

Making inroads into government with SaaS deals

Kinatico Ltd (ASX:KYP) is a 'Know Your People' regtech company providing workforce compliance monitoring and management technology and services. KYP has reported a 5% year-on-year increase in Q1 FY24 revenue to \$7.25m, and a 176% year-on-year increase in SaaS revenue to \$2.02m. SaaS revenue accounted for 28% of total revenue for the quarter, compared to 11% in Q1 FY23. The company also noted that it saw a 10% increase in SaaS customers in Q1 over Q4 FY23. Kinatico highlighted in its annual general meeting presentation that it had secured three new contract wins which collectively had a total minimum contract value of \$1.94m. Being new, rather than existing transactional, clients, we expect to see a greater impact from these contract wins in Q2 FY24. The Q1 performance appears to be tracking in line with our H1 FY24 forecasts which include SaaS revenue of \$4.5m and transactional revenue of \$10.0m. Our base case DCF valuation remains unchanged at \$0.25/share, implying an EV/Revenue multiple of 3.6x FY24f.

Business model

Over the past 21 months, Kinatico has focussed its business on the generation of SaaS revenue from the provision of simplified real-time workforce compliance monitoring and management. SaaS revenue accounted for 18% of FY23 revenue including 24% of H2 revenue and 28% of Q4 revenue. It again accounted for 28% of revenue in Q1 FY24. Kinatico has adopted a two-pronged strategy of converting its existing screening and verification (SaV) clients (mostly company and 80% of these customers are recurring) to SaaS customers. This will shift its customer base from traditional one-time transactions revenue to ongoing set monthly SaaS fees for KYP's end-to-end compliance management solution. Kinatico is focussed on transitioning most of its revenue to SaaS.

SaaS focus plan is working

Kinatico provided an update on Q1 FY24 revenue and new contract wins at its annual general meeting on October 26. The company noted that it was moving beyond healthcare, energy and industrials with three significant contract wins that combined deliver total minimum contract value of \$1.94m, and on an annualised basis, will bring in \$0.78m over the next two years. Specifically, these contracts are with Chisholm Institute (TAFE) for three years at a minimum spend of \$0.6m across the life of the contract, Victoria Families Fairness and Housing for three years with a minimum spend of \$0.54m, and Victoria Builders Association for two years with a minimum spend of \$0.8m. Significantly, these were all new contracts which have shown minimally in Q1 and will flow into Q2 revenue. We see these contracts as underpinning the growth in SaaS revenue that we have included in our forecasts for FY24 and FY25, in which we expect to see SaaS revenue of \$10.1m and \$16.9m respectively in those two financial years.

DCF valuation of \$0.25/share, fully diluted

Our DCF valuation remains unchanged at \$0.25/share, fully diluted for options on issue. 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 1.0x FY24f and 0.9x FY25f. On a relative basis, KYP is trading at a 60% discount to seven ASX-listed peers. Its nearest ASX peer, Xref (ASX:XF1) is trading at a 34% premium to Kinatico, even though XF1 is still lossmaking. In the past six months, KYP has reduced the discount to its peers and we expect this to continue as 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)	1.1	16.0	n.a
06/23a	27.7	18.2	3.1	0.8	0.2	0.17	1.1	9.7	52.6
06/24f	29.3	19.4	3.7	1.0	1.0	0.25	1.0	8.1	37.5
06/25f	33.2	22.3	5.6	2.2	2.2	0.53	0.9	5.2	17.3

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

Software & Services

30 October 2023

Share Details

ASX code	KYP
Share price (27 Oct)	\$0.092
Market capitalisation	\$38.5M
Shares on issue	418.59M
Net cash at 30-Jun-23	\$9.6M
Free float*	~50%

*Source: Refinitiv

Share Performance (12-months)



Company Interview

RaaS Interview with CEO Michael Ivanchenko:
[Kinatico RaaS Interview 5 September 2023](#)

