

Q3 NPAT of \$0.1m, EBITDA of \$0.8m

Kinatico Ltd (ASX:KYP) is a 'Know Your People' regtech company providing workforce compliance monitoring and management technology and services. KYP has reported Q3 FY24 EBITDA of \$0.8m and NPAT of \$0.1m, the first time the company has reported these metrics on a quarterly basis. Revenue was \$7.0m for the quarter, flat year-on-year but the composition continued to demonstrate the conversion of one-off transactional revenue to recurring software-as-a-service (SaaS) revenue. SaaS revenue jumped 73% on the previous corresponding period (pcp) to \$2.5m and was 7% ahead of Q2. Transactional revenue of \$4.5m for the quarter is tracking in line with our H2 FY24 forecast but SaaS revenue was a little lower than our expectations. The company explained in its quarterly webinar on 16 April that it was currently taking up to three months to onboard enterprise customers onto its platform but had set a target to get this down to four weeks with the roll-out of a self-deployment platform. We have adjusted our SaaS revenue forecasts for FY24 and FY25 to reflect a slower near-term ramp-up of customers, with an expectation that the self-deployment platform will improve the on-boarding process longer-term. Our valuation remains unchanged at \$0.25/share, implying an EV/Revenue multiple of 3.7x FY24f and 3.4x FY25f.

Business model

Kinatico is focusing its business on the generation of SaaS revenue from the provision of simplified real-time workforce compliance monitoring and management technology and services. SaaS revenue accounted for 35.7% of Q3 FY24 revenue up from 30.5% in H1 FY24, and 20.7% in the same period in FY23. 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. For SaaS, customers (employers) pay a set monthly SaaS fee for an end-to-end compliance management solution. Kinatico is focussed on transitioning all of its revenue to SaaS.

Q3 FY24 result is planted firmly in profit

Kinatico reported (ASX webinar presentation 16 April 2024) Q3 NPAT of \$0.1m and EBITDA of \$0.8m, the first time it has reported profit on a quarterly basis. Revenue for the quarter was \$7.0m, flat on the pcp, with SaaS revenue making up 36% of this and growing 73% on the pcp. The company noted in its presentation and 10 April release that annualised SaaS revenue was now more than \$10m. Gross profit margin increased to 66% in the quarter from 64% previously, driven by the increase in the higher-margin SaaS revenue, and the company reported its first SaaS customer renewal, BHP (ASX:BHP), which has signed for another three years for a total contract value of \$5m. Kinatico noted this was an increase on the previous contract. SaaS revenue for the quarter suggests the company is tracking a little behind our H2 FY24 forecasts with the chief reason being longer-than-forecast onboarding of new customers. As a consequence, we have reduced our FY24 and FY25 SaaS forecasts to reflect a slower take-up until the company rolls out its self-deployment platform, designed to reduce on-boarding from three months to four weeks.

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 3.7x for FY24f and 3.4x for FY25f, compared with the current multiples implied in our forecasts of 1.3x FY24f and 1.2x FY25f. On a relative basis, KYP is trading at a ~20% discount to the median of six 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)	1.3	19.1	n.a
06/23a	27.7	18.2	3.1	0.8	0.2	0.17	1.1	10.2	60.0
06/24f	28.7	19.3	3.3	0.5	0.5	0.13	1.3	11.5	78.0
06/25f	31.2	21.0	3.8	1.1	1.1	0.25	1.2	9.7	41.8

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

18 April 2024

Share Details

ASX code	KYP
Share price (17-Apr)	\$0.105
Market capitalisation	\$43.4M
Shares on issue	433.6M
Net cash at 31-Mar-23	\$8.8M
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

