

Vonex Ltd (ASX:VN8)

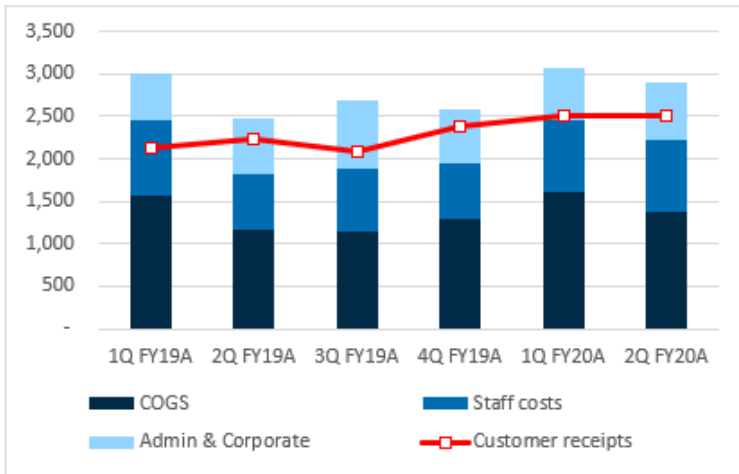
Welcome cash injection before FY-end

Event

VN8 announced on 3 February 2020, the conditional sale of its royalty over the Koolyanobbing Iron Ore Project to Canadian-based SilverStream SEZC for A\$2.5m (A\$1.75m on Silverstream successfully listing on the TSX (or similar exchange), and A\$0.75m after production of 5Mdm of iron ore production). In a follow-up announcement on 4 February, VN8 stated that they expected VN8 to enter into a Definitive Purchase Agreement with Silverstream before the end of March 2020, and that Silverstream was targeting a listing date on the TSX before the end of April 2020.

State One comment: Receiving A\$1.75m in the current financial year (i.e., before end-June 2020) will provide a welcome lift for VN8's balance sheet. Since 1Q FY19, VN8's operating cash outflows (pre-R&D grants) have averaged ~A\$480k per quarter (A\$380k post-R&D grants). See chart below. In addition, we anticipate that VN8 will have to outlay A\$500k in cash this quarter as part of the consideration for Brisbane-based 2SG Wholesale. Note: in November 2019, VN8 announced the proposed acquisition of 2SG for A\$2.66m: A\$500k in cash on completion of the transaction (expected by mid-February 2020) and A\$2.16m in 12-month escrowed VN8 scrip with a deemed issue price of A\$0.10ps.

VN8: Historical quarterly operating cash flow drivers (A\$m)



Source: Company, compiled by State One Stockbroking

Vonex SOTP Valuation: 26cps (unchanged)

We value VN8's telecom business (including 2SG) at A\$47m (A\$0.24ps). Including a nominal A\$5m (A\$0.03ps) for the - still early-stage - Oper8tor technology, we calculate a SOTP valuation for VN8 of A\$52m (A\$0.26ps). However, we suggest that our valuation for Oper8tor may prove to be conservative. VN8 has a target for Oper8tor of 10 million active users. Assuming industry-average active user income of US\$10 per annum (~US\$0.80 per month), a 10 million user base could generate very substantial revenues for Oper8tor of US\$100m per annum. Version 1 of the Oper8tor App is in the final stages of testing, with a closed user group test set for the March 2020 quarter.

We maintain our Speculative Buy (Higher Risk) recommendation. Risks to our target price and forecast earnings profile include but are not limited to: the rate of growth in new registered active PBX users, average received revenue per PBX user, the successful integration of 2SG into VN8, competition from new and existing telcos, government regulation, key personnel risk, and the success of the Oper8tor App.

4 February 2020

Share Price: A\$0.10

Target Price: A\$0.26

Target Upside: 159%

Recommendation
Speculative Buy

Risk Assessment
Higher

Telecommunications Services

David Brennan, CFA

Senior Investment Analyst

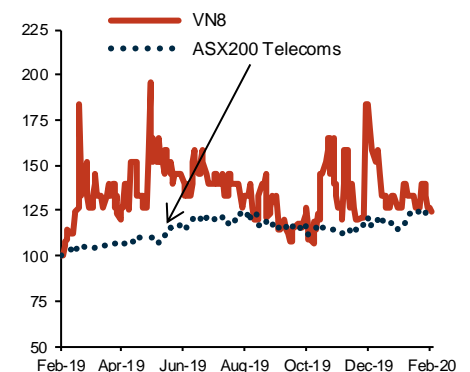
dbrennan@stateone.com.au

+61 02 9024 9142

Vonex Limited

| | |
|----------------------------|-----------------|
| ASX Code | VN8 |
| 52-week range (A\$cps) | A\$0.08-A\$0.17 |
| Market Cap diluted (ASm) | 19.9 |
| Diluted no. of shares (m) | 199 |
| Av Daily Turnover (shares) | 112k |
| ASX All Ordinaries | 7,020 |
| FY20E BV per share (A\$c) | 2.2 |
| FY20E EPS (A\$c) | +0.6 |
| FY20E Net Cash/(Debt) | 3.1 |