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

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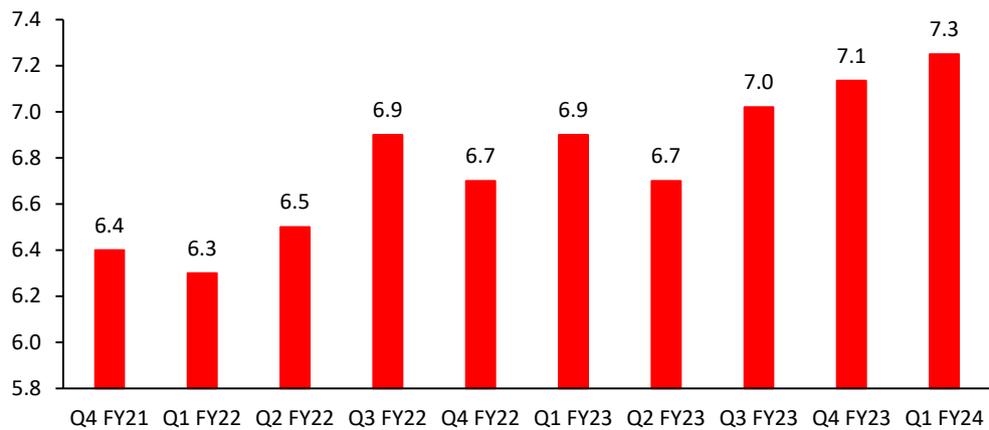
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Q1 FY24 Revenue Discussion

Kinatico provided an update on Q1 FY24 revenue at its October 26 annual general meeting, noting that total revenue increased 5% in the quarter to \$7.25m, up from \$6.92m a year ago. SaaS revenue comprised 28% or \$2.02m of the total, an increase of 176% on the same quarter a year ago and up 1% on the June quarter. The company noted that it saw a 10% increase in SaaS customers in Q1 over Q4 FY23. Several new customers, including the new contract wins announced with Chisholm, Victoria Families Fairness and Housing, and the Victorian Builders Association contributed minimally to revenue in Q1 and are expected to more fully impact Q2. We are forecasting H1 FY24 SaaS revenue of \$4.5m and the Q1 result appears consistent with our forecast.

Exhibit 1: Revenue by quarter (in A\$m unless otherwise stated)



Source: Company data, RaaS analysis

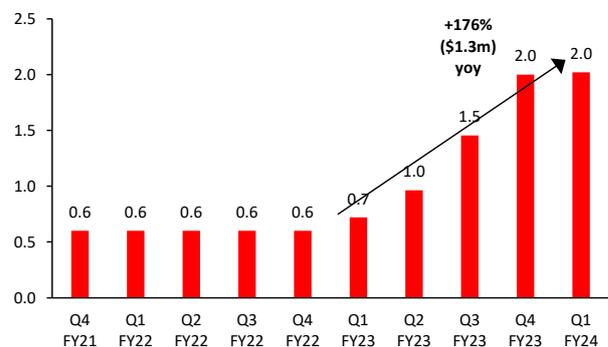
SaV revenue for the quarter was \$5.2m, down 15% year on year, but up slightly on Q4 FY23, which is consistent with the trend that we saw in Q1 FY23. We expect this source of revenue to continue to decline over time as a result of the ongoing transition of these customers to SaaS contracts, with our forecast for H1 FY24 at \$10.0m, compared with \$11.9m in H1 FY23 and \$10.7m in H2 FY23.

Exhibit 2: SaV revenue by quarter (in A\$m unless otherwise stated)



Source: Company data, RaaS analysis

Exhibit 3: SaaS revenue by quarter (in A\$m unless otherwise stated)



Source: Company data, RaaS analysis

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, which is the five-year rate observed by Refinitiv. We have assumed all options on issue (4.5m) convert. This gives us a DCF valuation of \$0.25/share, which implies an EV/Revenue of 3.6x 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)	48.4
PV of terminal value (A\$M)	48.2
PV of enterprise (A\$M)	96.7
Net debt / (cash) – 30 June 2023 (A\$M)	(9.6)
Net valuation – equity (A\$M)	106.3
No. of shares on issue (fully-diluted for options on issue) (M)	421
NPV per share (A\$)	\$0.25

Sources: RaaS estimates, *Refinitiv's observed beta of 1.6 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. The company most comparable to Kinatico is XREF (ASX:XF1) which also operates in the reference checking arena. Other comparable regulatory or workforce compliance SaaS operators include Damstra Holdings (ASX:DTC), Knosys (ASX:KNO), K2fly (ASX:K2F) and Wrkr (ASX:WRK), also a RaaS research client. We have included talent engagement group LiveHire and accounting compliance company 8Common for completeness. As set out in the table below, KYP is currently trading at a discount of 60% relative to its ASX-listed peers based on FY23a EV/Revenue. The discount to XF1, its closest ASX peer, is now at around 34% based on FY23a.

