

Kinatico Ltd

H1 result in-line, SaaS now 30%+ of revenue

Kinatico Ltd (ASX:KYP) is a 'Know Your People' regtech company providing workforce compliance monitoring and management technology and services. KYP has reported H1 FY24 NPAT of \$0.357m, a \$1.13m turnaround on the previous corresponding period (pcp), and the company's best-ever result. The gross margin and EBITDA margin hit record levels of 67.7% and 13.4% respectively. The result was above our gross margin forecast but in line with our EBITDA estimate. NPAT was a little lower due to higher-than-forecast depreciation and amortisation. KYP noted the profit was earned from half-year revenue of \$14.3m, up 6% on the pcp with SaaS revenue for the year at 30.5% of the total or \$4.4m. SaaS revenue was up 159% on the pcp and 265% on two years ago. Costs for the half year were 4% lower than the same period in FY23 and in line with our expectations. We have made very minor changes to our FY24f and FY25f forecasts. Our valuation remains unchanged at \$0.25/share, implying an EV/Revenue multiple of 3.7x FY24f and 3.2x FY25f.

Business model

Over the past two years, Kinatico has focussed its business on the generation of Software-as-a-Service (SaaS) revenue from the provision of simplified real-time workforce compliance monitoring and management technology and services. SaaS revenue accounted for 30.5% of H1 FY24 revenue, up from 18% in FY23, including 24% of H2 revenue and 28% of Q4 revenue. The business also has a long-standing screening and verification (SaV) revenue stream, under the brand CVCheck, from transactions, which tend to be one-time (although ~80% of customers are recurring). SaV services generate transactional revenue with fees charged per check on a PAYG basis. They are targeted at business, skewed to police checks, and somewhat leveraged to the employment market. For SaaS, customers (employers) pay a set monthly SaaS fee for an end-to-end compliance management solution. KYP now offers a simple, monthly, all-in fee per worker ranging from \$15-\$30. Kinatico is focussed on transitioning all of its revenue to SaaS.

H1 FY24 result demonstrates the benefit of SaaS focus

Kinatico previously reported H1 FY24 revenue of \$14.3m (ASX release 17 January 2024), including \$4.4m from SaaS, and NPAT of \$0.4m, up 136% on the pcp. The audited accounts confirmed the strong top-line growth in SaaS revenue, the not-unexpected 16% decline in transactional revenue in line with expected conversion to SaaS, and the 11% increase in gross margin to \$9.7m, which was largely in line with our forecast. Reported EBITDA of \$1.9m, an increase of 374% on the pcp, was also in line with our estimate. NPAT of \$0.4m was a \$1.13m turnaround on the pcp, although a little lower than our forecast for \$0.6m, with the chief point of difference higher-than-forecast depreciation and amortisation charges. We have incorporated the audited H1 results into our model and made very minor adjustments to our FY24f and FY25f estimates.

DCF valuation of \$0.25/share, unchanged

Our DCF valuation remains unchanged at \$0.25/share. Our DCF methodology incorporates a WACC of 14.4%, a risk-free rate of 4.0% and a terminal growth rate of 2.2%. This implies EV/Revenue multiples of 3.6x for FY24f and 3.2x for FY25f, compared with the current multiples of 1.1x FY24f and 1.2x FY25f. On a relative basis, KYP is trading at a ~15% discount to the median of seven ASX-listed peers. In the past 12 months, KYP has narrowed the discount to its peers and we expect this to continue if the company demonstrates continued growth in SaaS clients, secures material new contracts, and delivers sustained positive free cash flow and operating profit.

Historical earnings and RaaS' estimates (in A\$m unless otherwise stated)

Year end	Revenue	Gross profit	EBITDA adj.	NPAT adj.	NPAT rep.	EPS adj.	EV/Revenue (x)	EV/EBITDA (x)	PER (x)
06/22a	26.4	16.8	1.8	(0.7)	(1.5)	(0.17)	1.2	17.6	n.a
06/23a	27.7	18.2	3.1	0.8	0.2	0.17	1.1	9.4	56.6
06/24f	29.2	19.6	3.6	0.8	0.8	0.19	1.2	9.7	53.2
06/25f	33.6	22.6	5.5	2.2	2.2	0.51	1.0	6.1	19.3

Sources: Company data; RaaS estimates for FY24f and FY25f. Adjusted EBITDA, NPAT and EPS exclude one-time and non-cash items including share-based compensation

