

Further valuation support from CNW bid

Comms Group Ltd (ASX:CCG) has received further valuation support in the form of the recent bid from Atturra Ltd (ASX:ATA) for Cirrus Networks (ASX:CNW). We view CNW as the closest ASX peer to CCG in terms of business mix and market cap. The ATA Scheme Implemented Deed values CNW at 7.4x post-AASB 16 FY23 EV/EBITDA and 8.8x pre-AASB 16. Applying the same multiples to CCG's FY24 estimates (the first year post-restructure with form guidance) implies a valuation for CCG of \$0.130/share and \$0.133/share respectively. Importantly, FY24 still has little contribution from the Global division, which has been investing for future growth in the form of UCaaS voice solutions for Microsoft Teams Calling, and in particular Vodafone across APAC, the UK, and Germany. This follows on from the recent approach by Superloop (ASX:SLC) for Symbio (ASX:SYM) which highlights the interest in UCaaS/CPaaS Voice solutions that CCG also offers. Our DCF for CCG is \$0.16/share and implies 7.4x FY25 EV/EBITDA, which should be more reflective of the global opportunities. Results from the strategic review announced in June are also due in the next three months.

Business model

CCG operates three largely independent divisions, but all operate in the broad communications space. The Global division is a niche player in the corporate voice market, predominantly offering wholesale solutions for users of Microsoft Teams across the Asia Pacific. The SME Telco division is essentially a telco service provider to Australian corporates with under 500 employees, while the ICT Services division provides ICT managed services to mid-tier Australian corporates.

Multiple transactions point to >7.0x EV/EBITDA as fair

Yesterday's Scheme Implementation Deed between ATA and CNW implies a valuation for CNW of 7.4x post-AASB 16 FY23 EV/EBITDA. A similar multiple using CCG's FY24(f) EV/EBITDA implies a valuation for CCG of \$0.13/share, which includes earnings from the Global division which arguably does not reflect the medium-term potential of the Teams Calling UCaaS solution across APAC, the UK, and Germany for Vodafone. This comes on the back of a recent Symbio (ASX:SYM) takeover approach by Superloop (ASX:SLC) which highlights the interest in the voice solutions space. The Global division is CCG's growth vehicle, providing a range of voice solutions to Microsoft Teams' users and other wholesale carriers across a number of regions. An established global network is being strengthened with the prospect of new regional licences while the Teams Calling option is a fraction (~5%) of total Teams' monthly users with increasing functionality (mobile and operator connect) likely to drive increased interest.

DCF valuation of \$0.16/share or \$61m market cap fully-diluted

From a peer multiple perspective using FY23 estimates CCG is trading at a 5% discount to the average listed (profitable) peer (7.6x EV/EBITDA). Using FY24 EBITDA guidance and FY23 peer multiples the discount is closer to 40%, with a peer average implying a share price of \$0.14/share. This is in-line with the ATA bid for CNW. Our DCF is \$0.16/share, underpinned by recent cost reductions, Microsoft Teams calling penetration, and modest revenue growth/stable gross margins/lower costs across the ICT/SME businesses. As a sense check, our DCF implies an FY25 PER of 14x and EV/EBITDA of 7.4x based on our estimates.

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

Year end	Revenue	EBITDA adj.	NPATA adj.	EPS adj.	PER (x)	EV/EBITDA (x)	EV/EBIT (x)
06/22a	41.0	4.1	2.8	0.008	9.2	7.7	9.7
06/23a	51.8	4.8	2.4	0.006	11.9	7.3	9.4
06/24f	55.5	7.1	3.6	0.009	8.0	4.6	5.4
06/25f	58.7	8.1	4.4	0.011	6.6	3.6	4.1

Source: FY22 and FY23 actuals, RaaS estimates FY24f and FY25f

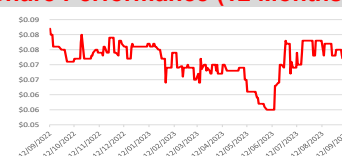
IT Services & Software

12 September 2023

Share Details

ASX code	CCG
Share price (11-Sept)	\$0.075
Market capitalisation	\$28.3M
Shares on issue	381.0M
Net debt at 30-Jun-23	\$6.7M
Free float	39%

Share Performance (12 Months)



Upside Case

- Microsoft Teams and wholesale voice services uptake of voice telephony across APAC
- Additional product/services revenue across SME and ICT
- Complementary acquisitions

Downside Case

- Competition from new telephony products
- Loss of key SME/ICT contracts
- Integration of acquisitions