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	13.7	1.8
Damstra Holdings Ltd	DTC	74.2	2.5
K2fly Ltd	K2F	7.0	0.5
Knosys Ltd	KNO	5.9	0.6
LiveHire Ltd	LVH	14.3	1.8
Wrkr Ltd	WRK	29.5	4.4
Xref Ltd	XF1	30.1	1.4
Median		14.3	1.8
Kinatico	KYP	30.1	1.1

Sources: RaaS analysis, Refinitiv; Based on closing prices/market capitalisation on 27 October 2023 and FY23a revenue

Exhibit 6: Financial Summary

Kinatico						Share price (27 October 2023)						A\$	0.09				
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	14.5	14.7					
Transactional revenue	16.9	23.9	22.6	19.2	16.3	EBITDA	1.1	0.8	0.6	2.5	1.9	1.8					
SaaS revenue	0.6	2.4	5.1	10.1	16.9	EBIT	(0.2)	(0.3)	(0.8)	1.3	0.8	0.6					
Sales Revenue	17.5	26.4	27.7	29.3	33.2	NPAT (normalised)	(0.2)	(0.5)	(0.8)	1.5	0.6	0.4					
Gross Profit	10.3	16.8	18.2	19.4	22.3	Minorities	-	-	-	-	-	-					
EBITDA underlying	1.5	1.8	3.1	3.7	5.6	NPAT (reported)	(0.6)	(0.9)	(1.0)	1.2	0.6	0.4					
Depn	(0.3)	(0.4)	(0.5)	(0.3)	(0.3)	EPS (normalised)	(0.06)	(0.11)	(0.18)	0.36	0.14	0.11					
Amort	(1.0)	(2.0)	(2.1)	(2.1)	(2.2)	EPS (reported)	(0.14)	(0.20)	(0.23)	0.28	0.14	0.11					
EBIT underlying	0.2	(0.6)	0.5	1.4	3.1	Dividend (cps)	-	-	-	-	-	-					
Interest	0.0	0.0	0.1	0.1	0.1	Imputation	-	-	-	-	-	-					
Tax	0.0	(0.2)	0.1	(0.4)	(1.0)	Operating cash flow	1.2	1.8	0.9	2.7	1.3	1.7					
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	2.4	3.5	3.1	4.5	2.9	3.2					
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	1.0	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	4.5	5.6					
NPAT (reported)	(1.0)	(1.5)	0.2	1.0	2.2	Sales revenue	12.8	13.6	13.6	14.1	14.5	14.7					
Cash flow (A\$m)						COGS	(4.7)	(5.0)	(4.8)	(4.7)	(4.9)	(4.9)					
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Gross Profit	8.2	8.6	8.8	9.4	9.6	9.8					
EBITDA	1.5	1.8	3.1	3.7	5.6	GP Margin (%)	63.7	63.5	64.5	66.9	66.0	66.5					
Interest	0.0	0.0	0.1	0.1	0.1	Employment	(5.0)	(5.1)	(5.7)	(4.7)	(4.9)	(5.2)					
Tax	0.8	(0.1)	(0.1)	(0.4)	(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	(0.4)	0.0	Other costs	(0.3)	(0.3)	(0.7)	0.1	(0.3)	(0.3)					
Operating cash flow	1.0	3.1	3.6	3.0	4.7	EBITDA (normalised)	1.1	0.8	0.6	2.5	1.9	1.8					
Mtce capex	(0.0)	(0.2)	(0.1)	(0.2)	(0.2)	Margins, Leverage, Returns						FY21A	FY22A	FY23A	FY24F	FY25F	
Free cash flow	1.0	2.8	3.6	2.8	4.5	EBITDA		8.8%	7.0%	11.2%	12.7%	16.7%					
Capitalised Dev. Costs	(0.9)	(2.6)	(3.9)	(3.0)	(3.0)	EBIT		1.3%	(2.1%)	1.7%	4.7%	9.3%					
Acquisitions/Disposals	(1.8)	(0.7)	0.0	0.0	0.0	NPAT pre significant items		1.7%	(2.7%)	2.7%	3.5%	6.7%					
Other	0.3	(0.0)	0.0	0.0	0.0	Net Debt (Cash)		12.9	10.4	8.5	8.1	9.6					
Cash flow pre financing	(1.4)	(0.4)	(0.3)	(0.2)	1.5	Net debt/EBITDA (x)	(x)	8.4	5.6	2.7	2.2	1.7					
