

K2Fly Limited

ASX:K2F

Another solid quarter with revenues close to A\$ 1M

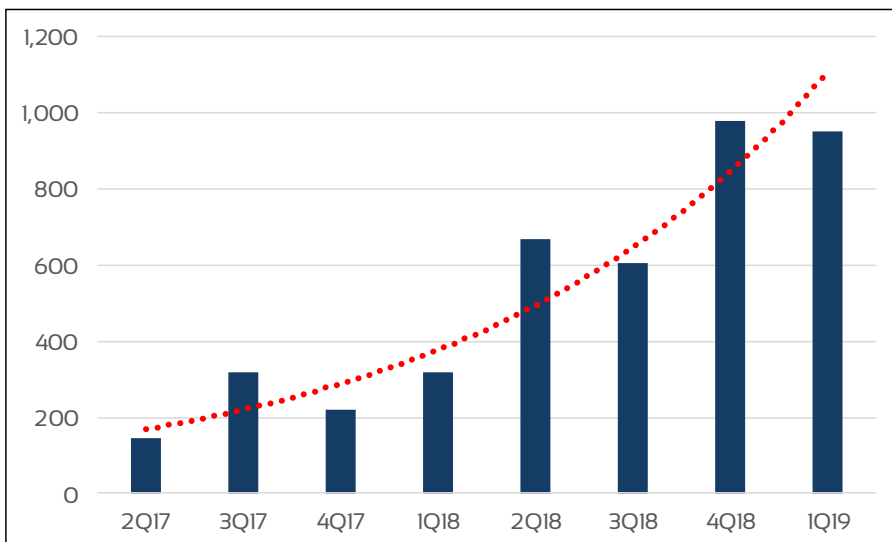
K2Fly Limited (ASX:K2F) provided an operational update on 18 September. The company anticipates revenues to amount to A\$ 950k - A\$ 1M in the current quarter, a very significant increase compared to the A\$ 319k in revenues in the same quarter last year (Figure 1).

Technology

Australia

Risk: High

Figure 1: K2F quarterly revenue developing exponentially (A\$ k)



K2Fly Limited (ASX:K2F) provides SaaS-based software and consultancy services aimed at helping asset-intensive enterprise clients, such as Mining and Utility companies, manage their assets and land tenements more efficiently.

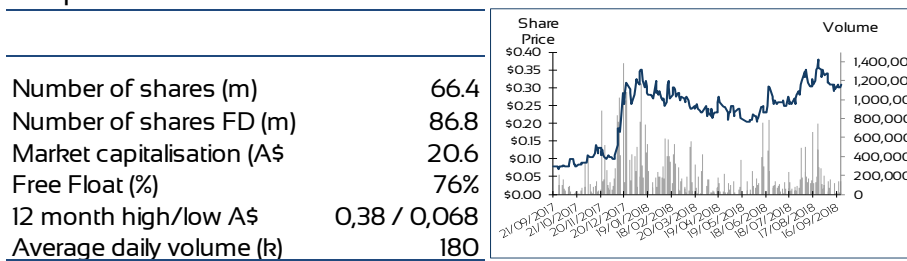
Source: Company, TMT Analytics

The lumpiness in quarterly revenue development is largely attributable to K2F's Consultancy business, which can see large, non-recurring, contract values come in somewhat unpredictably. Consultancy is part of K2F's core business and accounted for ~78% of revenues in FY18.

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Higher share of recurring revenues over time

However, as we illustrated in our research initiation report on K2F, dated 16 August 2018 ([HERE](#)), we anticipate the company's recurring revenues from Infoscope and 3rd party software sales will start to account for an increasingly higher share of revenues going forward. Both revenue lines are Software-as-a-Service in nature, i.e. they generate recurring revenues and are much more predictable in nature than one-off Consultancy sales. This predictability is valued by investors and typically results in higher valuations for SaaS companies compared to pure consultancy companies.



BUY

Current price: A\$ 0.31

Price target: A\$ 0.58

25 September 2018

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Empowering the SAP sales force to sell Infoscope

Since completion of the integration of Infoscope into the SAP ecosystem in the June quarter, K2F has been engaged with SAP to “educate” and empower the SAP sales force in order to help them sell the Infoscope product to the 700+ SAP customers in the Energy and Natural Resources space.

Following a number of presentations to SAP sales teams in August and September, K2F has been able to generate a number of additional sales opportunities, including tier 1 resources companies. We would expect K2F to be able to convert some of these leads this financial year. Given K2F’s revenues from existing Infoscope customers, we believe revenues from new SAP-generated customers can amount to A\$ 200k to A\$ 400k per customer annually.

Rights issue to raise A\$ 2.1M in total

K2F also announced a 10-for-1 rights issue at A\$ 0.30 plus one free attaching option for every four new shares subscribed to. In addition to the A\$ 1.8M that will be raised immediately, the 1.5M options at A\$ 0.20 can bring in an additional A\$ 300k.

We believe this A\$ 2.1M provides K2F with sufficient runway to achieve cash flow break even on a quarterly basis, which we expect towards the end of the current financial year.

Price target and recommendation reiterated

The dilution from the rights issue has lowered our DCF valuation for K2F from A\$ 0.58 to A\$ 0.53 per share. However, our peer group valuation remains unchanged as the EV/Revenue multiple of K2F’s peer group, which includes SaaS peers Nearmap (ASX:NEA), Skyfii (ASX:SKF), Integrated Research (ASX:IRI) and TechnologyOne (ASX:TNE), has expanded from 4.2x to 4.6x during the last month and cancels out the dilution. We still value K2F at A\$ 0.60 on a relative basis. The average of the two valuation methods is now A\$ 0.57.

Consequently, we reiterate our Buy recommendation and A\$ 0.58 price target for K2F. We believe the company is now in the early stages of the famous hockey stick growth curve, highly-sought after by so many SaaS companies.

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