H1 FY24 Result Analysis

Software & Services

27 February 2024

Share Details

ASX code	KYP
Share price (26-Feb)	\$0.10
Market capitalisation	\$42.9M
Shares on issue	433.6M
Net cash at 31-Dec-23	\$9.1M
Free float	~57%

Share Performance (12 months)



Company Interview

RaaS Interview with CEO Michael Ivanchenko:
[Kinatico RaaS 2024 Outlook Interview Jan 24](#)

Upside Case

- SaaS take-up exceeds expectations
- Highly-scalable business model
- Well-positioned for potential M&A

Downside Case

- Lower/slower-than-expected SaaS uptake rate
- Enterprise customers take longer than expected to sign-up
- Pursuit of planned international expansion leads to higher-than-expected costs/losses

Catalysts

- Material new contracts for SaaS offering
- Delivery of process automation → positioning for future scalability and operating leverage
- M&A activity highlighting relative valuations

Company Contact

Michael Ivanchenko (CEO) +61 408 712 795
 michaelivanchenko@kinatico.com

RaaS Contact

Finola Burke +61 414 354 712
 finola.burke@raasgroup.com

H1 FY24 Results Analysis

Kinatico delivered a H1 FY24 result largely in line with our forecasts and reflecting the continued benefit of pursuing conversion of transactional revenue to SaaS revenue. SaaS revenue as a percentage of total revenue hit 30.5% in H1 FY24, compared with 12.5% in H1 FY23. The increase in SaaS revenue substantially outpaces the decline in transactional revenue, which is tracking in line with our estimates. Operationally, the cost of sales was a little lower than our forecast, leading to a higher gross margin of \$9.7m or 67.7% of revenue, versus our forecast for a gross margin of 66%. Operating costs were largely in line with our forecasts, but 4% below that reported in H1 FY23.

Note the significant improvement in EBITDA margin, 13.4% in H1 FY24 compared with 4.4% in H1 FY23 on an adjusted basis, as lower operating costs also boosted the company's performance.

The improvement in operational performance was evident in the results, which we set out in Exhibit 1.

Exhibit 1: H1 FY24a versus H1 FY23a and RaaS H1 FY24 forecasts (in A\$m unless otherwise stated)				
	H1 FY23a	H1 FY24a	% chg on pcp	vs. RaaS H1 FY24f
SaV revenue	11.9	10.0	(16)	10.0
SaaS revenue	1.7	4.4	159	4.5
Total revenue	13.6	14.3	6	14.5
Cost of sales	(4.8)	(4.6)	(4)	(4.9)
Gross margin	8.8	9.7	11	9.6
Gross margin (%)	64.5	67.7	5	66.0
Employment costs	(5.7)	(5.1)	(10)	(4.9)
Other operating costs	(2.5)	(2.7)	7	(2.7)
Total operating costs	(8.2)	(7.8)	(4)	(7.6)
EBITDA exc. Non-cash items	0.6	1.9	220	1.9
EBITDA margin (%)	4.4	13.4	203	13.4
- Share-based payment expenses (non-cash)	(0.2)	(0.0)	(89)	-
EBITDA - Reported	0.4	1.9	374	1.9
EBIT	(0.8)	0.3	(136)	0.8
Net profit/(loss) after tax	(0.8)	0.4	(149)	0.6
NPAT reported	(1.0)	0.4	(136)	0.6
Key Cash flow Statement Figures				
Net operating cash flow	0.9	1.5	64	1.3
Capitalised tech dev spend and capex	(2.1)	(1.6)	(26)	(1.5)
Free cash flow	(1.2)	(0.0)	(96)	(0.2)
Net cash at end of period	10.2	9.1	(10)	9.1

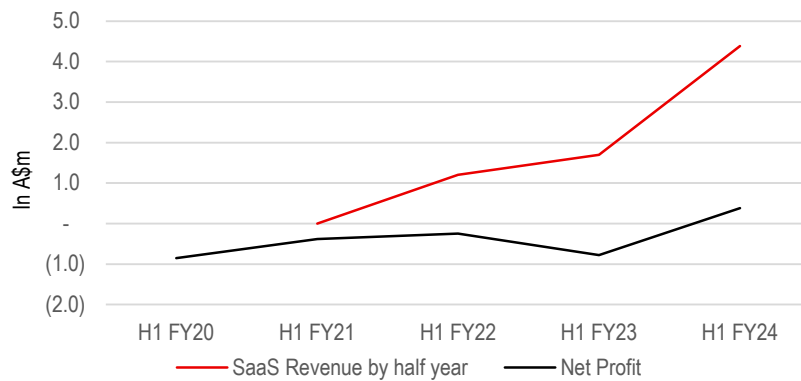
Sources: KYP H1 FY24 Financial Report, RaaS forecasts