Relative Price Performance



Vonex Limited

Year ending June

| Profit & Loss Statement (A\$M) | FY19A | FY20E | FY21E | FY22E | FY23E |
|---|--------------|--------------|--------------|--------------|--------------|
| Revenue | 8.8 | 12.4 | 24.7 | 32.3 | 36.7 |
| COGS | (5.5) | (6.6) | (16.5) | (21.5) | (24.3) |
| Employee/contractor | (3.4) | (3.7) | (3.5) | (3.6) | (3.7) |
| Corporate/Other | (2.0) | (2.25) | (2.5) | (2.6) | (2.7) |
| EBITDA | (2.0) | (0.2) | 2.2 | 4.6 | 5.9 |
| Depreciation & Amortisation | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |
| Operating profit | (2.2) | (0.4) | 2.0 | 4.5 | 5.8 |
| NOI | (0.6) | 1.85 | 0.0 | 0.0 | 0.0 |
| EBIT | (2.8) | 1.5 | 2.0 | 4.5 | 5.8 |
| Interest income | 0.0 | 0.1 | 0.1 | 0.1 | 0.2 |
| Interest expense | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax expense | 0.0 | (0.5) | (0.6) | (1.4) | (1.8) |
| Reported NPAT | (2.8) | 1.1 | 1.5 | 3.2 | 4.2 |
| Normalised NPAT | (2.8) | 1.1 | 1.5 | 3.2 | 4.2 |
| EBITDA Margin (%) | -23% | -2% | 9% | 14% | 16% |
| Operating profit margin (%) | -25% | -3% | 8% | 14% | 16% |
| EPS Reported (A\$) | (1.9) | 0.6 | 0.7 | 1.6 | 2.1 |
| EPS Normalised (A\$) | (1.9) | 0.6 | 0.7 | 1.6 | 2.1 |
| EPS growth (%) | n/a | n/a | n/a | 120% | 30% |
| DPS - Declared (A\$) | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 |
| Avg. no. of diluted shares (m) | 149 | 188 | 199 | 199 | 199 |
| YE no. of diluted shares (m) | 149 | 199 | 199 | 199 | 199 |

| Cash Flow Statement (A\$M) | FY19A | FY20E | FY21E | FY22E | FY23E |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|
| EBITDA | (2.0) | (0.2) | 2.2 | 4.6 | 5.9 |
| Investment in working capital | (0.1) | (0.3) | 0.6 | 0.4 | 0.2 |
| Tax expense | 0.0 | (0.5) | (0.6) | (1.4) | (1.8) |
| Operating Cash Flow | (2.2) | (1.0) | 2.1 | 3.6 | 4.3 |
| Capex | (0.3) | (1.0) | (0.5) | (0.5) | (0.5) |
| Other investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing Cash Flow | (0.3) | (1.0) | (0.5) | (0.5) | (0.5) |
| Net interest received / (paid) | (0.0) | 0.1 | 0.1 | 0.1 | 0.2 |
| Debt draw down / (repayment) | (0.0) | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | (1.4) |
| Equity raised / (repaid) | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing Cash Flow | 1.0 | 0.1 | 0.1 | 0.1 | (1.2) |
| Non-operating & Other | (0.6) | 1.9 | 0.0 | 0.0 | 0.0 |
| Inc/(Dec) in Cash | (2.0) | (0.1) | 1.7 | 3.3 | 2.7 |

| Balance Sheet (A\$M) | FY19A | FY20E | FY21E | FY22E | FY23E |
|--|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 3.2 | 3.1 | 4.8 | 8.1 | 10.8 |
| Receivables | 0.6 | 1.2 | 2.5 | 3.2 | 3.7 |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Current Assets | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| PPE and Exploration & Development | 0.8 | 1.7 | 2.0 | 2.4 | 2.7 |
| Deferred tax asset | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Non Current Assets | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Total Assets | 5.4 | 6.8 | 10.1 | 14.5 | 18.0 |
| Payables and other current Liabilities | 2.1 | 2.3 | 4.2 | 5.3 | 6.0 |
| Short Term Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long Term Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Non Current Liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Liabilities | 2.1 | 2.3 | 4.2 | 5.3 | 6.0 |
| Total Equity | 3.3 | 4.5 | 5.9 | 9.2 | 12.0 |
| Net Cash/ (Debt) | 3.2 | 3.1 | 4.8 | 8.1 | 10.8 |

| Substantial Shareholders | % | Date |
|---------------------------------|----------|-------------|
| JP Morgan Nominees | 15.0% | |
| Finance West Pty Ltd | 10.9% | Aug-19 |
| Carmine Lion Group | 4.8% | |