Equity	9.9	0.0	(1.3)	(0.3)	0.0	ND/ND+Equity (%)	(%)	(97.0%)	(69.2%)	(52.1%)	(45.9%)	(52.3%)					
Debt	0.0	(0.3)	(0.3)	0.0	0.0	EBIT interest cover (x)	(x)	(0.1)	n/a	-	0.3	(0.1)	(0.0)				
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA		1.1%	(1.7%)	1.4%	4.3%	9.2%					
Net cash flow for year	8.6	(0.7)	(1.8)	(0.4)	1.5	ROE		(6.2%)	(5.8%)	0.9%	4.1%	8.3%					
Balance sheet (A\$m)						ROIC		1.9%	(10.3%)	18.1%	38.4%	63.3%					
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	9.2	10.7	WC/Sales (%)		(4.6%)	(3.4%)	(4.0%)	(2.5%)	(2.2%)					
Accounts receivable	3.0	3.0	2.4	2.0	2.2	Revenue growth						41.3%	50.9%	5.0%	5.6%	13.4%	
Inventory	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		n/a	n/a	-187%	nm	123%					
Other current assets	0.4	0.0	0.3	0.3	0.3	Pricing						FY21A	FY22A	FY23A	FY24F	FY25F	
Total current assets	16.3	14.9	12.4	11.5	13.3	No of shares (y/e)	(m)	429	434	420	417	417					
PPE	0.3	2.0	1.6	1.5	1.4	Weighted Av Dil Shares	(m)	429	434	430	417	417					
Intangibles and Goodwill	15.9	16.4	18.2	19.1	19.9	EPS Reported	cps	(0.30)	(0.35)	0.05	0.25	0.53					
Investments	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	0.09	(0.17)	0.17	0.25	0.53					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	n/a	(205.6%)	nm	117%					
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	20.9	21.6	DPS Growth		n/a	n/a	n/a	n/a	n/a					
Total Assets	32.5	33.7	32.4	32.4	34.9	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Accounts payable	3.8	3.9	3.5	2.7	3.0	Dividend imputation		0	0	0	0	0					
Short term debt	0.0	0.0	0.0	0.0	0.0	PE (x)		-	-	167.3	37.5	17.3					
Tax payable	0.1	0.2	0.1	0.1	0.1	PE market		18.0	18.0	18.0	18.0	18.0					
Other current liabilities	2.4	2.7	2.9	2.9	2.9	Premium/(discount)		(100.0%)	(100.0%)	829.5%	108.1%	(4.0%)					
Total current liabilities	6.3	6.8	6.5	5.7	5.9	EV/EBITDA		17.3	16.0	9.7	8.1	0.0					
Long term debt	0.0	1.5	1.1	1.1	1.1	FCF/Share	cps	0.0	0.1	(0.1)	0.0	0.4					
Other non current liabs	0.0	0.0	0.0	0.0	0.0	Price/FCF share		326.1	154.1	(125.4)	194.2	25.6					
Total long term liabilities	0.0	1.5	1.1	1.1	1.1	Free Cash flow Yield		0.3%	0.6%	(0.8%)	(0.5%)	3.9%					
Total Liabilities	6.3	8.3	7.6	6.8	7.0												
Net Assets	26.2	25.4	24.9	25.6	27.9												
Share capital	47.2	47.9	46.7	46.4	46.4												
Accumulated profits/losses	(22.1)	(23.3)	(23.1)	(22.1)	(19.8)												
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	25.6	27.9												

Sources: Company data, RaaS Advisory estimates



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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Effective Date: 6th May 2021

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