

Kinatico Ltd

FY24 NPAT up 225% and 60% ahead of RaaS forecasts

Kinatico Ltd (ASX:KYP) is a 'Know Your People' regtech company providing workforce compliance monitoring and management technology and services. KYP has announced it expects to report FY24 NPAT of \$0.8m, an increase of 225% on FY23 NPAT of \$0.2m ([ASX release 15 July](#)). This puts the company's result 60% ahead of our FY24 NPAT forecast of \$0.5m. Revenue for the year was \$28.7m, in line with our forecast and up 3.6% on the previous corresponding period (pcp). Revenue for Q4 was \$7.3m, with software-as-a-service (SaaS) revenue comprising 38% or \$2.8m. Q4 transactional revenue was flat quarter-on-quarter and down 12% year-on-year but the composition continued to demonstrate the conversion of one-off transactional revenue to recurring, higher-margin SaaS revenue. Q4 SaaS revenue jumped 40% on the pcp and was 12% ahead of Q3. We have incorporated the reported results into our model provisionally but will wait for the audited accounts at the end of August before we consider any further adjustments. RaaS has also recently interviewed Non-Executive Director Georg Chmiel on what attracted him to join the KYP board in September 2023. Our interview with George Chmiel can be accessed [here](#) and the transcript is available [here](#). 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 historically have been one-time but presents now as a ready-made pipeline and sales acquisition client base for the SaaS product. SaaS customers (employers) pay a set monthly SaaS fee for an end-to-end compliance management solution. Kinatico says it is focussed on transitioning all of its revenue to SaaS.

Key takeaways from Q4 result and director interview

Kinatico has delivered a better than forecast Q4 result with SaaS revenue higher than we had forecast and NPAT for the half ahead of our expectations. The company ended FY24 with \$10.1m cash in hand, up from \$8.8m at the end of March, suggesting strong cash generation and retention in the quarter. In our interview with Non-Executive Director Georg Chmiel, we discussed the merits of platform businesses and his experiences with technology platform companies. Mr Chmiel noted the merits of recurring revenues, including higher margins than one-time or transactional revenue, and lower costs as the platform becomes more scalable. Our full 8:25-minute interview is available for download [here](#).

DCF valuation of \$0.25/share

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. We would expect the gap between the current share price and our valuation to narrow provided Kinatico demonstrates continued growth in SaaS revenue, 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	19.2	3.6	0.8	0.8	0.18	1.3	10.1	56.9
06/25f	31.2	21.0	3.8	1.1	1.1	0.26	1.1	9.3	41.0

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

Q4 FY24 Result Analysis

Software & Services

19 July 2024

Share Details

ASX code	KYP
Share price (18-Jul)	\$0.105
Market capitalisation	\$45.5M
Shares on issue	433.6M
Net cash at 30-Jun	\$10.1M
Free float	~57%

Share Performance (12 months)



Company Interview

[Kinatico Georg Chmiel Interview July 2024](#)
[Kinatico Georg Chmiel Transcript July 2024](#)
[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

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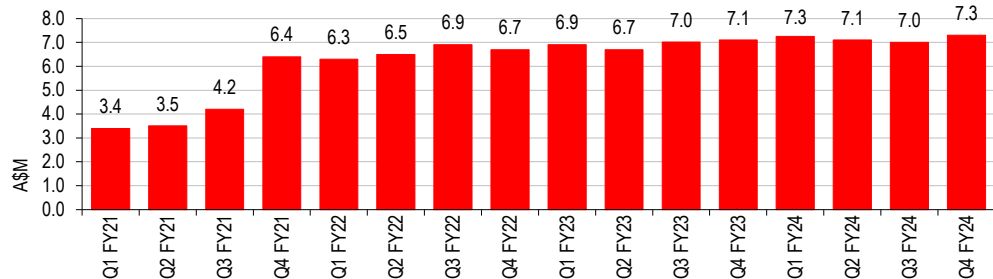
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Q4 FY24 Result Discussion

Kinatico has provided a flash update on Q4 FY24 revenue (ASX release 15 July), noting that total revenue increased 3% in the quarter to \$7.3m from the same period a year ago and 4% on Q3. SaaS revenue comprised 38% or \$2.8m of the total, an increase of 40% on the same quarter a year ago and up 12% on the Q3 FY24 quarter.

