(11.2)	(4.8)	3.4	4.7	15.4	21.3	
Net income (reported)	(15.4)	(17.0)	(20.6)	(28.7)	(4.3)	(0.0)	12.1	18.0	
Basic ave. number of shares outstanding (m)	21.3	27.4	140.1	150.3	217.1	238.7	254.5	255.2	
EPS - basic normalised (\$)	(0.36)	(0.35)	(0.08)	(0.03)	0.02	0.02	0.06	0.08	
EPS - diluted normalised (\$)	(0.36)	(0.35)	(0.08)	(0.03)	0.02	0.02	0.06	0.08	
EPS - basic reported (\$)	(0.72)	(0.62)	(0.15)	(0.19)	(0.02)	(0.00)	0.05	0.07	
Dividend (\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Revenue growth (%)	#DIV/0!	4.7	(10.4)	42.0	44.5	50.3	31.9	15.6	
Gross Margin (%)	77.6	79.1	81.4	90.7	92.9	83.3	82.3	81.4	
EBITDA Margin (%)	(52.5)	(59.2)	(71.4)	(9.5)	17.9	18.0	31.8	36.7	
Normalised Operating Margin	(53.2)	(64.4)	(80.0)	(16.5)	13.7	12.9	28.9	34.1	
BALANCE SHEET									
Fixed Assets	32.7	30.8	26.8	26.9	23.0	50.7	47.9	45.8	
Intangible Assets	32.5	30.1	25.7	25.8	22.5	47.3	46.1	44.9	
Tangible Assets	0.2	0.7	0.5	0.4	0.3	2.7	1.4	0.0	
Investments & other	0.0	0.0	0.6	0.7	0.3	0.7	0.5	0.8	
Current Assets	72.5	53.0	48.9	79.3	84.0	102.1	134.7	171.1	
Stocks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Debtors	59.7	43.3	37.1	59.1	51.7	67.8	80.0	88.5	
Cash & cash equivalents	12.0	9.0	11.3	18.7	31.1	33.0	53.5	81.4	
Other	0.7	0.6	0.5	1.4	1.3	1.3	1.3	1.3	
Current Liabilities	(69.6)	(65.5)	(61.0)	(78.0)	(79.6)	(95.9)	(108.7)	(117.8)	
Creditors	(64.6)	(60.4)	(54.9)	(75.5)	(77.4)	(91.4)	(105.4)	(115.6)	
Tax and social security	0.0	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)	(2.2)	(4.5)	(3.3)	(2.2)	
Other	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	
Long Term Liabilities	0.0	(0.3)	(15.2)	(0.2)	(0.8)	(0.8)	(1.3)	(3.8)	
Long term borrowings	0.0	(0.2)	(15.1)	(0.0)	0.0	0.0	0.0	0.0	
Other long term liabilities	0.0	(0.1)	(0.1)	(0.1)	(0.8)	(0.8)	(1.3)	(3.8)	
Net Assets	35.5	18.0	(0.4)	28.0	26.6	56.1	72.6	95.3	
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Shareholders' equity	35.5	18.0	(0.4)	28.0	26.6	56.1	72.6	95.3	
CASH FLOW									
Op Cash Flow before WC and tax	(9.6)	(11.4)	(12.3)	(2.3)	6.3	9.5	22.3	29.7	
Working capital	9.3	11.6	(3.4)	1.0	7.2	(2.1)	1.9	1.7	
Exceptional & other	(1.6)	1.1	4.2	(5.5)	0.2	(0.7)	(0.4)	0.0	
Tax	(0.0)	(0.0)	(0.0)	0.0	(0.2)	(0.4)	(0.7)	(1.0)	
Net operating cash flow	(1.9)	1.3	(11.5)	(6.8)	13.5	6.3	23.1	30.4	
Capex	(1.1)	(3.6)	(1.5)	(0.3)	(0.3)	(1.0)	(0.7)	(0.7)	
Acquisitions/disposals	5.9	0.3	0.0	0.0	(0.2)	(1.0)	0.0	0.0	
Net interest	(0.3)	(0.3)	(0.3)	(0.9)	(0.6)	(0.6)	(0.6)	(0.6)	
Equity financing	0.2	0.1	0.1	19.8	0.5	0.0	0.0	0.0	
Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other	0.6	(0.0)	0.1	(1.1)	0.2	0.0	0.0	0.0	
Net Cash Flow	3.3	(2.2)	(13.1)	10.6	13.1	3.7	21.8	29.1	
Opening net debt/(cash)	(4.9)	(7.0)	(3.6)	9.9	(16.2)	(28.9)	(28.5)	(50.2)	
FX	(1.2)	(0.8)	(0.4)	0.4	(0.5)	(0.3)	(0.2)	(0.1)	
Other non-cash movements	0.0	(0.4)	(0.0)	15.1	0.0	(3.8)	0.0	0.0	
Closing net debt/(cash)	(7.0)	(3.6)	9.9	(16.2)	(28.9)	(28.5)	(50.2)	(79.2)	

Source: Boku, Edison Investment Research

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