Cash collections in the half also improved, leading to a 64% year-on-year increase in net operating cashflow, also ahead of our forecasts. Free cash flow was negative \$0.05m for the half, an improvement of more than \$1.1m on the pcp .

The company ended the half year with \$9.1m cash in hand, in line with our estimates.

As we have highlighted previously, the conversion to SaaS revenue is adding to the bottom line, with NPAT improving as the company accelerates its strategy. Exhibit 2 on the following page maps Kinatico's first-half revenues against first-half bottom-line performance over the past four years and demonstrates a clear relationship between the two measures.

Exhibit 2: SaaS revenue versus NPAT by half year, H1 FY20 to H1 FY24 (in A\$m unless otherwise stated)



Source: FY23 annual report, RaaS analysis

Earnings Adjustments

Our forecast changes have been minor and more from non-cash depreciation and amortisation charges, which were a little higher than forecast in H1. We have also taken into account the current shares on issue, 434m, following the issue of 15m shares, at a market price of \$0.12/share, to the company's loan-funded share plan.

Exhibit 3: Earnings adjustments (in A\$m unless otherwise stated)

	FY24 old	FY24 new	FY25 old	FY25 new
SaV revenue	19.2	19.1	16.3	16.3
SaaS revenue	10.1	10.1	16.9	17.3
Revenue	29.3	29.2	33.2	33.6
Gross profit	19.4	19.6	22.3	22.6
EBITDA	3.7	3.6	5.6	5.5
EBIT	1.4	0.8	3.1	3.1
NPAT	1.0	0.8	2.2	2.2
EPS	0.25	0.19	0.53	0.51

Source: RaaS estimates

DCF Valuation

Our valuation utilises a discounted cash-flow methodology which we consider to be the most appropriate methodology for valuing KYP at this point in its lifecycle as it pursues its SaaS sales growth strategy. Our discount rate of 14.5% includes a beta of 1.6, compared with the five-year rate observed by LSEG (1.56). This gives us a DCF valuation of \$0.25/share, which implies an EV/Revenue of 3.7x FY24f and 3.2x FY25f.

Exhibit 4: DCF valuation

Parameters	Outcome
Discount rate / WACC	14.5%
Beta*	1.6
Terminal growth rate assumption	2.2%
Sum of PV (A\$m)	49.9
PV of terminal value (A\$m)	49.5
PV of enterprise (A\$m)	99.4
Net debt / (cash) – 31 Dec 2023 (A\$m)	(9.1)
Net valuation – equity (A\$m)	108.5
No. of shares on issue (February 2024) (M)	433.6
NPV per share (A\$)	\$0.25

Sources: RaaS estimates, *LSEG's observed beta of 1.56 based on its five-year monthly beta methodology

Peer EV/Revenue Trading Multiples

We have looked at comparable ASX-listed companies, of which there are seven, to consider peer EV/Revenue trading multiples. Similar-sized regulatory or workforce compliance SaaS operators include Damstra Holdings (ASX:DTC), Knosys (ASX:KNO), K2fly (ASX:K2F), Wrkr (ASX:WRK)¹, and Xref (ASX:XF1). We have included talent engagement group LiveHire and accounting compliance company 8Common for completeness. As set out in Exhibit 5, KYP is currently trading at a discount of ~15% relative to its ASX-listed peers based on FY23a EV/Revenue.