Board of Directors

John Mackay	Non-Executive Chair
Peter McGrath	Executive Director/CEO
Claire Bibby	Non-Executive Director
Benjamin Jennings	Non-Executive Director
Ryan O'Hare	Non-Executive Director

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Exhibit 1: CCG Financial Summary

Comms Group Limited (ASX:CCG)						Share price (11 September 2023)						A\$	0.075							
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223A	H124F	H224F			
YE 30 Jun	FY21A	FY22A	FY23A	FY24F	FY25F	Revenue	17.3	23.7	26.0	25.8	27.4	28.1	Revenue	17.3	23.7	26.0	25.8	27.4	28.1	
Revenue	25.1	41.0	51.8	55.5	58.7	EBITDA	1.9	2.2	2.4	2.4	3.1	4.0	EBITDA	1.9	2.2	2.4	2.4	3.1	4.0	
Gross profit	11.4	19.1	24.1	25.8	27.5	EBIT	0.9	0.7	0.9	0.9	1.5	2.5	EBIT	0.9	0.7	0.9	0.9	1.5	2.5	
GP margin %	45.3%	46.5%	46.6%	46.5%	46.9%	NPATA (normalised)	1.4	1.4	1.1	1.3	1.5	2.1	NPATA (normalised)	1.4	1.4	1.1	1.3	1.5	2.1	
Adj. EBITDA	2.6	4.1	4.8	7.1	8.1	Adjustments	(0.9)	(1.3)	0.6	(1.5)	0.0	0.0	Adjustments	(0.9)	(1.3)	0.6	(1.5)	0.0	0.0	
Depn	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	NPAT (reported)	(0.5)	(0.8)	0.6	(1.3)	0.5	1.2	NPAT (reported)	(0.5)	(0.8)	0.6	(1.3)	0.5	1.2	
RoU	(0.3)	(0.8)	(1.0)	(1.0)	(1.0)	EPS (adjusted)	0.004	0.004	0.003	0.003	0.004	0.006	EPS (adjusted)	0.004	0.004	0.003	0.003	0.004	0.006	
Amortisation	(0.8)	(1.6)	(2.0)	(2.0)	(1.8)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000	
EBIT	1.5	1.7	1.7	4.0	5.2	Imputation	0.0	0.0	0.0	0.0	0.0	0.0	Imputation	0.0	0.0	0.0	0.0	0.0	0.0	
Interest expense	(0.1)	(0.5)	(1.0)	(0.9)	(0.7)	Operating cash flow	na	na	na	na	na	na	Operating cash flow	na	na	na	na	na	na	
Tax	(0.1)	0.1	(0.3)	(1.5)	(1.9)	Free Cash flow	na	na	na	na	na	na	Free Cash flow	na	na	na	na	na	na	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Divisionals	H122A	H222A	H123A	H223A	H124F	H224F	Divisionals	H122A	H222A	H123A	H223A	H124F	H224F	
NPATA normalised	2.1	2.8	2.4	3.6	4.4	Revenue	17.3	23.7	26.0	25.8	27.4	28.1	Revenue	17.3	23.7	26.0	25.8	27.4	28.1	
Adjustments	(0.8)	(2.0)	(1.0)	0.0	0.0	Global	5.2	4.8	5.6	5.3	6.0	6.4	Global	5.2	4.8	5.6	5.3	6.0	6.4	
NPAT (reported)	0.5	(0.7)	(0.6)	1.6	2.6	SME	12.1	12.3	12.2	12.0	12.6	12.8	SME	12.1	12.3	12.2	12.0	12.6	12.8	
Cash flow (A\$m)						ICT	-	6.7	8.3	8.6	8.5	8.7	ICT	-	6.7	8.3	8.6	8.5	8.7	
YE 30 Jun	FY21A	FY22A	FY23A	FY24F	FY25F	Other	0.1	0.2	0.1	0.1	0.2	0.2	Other	0.1	0.2	0.1	0.1	0.2	0.2	
Adj EBITDA (after rent)	2.2	3.3	3.7	6.1	7.1	Gross profit	7.9	11.2	12.2	11.9	12.6	13.2	Gross profit	7.9	11.2	12.2	11.9	12.6	13.2	
Interest	(0.1)	(0.2)	(0.7)	(0.9)	(0.7)	Gross Profit Margin %	45.7%	47.1%	46.9%	46.2%	46.1%	46.9%	Gross Profit Margin %	45.7%	47.1%	46.9%	46.2%	46.1%	46.9%	