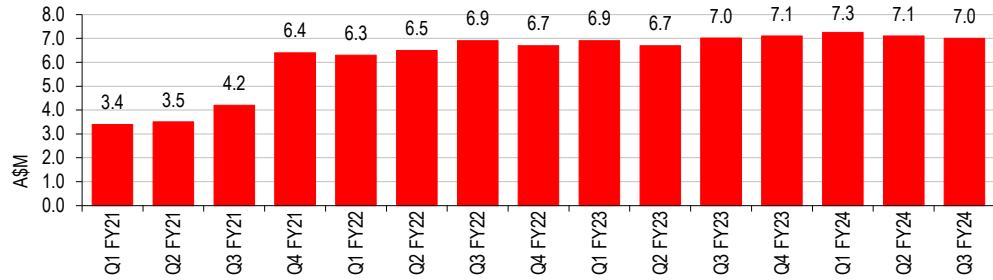
RaaS Contact

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

Q3 FY24 Result Discussion

Kinatico has provided a flash update on Q3 FY24 revenue (ASX release 10 April) and followed up with a detailed webinar (ASX Investor Webinar Presentation 16 April), noting that total revenue increased 0.5% in the quarter to \$7.0m from the same period a year ago. SaaS revenue comprised 36% or \$2.5m of the total, an increase of 73% on the same quarter a year ago and up 7% on Q2 FY24 quarter.

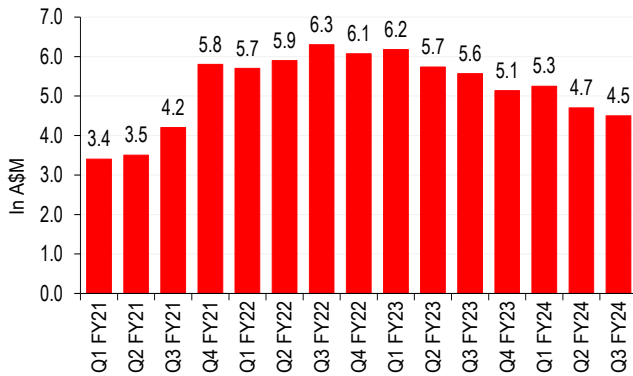
Exhibit 1: Revenue by quarter



Source: Company data, RaaS analysis

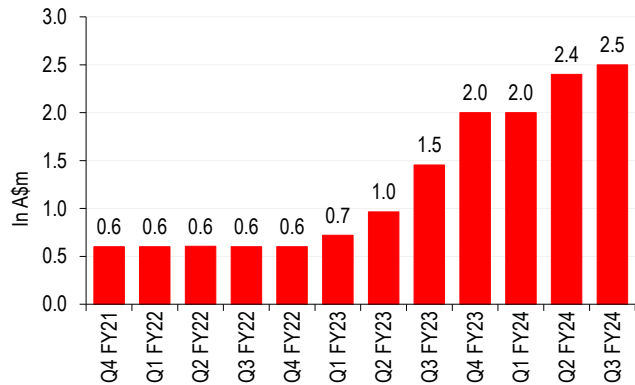
SaV revenue for the quarter was \$4.5m, down 19% year on year, and down 4% on Q2 FY24. We expect this source of revenue to continue to decline over time as a result of the ongoing transition of these customers to SaaS contracts.

Exhibit 2: SaV revenue by quarter



Source: Company data, RaaS analysis

Exhibit 3: SaaS revenue by quarter



Source: Company data, RaaS analysis

Kinatico reported Q3 EBITDA of \$0.8m and NPAT of \$0.1m, the first time it has reported these numbers on a quarterly basis, demonstrating continued growth from the H1 result which saw adjusted EBITDA at \$1.92m and adjusted NPAT at \$0.38m. Cash at the end of the period was \$8.8m, down from \$9.1m at H1, with no debt.

Earnings Adjustments

We have adjusted our forecasts to reflect the slower-than-expected onboarding of enterprise customers, with the company commenting in its webinar that this was taking three months currently. The company is targeting a four-week onboarding process with the roll-out of its self-deployment platform. We have reduced our forecasts for SaaS in Q4 FY24 and into FY25 to reflect this timing issue. Longer term, we expect the company to benefit from the investment in its self-deployment platform.

Exhibit 4: Earnings adjustments (in A\$m unless otherwise stated)					
	FY24 old	FY24 new	FY25 old	FY25 new	
SaV revenue	19.1	19.1	16.3	16.3	
SaaS revenue	10.1	9.6	17.3	14.9	
Revenue	29.2	28.7	33.6	31.2	
Gross profit	19.6	19.3	22.6	21.0	
EBITDA	3.6	3.3	5.5	3.8	
EBIT	0.8	0.5	3.1	1.5	
NPAT	0.8	0.5	2.2	1.1	
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 (1.51). This gives us a DCF valuation of \$0.25/share, which implies an EV/Revenue of 3.7x FY24f and 3.4x FY25f.