Exhibit 5: KYP discount to ASX-listed peer EV/Revenue trading multiples			
Company	ASX code	Enterprise value (A\$m)	EV/Revenue (FY23a) x
8Common Ltd	8CO	16.8	2.23
Damstra Holdings Ltd	DTC	32.0	1.09
K2fly Ltd	K2F	11.5	0.85
Knosys Ltd	KNO	13.0	1.30
LiveHire Ltd	LVH	14.5	1.72
Wrkr Ltd	WRK	24.2	3.57
Xref Ltd	XF1	29.3	1.43
Median		16.8	1.43
Kinatico	KYP	33.8	1.21

Sources: RaaS analysis, LSEG; Based on closing prices on 21 February 2024

¹ Wrkr is covered by RaaS. Our research can be accessed at www.raasgroup.com

Exhibit 6: Financial Summary

Kinatico						Share price (26 February 2024)						A\$	0.10				
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223A	H124F	H224F
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Revenue	12.8	13.6	13.6	14.1	14.4	14.9					
Transactional revenue	16.9	23.9	22.6	19.1	16.3	EBITDA	1.1	0.8	0.6	2.5	1.9	1.7					
SaaS revenue	0.6	2.4	5.1	10.1	17.3	EBIT	(0.2)	(0.3)	(0.8)	1.3	0.3	0.5					
Sales Revenue	17.5	26.4	27.7	29.2	33.6	NPAT (normalised)	(0.2)	(0.5)	(0.8)	1.5	0.4	0.4					
Gross Profit	10.3	16.8	18.2	19.6	22.6	Minorities	-	-	-	-	-	-					
EBITDA underlying	1.5	1.8	3.1	3.6	5.5	NPAT (reported)	(0.6)	(0.9)	(1.0)	1.2	0.4	0.4					
Depn	(0.3)	(0.4)	(0.5)	(0.3)	(0.2)	EPS (normalised)	(0.06)	(0.11)	(0.18)	0.36	0.09	0.10					
Amort	(1.0)	(2.0)	(2.1)	(2.5)	(2.2)	EPS (reported)	(0.14)	(0.20)	(0.23)	0.28	0.09	0.10					
EBIT underlying	0.2	(0.6)	0.5	0.8	3.1	Dividend (cps)	-	-	-	-	-	-					
Interest	0.0	0.0	0.1	0.2	0.1	Imputation	-	-	-	-	-	-					
Tax	0.0	(0.2)	0.1	(0.2)	(1.0)	Operating cash flow	1.2	1.8	0.9	2.7	1.5	1.1					
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	2.4	3.5	3.1	4.5	3.1	2.6					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Divisions						H122A	H222A	H123A	H223A	H124F	H224F
NPAT pre significant items	0.3	(0.7)	0.8	0.8	2.2	Transactional Revenue	11.6	12.3	11.9	10.7	10.0	9.2					
Significant & non-cash items	(1.3)	(0.8)	(0.5)	0.0	0.0	SaaS Revenue	1.2	1.2	1.7	3.4	4.4	5.7					
NPAT (reported)	(1.0)	(1.5)	0.2	0.8	2.2	Sales revenue	12.8	13.6	13.6	14.1	14.3	14.9					
Cash flow (A\$m)						COGS	(4.7)	(5.0)	(4.8)	(4.7)	(4.6)	(5.0)					
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Gross Profit	8.2	8.6	8.8	9.4	9.7	9.9					
EBITDA	1.5	1.8	3.1	3.6	5.5	GP Margin (%)	63.7	63.5	64.5	66.9	67.7	66.5					
Interest	0.0	0.0	0.1	0.2	0.1	Employment	(5.0)	(5.1)	(5.7)	(4.7)	(5.1)	(5.4)					
Tax	0.8	(0.1)	(0.1)	(0.3)	(1.0)	Technology, licence fees	(1.8)	(2.5)	(1.7)	(2.3)	(2.4)	(2.5)					
Working capital changes	(1.4)	1.3	0.5	(0.9)	0.1	Other costs	(0.3)	(0.3)	(0.7)	0.1	(0.3)	(0.3)					
Operating cash flow	1.0	3.1	3.6	2.6	4.7	EBITDA (normalised)	1.1	0.8	0.6	2.5	1.9	1.7					
Mtce capex	(0.0)	(0.2)	(0.1)	(0.0)	(0.0)	Margins, Leverage, Returns						FY21A	FY22A	FY23A	FY24F	FY25F	
Free cash flow	1.0	2.8	3.6	2.6	4.7	EBITDA		8.8%	7.0%	11.2%	12.4%	16.3%					
Capitalised Dev. Costs	(0.9)	(2.6)	(3.9)	(3.1)	(3.0)	EBIT		1.3%	(2.1%)	1.7%	2.8%	9.2%					
Acquisitions/Disposals	(1.8)	(0.7)	0.0	0.0	0.0	NPAT pre significant items		1.7%	(2.7%)	2.7%	2.6%	6.6%					