Tax	(0.0)	0.0	(0.3)	(1.5)	(1.9)	Employees	4.3	6.8	7.3	7.7	7.0	6.9	Employees	4.3	6.8	7.3	7.7	7.0	6.9	
Working capital/other	(1.7)	(1.7)	(1.2)	(0.1)	(0.1)	Administration	0.6	0.6	0.6	0.5	0.6	0.5	Administration	0.6	0.6	0.6	0.5	0.6	0.5	
Operating cash flow	0.4	1.4	1.6	3.6	4.4	Other	1.2	1.6	1.9	1.2	1.9	1.7	Other	1.2	1.6	1.9	1.2	1.9	1.7	
Mtce capex	(0.0)	(0.2)	(0.0)	(0.0)	(0.0)	Total costs (ex SBP/1-off)	6.1	9.0	9.8	9.5	9.6	9.2	Total costs (ex SBP/1-off)	6.1	9.0	9.8	9.5	9.6	9.2	
Capitalised Software	(0.5)	(0.7)	(0.2)	(0.3)	(0.3)	Adj. EBITDA	1.9	2.2	2.4	2.4	3.1	4.0	Adj. EBITDA	1.9	2.2	2.4	2.4	3.1	4.0	
Free cashflow	(0.2)	0.5	1.3	3.2	4.0	EBITDA margin %	10.7%	9.3%	9.2%	9.4%	11.2%	14.2%	EBITDA margin %	10.7%	9.3%	9.2%	9.4%	11.2%	14.2%	
Acquisitions/Disposals	(2.7)	(10.7)	(1.9)	0.0	0.0	Margins, Leverage, Returns		FY21A	FY22A	FY23A	FY24F	FY25F	Margins, Leverage, Returns		FY21A	FY22A	FY23A	FY24F	FY25F	
Other	0.0	(0.2)	0.0	0.0	0.0	EBITDA margin %		10.3%	9.9%	9.3%	12.7%	13.8%	EBITDA margin %		10.3%	9.9%	9.3%	12.7%	13.8%	
Cash flow pre financing	(2.9)	(10.4)	(0.7)	3.2	4.0	EBIT margin %		5.8%	4.1%	3.4%	7.2%	8.8%	EBIT margin %		5.8%	4.1%	3.4%	7.2%	8.8%	
Equity	5.9	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)		8.2%	6.9%	4.6%	6.5%	7.6%	NPAT margin (pre significant items)		8.2%	6.9%	4.6%	6.5%	7.6%	
Borrowings(repaysments)	0.0	8.1	0.5	(1.0)	(1.0)	Net Debt (Cash)	-	5.50	5.18	6.70	3.49	0.55	Net Debt (Cash)	-	5.50	5.18	6.70	3.49	0.55	
Net Dividends paid	0.0	(0.1)	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	-2.1	1.3	1.4	0.5	-0.1	Net debt/EBITDA (x)	(x)	-2.1	1.3	1.4	0.5	-0.1	
Change in cash	3.0	(2.3)	(0.2)	2.2	3.0	ND/ND+Equity (%)	(%)	(21.3%)	16.6%	20.5%	10.5%	(1.6%)	ND/ND+Equity (%)	(%)	(21.3%)	16.6%	20.5%	10.5%	(1.6%)	
Balance sheet (A\$m)						EBITDA interest cover (x)	(x)	45.5	8.4	4.7	8.3	12.4	EBITDA interest cover (x)	(x)	45.5	8.4	4.7	8.3	12.4	
YE 30 Jun	FY21A	FY22A	FY23A	FY24F	FY25F	ROA		nm	nm	2.9%	6.9%	8.7%	ROA		nm	nm	2.9%	6.9%	8.7%	
Cash	5.5	2.9	1.9	4.1	4.1	ROE		nm	nm	(1.8%)	4.9%	7.4%	ROE		nm	nm	(1.8%)	4.9%	7.4%	
Accounts receivable	4.1	4.9	5.6	6.0	6.3	NTA (per share)		0.02	-0.05	-0.03	-0.02	-0.01	NTA (per share)		0.02	-0.05	-0.03	-0.02	-0.01	
Other receivables	0.0	0.0	0.0	0.0	0.0	Working capital		2.1	1.9	1.9	2.0	2.1	Working capital		2.1	1.9	1.9	2.0	2.1	
Other current assets	0.8	1.9	2.1	2.1	2.1	WC/Sales (%)		8.5%	4.5%	3.6%	3.6%	3.6%	WC/Sales (%)		8.5%	4.5%	3.6%	3.6%	3.6%	
Total current assets	10.4	9.8	9.6	12.2	15.6	Revenue growth			63.4%	26.2%	7.1%	5.7%	Revenue growth			63.4%	26.2%	7.1%	5.7%	
PPE	0.1	0.2	0.2	0.1	0.1	EBIT growth pa			(3.5%)	13.5%	4.6%	130.8%	EBIT growth pa			(3.5%)	13.5%	4.6%	130.8%	
Capitalised Software	8.1	25.1	22.0	19.8	17.6	Pricing		FY21A	FY22A	FY23A	FY24F	FY25F	Pricing		FY21A	FY22A	FY23A	FY24F	FY25F	