Exhibit 5: DCF valuation	
Parameters	Outcome
Discount rate / WACC	14.5%
Beta*	1.6
Terminal growth rate assumption	2.2%
Sum of PV (A\$m)	45.3
PV of terminal value (A\$m)	53.1
PV of enterprise (A\$m)	98.3
Net debt / (cash) – 31 March 2024 (A\$m)	(8.8)
Net valuation – equity (A\$m)	107.1
No. of shares on issue (February 2024) (m)	433.6
NPV per share (A\$)	\$0.25
Sources: RaaS estimates, *LSEG's observed beta of 1.51 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 six, to consider peer EV/Revenue trading multiples. Similar-sized regulatory or workforce compliance SaaS operators include 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 6, KYP is currently trading at a discount of ~20% relative to its ASX-listed peers based on FY23a EV/Revenue.

Exhibit 6: KYP discount to ASX-listed peer EV/Revenue trading multiples			
Company	ASX code	Enterprise value (A\$m)	EV/Revenue (FY23a) x
8Common Ltd	8CO	15.0	1.99
K2fly Ltd	K2F	11.5	0.85
Knosys Ltd	KNO	11.0	1.11
LiveHire Ltd	L VH	13.9	1.66
Wrkr Ltd*	WRK	20.6	3.05
Xref Ltd	XF1	30.1	1.48
Median		15.0	1.57
Kinatico	KYP	35.3	1.26
Sources: RaaS analysis, LSEG; Based on closing prices on 16 April 2024			