Source: Company, IRESS, State One Stockbroking forecasts

| Retail revenue | FY19A | FY20E | FY21E | FY22E | FY23E |
|------------------------------|---------------|---------------|---------------|---------------|----------------|
| PBX users (begin year) | 23,500 | 29,000 | 54,250 | 84,250 | 114,250 |
| PBX users (end year) | 29,000 | 54,250 | 84,250 | 114,250 | 114,250 |
| PBX users (average) | 26,250 | 41,625 | 69,250 | 99,250 | 114,250 |
| Average new users per month | 458 | 2,104 | 2,500 | 2,500 | 0 |
| Average revenue/user (A\$pa) | 287 | 224 | 236 | 237 | 240 |
| Average revenue/user (A\$pm) | 24 | 19 | 20 | 20 | 20 |
| Revenue (A\$m) | 7.5 | 9.3 | 16.3 | 23.5 | 27.4 |
| Annual % change | 8% | 24% | 75% | 44% | 17% |

| Wholesale revenue | FY19A | FY20E | FY21E | FY22E | FY23E |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue (A\$m) | 1.3 | 1.3 | 1.4 | 1.5 | 1.5 |
| Annual % change | 15% | 5% | 5% | 5% | 5% |

| Operator revenue | FY19A | FY20E | FY21E | FY22E | FY23E |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| Average monthly users | n/c | 0 | 0 | 0 | 0 |
| Monthly revenue per user (US\$) | n/c | 0.0 | 0.0 | 1.0 | 1.0 |
| Revenue (US\$m) | n/c | 0 | 0 | 0 | 0 |
| Revenue (A\$m) @ US\$0.75 | n/c | 0 | 0 | 0 | 0 |
| Annual % change | n/c | na | na | na | na |

| 2SG revenue | FY19A | FY20E | FY21E | FY22E | FY23E |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue (A\$m) | 0.0 | 1.8 | 7.0 | 7.4 | 7.7 |
| Annual % change | na | na | 300% | 5% | 5% |

| Group revenue (A\$m) | FY19A | FY20E | FY21E | FY22E | FY23E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Retail business | 7.5 | 9.3 | 16.3 | 23.5 | 27.4 |
| Wholesale business | 1.3 | 1.3 | 1.4 | 1.5 | 1.5 |
| Operator | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2SG | 0.0 | 1.8 | 7.0 | 7.4 | 7.7 |
| Group | 8.8 | 12.4 | 24.7 | 32.3 | 36.7 |
| Annual % change | n/c | 41% | 99% | 31% | 13% |

| Group EBITDA (A\$m) | FY19A | FY20E | FY21E | FY22E | FY23E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Retail business | 0.5 | 2.2 | 3.6 | 6.1 | 7.4 |
| Wholesale business | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Operator | -1.0 | -1.0 | 0.0 | 0.0 | 0.0 |
| 2SG | 0.00 | 0.63 | 0.75 | 0.82 | 0.89 |
| Group (excluding Corporate) | -0.3 | 2.0 | 4.7 | 7.2 | 8.6 |
| Annual % change | n/c | na | 129% | 55% | 20% |

| Contribution to revenue (%) | FY19A | FY20E | FY21E | FY22E | FY23E |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Retail business | 86% | 75% | 66% | 73% | 75% |
| Wholesale business | 14% | 11% | 6% | 5% | 4% |
| Operator | 0% | 0% | 0% | 0% | 0% |
| 2SG | 0% | 14% | 28% | 23% | 21% |

| Valuation Ratios (x) | FY19A | FY20E | FY21E | FY22E | FY23E |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|
| Normalised PER | -ve | 17.9 | 13.5 | 6.1 | 4.7 |
| EV (A\$m) | 8 | 8 | 6 | 3 | 0 |
| EV/EBITDA | -3.9 | -36.8 | 2.9 | 0.6 | 0.1 |
| ROE (%) | -84% | 28% | 28% | 43% | 40% |

| SOTP valuation | A\$m | A\$ps | Comments |
|---------------------------------------|-------------|--------------|-----------------|
| Telco business (including 2SG) | 47 | 0.23 | DCF valuation |

| | | | |
|-----------------|-----------|-------------|--|
| Operator | 5 | 0.03 | Nominal value, State One est. |
| Group | 52 | 0.26 | Sum of DCF value for the Telco business and a nominal value for Operator |