Goodwill	15.6	20.6	21.7	21.7	21.7	No of shares (y/e)	(m)	340	361	381	386	393	No of shares (y/e)	(m)	340	361	381	386	393	
Right of Use Asset	1.5	3.2	2.3	1.3	0.3	Weighted Av Dil Shares	(m)	258	348	378	385	392	Weighted Av Dil Shares	(m)	258	348	378	385	392	
Other non current assets	2.0	2.5	1.8	3.5	5.1	EPS Reported	A\$ cps	0.0018	(0.0019)	(0.0015)	0.0042	0.0067	EPS Reported	A\$ cps	0.0018	(0.0019)	(0.0015)	0.0042	0.0067	
Total non current assets	27.3	51.6	48.1	46.4	44.9	EPS Normalised/Diluted	A\$ cps	0.0080	0.0082	0.0063	0.0093	0.0113	EPS Normalised/Diluted	A\$ cps	0.0080	0.0082	0.0063	0.0093	0.0113	
Total Assets	37.7	61.4	57.7	58.6	60.5	EPS growth (norm/dil)			2%	-23%	48%	21%	EPS growth (norm/dil)			2%	-23%	48%	21%	
Trade payables	2.0	3.1	3.7	4.0	4.2	DPS	cps	0.000	0.000	0.000	0.000	0.000	DPS	cps	0.000	0.000	0.000	0.000	0.000	
Deferred revenue	1.0	0.8	0.7	0.7	0.8	DPS Growth		n/a	n/a	na	na	na	DPS Growth		n/a	n/a	na	na	na	
Borrowings	0.0	0.8	1.0	1.0	1.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Other	2.8	9.6	4.5	4.5	4.5	Dividend imputation		0	0	0	0	0	Dividend imputation		0	0	0	0	0	
Total current liabilities	5.8	14.2	9.9	10.2	10.5	PE (x)		9.4	9.2	11.9	8.0	6.6	PE (x)		9.4	9.2	11.9	8.0	6.6	
Borrowings	0.0	7.4	7.6	6.6	5.6	PE market		15.0	15.0	15.0	15.0	15.0	PE market		15.0	15.0	15.0	15.0	15.0	
Deferred tax	2.4	7.0	6.9	6.9	6.9	Premium/(discount)		(37.3%)	(38.8%)	(20.6%)	(46.5%)	(55.9%)	Premium/(discount)		(37.3%)	(38.8%)	(20.6%)	(46.5%)	(55.9%)	
Other	1.5	2.8	2.0	2.0	2.0	EV/EBITDA (x)		7.5	6.4	5.9	4.1	3.6	EV/EBITDA (x)		7.5	6.4	5.9	4.1	3.6	
Total long term liabilities	3.9	17.2	16.5	15.5	14.5	FCF/Share	A cps	(0.011)	(0.030)	(0.002)	0.008	0.010	FCF/Share	A cps	(0.011)	(0.030)	(0.002)	0.008	0.010	
Total Liabilities	9.7	31.4	26.4	25.7	25.0	Price/FCF share		(6.7)	(2.5)	(43.0)	9.0	7.3	Price/FCF share		(6.7)	(2.5)	(43.0)	9.0	7.3	
Net Assets	28.0	30.0	31.2	32.9	35.5	Free Cash flow Yield		(10.2%)	(36.6%)	(2.3%)	11.3%	14.3%	Free Cash flow Yield		(10.2%)	(36.6%)	(2.3%)	11.3%	14.3%	
Share capital	45.6	47.8	48.9	48.9	48.9															
Reserves	0.4	1.0	1.4	1.4	1.4															
Accumulated losses	(18.1)	(18.7)	(19.1)	(17.5)	(14.9)															
Total Shareholder funds	28.0	30.0	31.2	32.9	35.5															

Source: Company data for actuals, RaaS 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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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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 - Securities
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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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