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

Exhibit 7: Financial Summary

Kinatico						Share price (16 April 2024)						A\$	0.11				
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	14.4					
Transactional revenue	16.9	23.9	22.6	19.1	16.3	EBITDA	1.1	0.8	0.6	2.5	1.9	1.4					
SaaS revenue	0.6	2.4	5.1	9.6	14.9	EBIT	(0.2)	(0.3)	(0.8)	1.3	0.3	0.2					
Sales Revenue	17.5	26.4	27.7	28.7	31.2	NPAT (normalised)	(0.2)	(0.5)	(0.8)	1.5	0.4	0.2					
Gross Profit	10.3	16.8	18.2	19.3	21.0	Minorities	-	-	-	-	-	-					
EBITDA underlying	1.5	1.8	3.1	3.3	3.8	NPAT (reported)	(0.6)	(0.9)	(1.0)	1.2	0.4	0.2					
Depn	(0.3)	(0.4)	(0.5)	(0.3)	(0.2)	EPS (normalised)	(0.06)	(0.11)	(0.18)	0.36	0.09	0.04					
Amort	(1.0)	(2.0)	(2.1)	(2.5)	(2.2)	EPS (reported)	(0.14)	(0.20)	(0.23)	0.28	0.09	0.04					
EBIT underlying	0.2	(0.6)	0.5	0.5	1.5	Dividend (cps)	-	-	-	-	-	-					
Interest	0.0	0.0	0.1	0.2	0.1	Imputation	-	-	-	-	-	-					
Tax	0.0	(0.2)	0.1	(0.1)	(0.5)	Operating cash flow	1.2	1.8	0.9	2.7	1.5	0.9					
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	2.4	3.5	3.1	4.5	3.1	2.4					
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	0.5	1.1	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	5.2					
NPAT (reported)	(1.0)	(1.5)	0.2	0.5	1.1	Sales revenue	12.8	13.6	13.6	14.1	14.3	14.4					
Cash flow (A\$m)						COGS	(4.7)	(5.0)	(4.8)	(4.7)	(4.6)	(4.8)					
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Gross Profit	8.2	8.6	8.8	9.4	9.7	9.6					
EBITDA	1.5	1.8	3.1	3.3	3.8	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)	(0.2)	(0.5)	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)	0.0	Other costs	(0.3)	(0.3)	(0.7)	0.1	(0.3)	(0.3)					
Operating cash flow	1.0	3.1	3.6	2.4	3.5	EBITDA (normalised)	1.1	0.8	0.6	2.5	1.9	1.4					
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	2.4	3.5	EBITDA	8.8%	7.0%	11.2%	11.5%	12.3%						
Capitalised Dev. Costs	(0.9)	(2.6)	(3.9)	(3.1)	(3.0)	EBIT	1.3%	(2.1%)	1.7%	1.7%	4.7%						
Acquisitions/Disposals	(1.8)	(0.7)	0.0	0.0	0.0	NPAT pre significant items	1.7%	(2.7%)	2.7%	1.9%	3.5%						
Other	0.3	(0.0)	0.0	0.0	0.0	Net Debt (Cash)	12.9	10.4	8.5	7.5	8.0						
Cash flow pre financing	(1.4)	(0.4)	(0.3)	(0.7)	0.5	Net debt/EBITDA (x)	(x)	8.4	5.6	2.7	2.3	2.1					
Equity	9.9	0.0	(1.3)	(0.1)	0.0	ND/ND+Equity (%)	(%)	(97.0%)	(69.2%)	(52.1%)	(42.4%)	(43.6%)					
Debt	0.0	(0.3)	(0.3)	(0.2)	0.0	EBIT interest cover (x)	(x)	(0.1)	n/a	0.3	(0.4)	(0.1)					
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA	1.1%	(1.7%)	1.4%	1.5%	4.6%						
Net cash flow for year	8.6	(0.7)	(1.8)	(1.0)	0.5	ROE	(6.2%)	(5.8%)	0.9%	2.2%	4.2%						
Balance sheet (A\$m)						ROIC	1.9%	(10.3%)	18.1%	13.2%	30.1%						
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Working capital						(0.8)	(0.9)	(1.1)	(0.6)	(0.7)	
Cash	12.9	11.9	9.6	8.4	8.9	WC/Sales (%)	(4.6%)	(3.4%)	(4.0%)	(2.2%)	(2.2%)						
Accounts receivable	3.0	3.0	2.4	1.9	2.1	Revenue growth	41.3%	50.9%	5.0%	3.7%	8.6%						
Inventory	0.0	0.0	0.0	0.0	0.0	EBIT growth pa	n/a	n/a	-187%	nm	202%						
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	11.1	11.7	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	0.13	0.25					
Investments	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	0.09	(0.17)	0.17	0.13	0.25					
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)	n/a	n/a	(205.6%)	nm	87%						
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	31.5	32.8	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%						
Accounts payable	3.8	3.9	3.5	2.6	2.8	Dividend imputation	0	0	0	0	0						
Short term debt	0.0	0.0	0.0	0.0	0.0	PE (x)	-	-	190.9	81.2	41.8						
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%)	960.8%	351.1%	132.2%						
Total current liabilities	6.3	6.8	6.5	5.2	5.4	EV/EBITDA	20.9	19.1	10.2	11.5	0.0						
Long term debt	0.0	1.5	1.1	0.9	0.9	FCF/Share	cps	0.0	0.1	(0.1)	-0.2	0.1					
Other non current liabs	0.0	0.0	0.0	0.0	0.0	Price/FCF share	372.2	175.9	(143.1)	-	62.9	96.3					
Total long term liabilities	0.0	1.5	1.1	0.9	0.9	Free Cash flow Yield	0.3%	0.6%	(0.7%)	(1.6%)	1.0%						
Total Liabilities	6.3	8.3	7.6	6.1	6.4												
Net Assets	26.2	25.4	24.9	25.3	26.4												
Share capital	47.2	47.9	46.7	46.5	46.5												
Accumulated profits/losses	(22.1)	(23.3)	(23.1)	(22.5)	(21.5)												
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	25.3	26.4												

Sources: Company data, RaaS Research Group estimates



FINANCIAL SERVICES GUIDE

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Contact Details, BR and RaaS

BR Head Office: Level 1, 160 Edward Street, Brisbane, QLD, 4000 www.brsecuritiesaustralia.com.au

RaaS: c/- Rhodes Docherty & Co Pty Ltd, Suite 1, Level 1, 828 Pacific Highway, Gordon, NSW, 2072.

P: +61 414 354712

E: finola.burke@raasgroup.com

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