Other	0.3	(0.0)	0.0	0.0	0.0	Net Debt (Cash)		12.9	10.4	8.5	7.8	9.4					
Cash flow pre financing	(1.4)	(0.4)	(0.3)	(0.5)	1.7	Net debt/EBITDA (x)	(x)	8.4	5.6	2.7	2.1	1.7					
Equity	9.9	0.0	(1.3)	(0.1)	0.0	ND/ND+Equity (%)	(%)	(97.0%)	(69.2%)	(52.1%)	(43.8%)	(51.4%)					
Debt	0.0	(0.3)	(0.3)	(0.2)	0.0	EBIT interest cover (x)	(x)	(0.1)	n/a	-	0.3	(0.2)	(0.0)				
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA		1.1%	(1.7%)	1.4%	2.5%	9.4%					
Net cash flow for year	8.6	(0.7)	(1.8)	(0.8)	1.7	ROE		(6.2%)	(5.8%)	0.9%	3.1%	8.4%					
Balance sheet (A\$m)						ROIC		1.9%	(10.3%)	18.1%	21.8%	63.4%					
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Working capital						(0.8)	(0.9)	(1.1)	(0.7)	(0.7)	
Cash	12.9	11.9	9.6	8.7	10.3	WC/Sales (%)		(4.6%)	(3.4%)	(4.0%)	(2.2%)	(2.2%)					
Accounts receivable	3.0	3.0	2.4	2.0	2.3	Revenue growth		41.3%	50.9%	5.0%	5.5%	15.0%					
Inventory	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		n/a	n/a	-187%	nm	283%					
Other current assets	0.4	0.0	0.3	0.7	0.7	Pricing						FY21A	FY22A	FY23A	FY24F	FY25F	
Total current assets	16.3	14.9	12.4	11.3	13.3	No of shares (y/e)	(m)	429	434	420	434	434					
PPE	0.3	2.0	1.6	1.2	1.1	Weighted Av Dil Shares	(m)	429	434	430	434	434					
Intangibles and Goodwill	15.9	16.4	18.2	18.8	19.7	EPS Reported	cps	(0.30)	(0.35)	0.05	0.18	0.51					
Investments	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	0.09	(0.17)	0.17	0.19	0.51					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	n/a	(205.6%)	nm	176%					
Other non current assets	0.0	0.3	0.3	0.3	0.3	DPS	cps	-	-	-	-	-					
Total non current assets	16.2	18.8	20.1	20.4	21.1	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total Assets	32.5	33.7	32.4	31.7	34.3	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Accounts payable	3.8	3.9	3.5	2.6	3.0	Dividend imputation		0	0	0	0	0					
Short term debt	0.0	0.0	0.0	0.0	0.0	PE (x)		-	-	180.0	54.7	19.3					
Tax payable	0.1	0.2	0.1	0.0	0.0	PE market		18.0	18.0	18.0	18.0	18.0					
Other current liabilities	2.4	2.7	2.9	2.6	2.6	Premium/(discount)		(100.0%)	(100.0%)	900.2%	204.0%	7.1%					
Total current liabilities	6.3	6.8	6.5	5.3	5.7	EV/EBITDA		19.2	17.6	9.4	9.7	0.0					
Long term debt	0.0	1.5	1.1	0.9	0.9	FCF/Share	cps	0.0	0.1	(0.1)	-0.1	0.4					
Other non current liabs	0.0	0.0	0.0	0.0	0.0	Price/FCF share		350.9	165.8	(134.9)	-	87.8	26.0				
Total long term liabilities	0.0	1.5	1.1	0.9	0.9	Free Cash flow Yield		0.3%	0.6%	(0.7%)	(1.1%)	3.8%					
Total Liabilities	6.3	8.3	7.6	6.2	6.6												
Net Assets	26.2	25.4	24.9	25.5	27.8												
Share capital	47.2	47.9	46.7	46.5	46.5												
Accumulated profits/losses	(22.1)	(23.3)	(23.1)	(22.3)	(20.1)												
Reserves	1.1	0.8	1.3	1.3	1.3												
Minorities	0.0	0.0	0.0	0.0	0.0												
Total Shareholder funds	26.2	25.4	24.9	25.5	27.8												

Sources: Company data, RaaS Advisory estimates



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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