Note: Per share data based on 199 million diluted shares (note: excludes 41.9m options)

Directors

(source: FY18 Annual Report)

Nicholas Ong—Non-executive Chairman

Mr Ong was a Principal Adviser at the Australian Securities Exchange (ASX) and brings 14 years' experience in IPO, listing rules compliance and corporate governance. Mr Ong has developed a wide network of clients in Asia-Pacific region and provides corporate and transactional advisory services through boutique firm Minerva Corporate Pty Limited. He is a member of the Governance Institute of Australia and holds a Bachelor of Commerce and a Master of Business Administration from the University of Western Australia.

Other directorships of Australian listed companies held by Mr Ong in the last three years are:

Current: Helios Energy Limited, CoAssets Limited, Arrow Energy Limited and Black Star Petroleum Limited.

Previous: Excelsior Gold Limited, Auroch Minerals Limited, Fraser Range Metals Group Limited, Tianmei Beverage Group Corporation Limited, Bojun Agriculture Holdings Limited and Jiajiafu Modern Agriculture Limited.

Winnie Lai Hadad—Non-Executive Director (Appointed 1 January 2018)

Ms Lai Hadad has expertise in change management, corporate governance and business process improvement and has been involved in listings on the Australian Securities Exchange. Ms Lai Hadad has been involved with both investments into China and out-bound investment from China. Her past roles include implementing Coca-Cola bottling strategies into Greater China and administering the first Chinese direct investment in an iron ore mine in the Pilbara Region of Western Australia.

Ms Lai Hadad has not held any other directorships of Australian listed companies in the last three years

Ms Lai Hadad is a lawyer admitted to practice in Western Australia, a qualified CPA, holds a BA, BCom and MSc, and is a graduate of both the Australian Institute of Company Directors and Governance Institute of Australia.

Matthew Fahey—Managing Director and CEO

Mr Fahey is Vonex Telecom's Chief Executive Officer and joined the Board as Managing Director. Mr Fahey joined Vonex Limited in 2013, through the Vonex Group's acquisition of iTrinity (IP Voice & Data) where he had served as Sales Director. Mr Fahey brings with him 20 years' of extensive experience in building and managing telecommunications companies with a well-regarded reputation in the industry for channel partner programs as well as excellence in VoIP and Telco. 2014 saw amazing growth for Vonex winning the CRN Fast50 award for fastest growing IT company in Australia.

In January 2018 Mr Fahey was appointed as Chief Executive Officer and Managing Director and sees significant opportunities for the Vonex business both in Australia and internationally. Mr Fahey is focused on driving marketing, sales and the continued development of diverse products in order to accelerate business growth and expand Vonex's market share.

Mr Fahey has not held any other directorships of Australian listed companies in the last three years.

David Vilensky—Non-Executive Director

Mr Vilensky is a practicing corporate lawyer and the managing director of Perth law firm Bowen Buchbinder Vilensky. He has more than 30 years' experience in the areas of corporate and business law and in commercial and corporate management. Mr Vilensky practices mainly in the areas of corporate and commercial law, mergers and acquisitions, mining and resources, trade practices and competition law and complex dispute resolution. Mr Vilensky acts for a number of listed and private companies and advises on directors' duties, due diligence, capital raisings, compliance with ASX Listing Rules, corporate governance and corporate transactions generally.

Other directorships of Australian listed companies held by Mr Vilensky in the last three years are:

Current: Zambezi Resources Limited, Latin Resources Limited.

Mr Vilensky has a Bachelor of Arts and a Bachelor of Laws from the University of Cape Town and is a member of the Law Society of Western Australia.

Daniel Smith—Joint Company Secretary

Mr Smith has primary and secondary capital markets expertise, having been involved in a number of IPOs and capital raisings. Mr Smith is a director of Minerva Corporate, a private corporate consulting firm. Mr Smith is currently a director and company secretary of ASX and AIM-listed Europa Metals Limited and ASX-listed Lachlan Star Limited and HIPO Resources Limited, and is Company Secretary for Taruga Minerals Limited and Love Group Global Limited.

Mr Smith holds a BA and is a member of the Australian Institute of Company Directors and the Governance Institute of Australia.

Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9124
ybarber@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Dawn Chia
Business Development Manager
Phone: +61 8 9288 3336
Dawn.Chia@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au

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Note: State One Stockbroking was Lead Manager and Underwriter for Vonex's IPO in June 2018

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