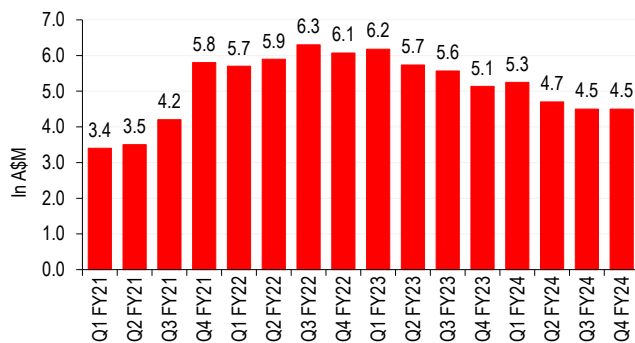
Exhibit 1: Revenue by quarter



Source: Company data, RaaS analysis

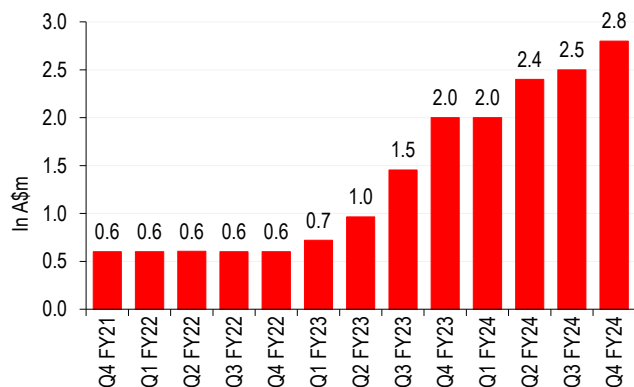
SaV revenue for the quarter was \$4.5m, down 12% year-on-year, and flat on Q3 FY24. We expect this source of revenue to continue to decline over time as a result of the ongoing transition of these customers to SaaS contracts.

Exhibit 2: SaV revenue by quarter



Source: Company data, RaaS analysis

Exhibit 3: SaaS revenue by quarter



Source: Company data, RaaS analysis

FY24 Results Discussion

The company reported FY24 revenue was \$28.7m, including 34% of SaaS revenue. FY24 SaaS revenue was \$9.7m, up 90% on the \$5.1m reported in FY23 and ahead of our forecast for \$9.6m. Kinatico reported that it expects to announce FY24 NPAT of \$0.8m, a three-fold increase on the \$0.2m NPAT reported in FY23. This is also 60% ahead of our forecast for \$0.5m FY24 NPAT. Net cash at the end of the year was \$10.1m, also ahead of the \$9.6m reported at the end of FY23 and above our expectation for the company to end FY24 with \$8.4m. We have incorporated the reported results into our model provisionally but will wait for the audited accounts at the end of August before we consider any adjustments. Exhibit 4 on the following page sets out Kinatico's revenue and NPAT by half year and full year for FY23 and FY24 as well as our forecasts for H2 FY24 and FY24.

Exhibit 4: FY24 revenue and NPAT by half-year (in A\$m unless otherwise stated)

	H1 FY23	H2 FY23	FY23	H1 FY24	H2 FY24	FY24	H2 FY24 RaaS	FY24 RaaS
SaV revenue	11.9	10.0	21.9	10.0	9.0	19.0	9.2	19.1
SaaS revenue	1.7	4.4	6.1	4.4	5.3	9.7	5.2	9.6
Total revenue	13.6	14.3	27.9	14.3	14.4	28.7	14.4	28.7
NPAT pre one-time items	(1.0)	1.2	0.2	0.4	0.4	0.8	0.2	0.5

Source: Company data, 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 (1.46). 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 1.46 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 four, to consider peer EV/Revenue trading multiples. Similar-sized regulatory or workforce compliance SaaS operators include Knosys (ASX:KNO), Wrkr (ASX:WRK)¹ and Xref (ASX:XF1). For completeness we have included accounting compliance company 8Common (ASX:8CO). As set out in Exhibit 6, KYP is currently trading largely in line with 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	6.1	0.81
Knosys Ltd	KNO	5.7	0.57
Wrkr Ltd*	WRK	34.9	5.16
Xref Ltd	XF1	32.8	1.61
Median		19.4	1.21
Kinatico	KYP	33.4	1.19

Sources: RaaS analysis, LSEG; Based on closing prices on 16 July 2024

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

Exhibit 7: Financial Summary

Kinatico						Share price (18 July 2024)					A\$	0.11
Profit and Loss (A\$m)						Interim (A\$m)						
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	H122A	H222A	H123A	H223A	H124F	H224F	
Transactional revenue	16.9	23.9	22.6	19.0	16.3	Revenue	12.8	13.6	13.6	14.1	14.4	14.3
SaaS revenue	0.6	2.4	5.1	9.7	14.9	EBITDA	1.1	0.8	0.6	2.5	1.9	1.7
Sales Revenue	17.5	26.4	27.7	28.6	31.2	EBIT	(0.2)	(0.3)	(0.8)	1.3	0.3	0.5
Gross Profit	10.3	16.8	18.2	19.2	21.0	NPAT (normalised)	(0.2)	(0.5)	(0.8)	1.5	0.4	0.4
EBITDA underlying	1.5	1.8	3.1	3.6	3.8	Minorities	-	-	-	-	-	-
Depn	(0.3)	(0.4)	(0.5)	(0.3)	(0.2)	NPAT (reported)	(0.6)	(0.9)	(1.0)	1.2	0.4	0.4
Amort	(1.0)	(2.0)	(2.1)	(2.5)	(2.2)	EPS (normalised)	(0.06)	(0.11)	(0.18)	0.36	0.09	0.09
EBIT underlying	0.2	(0.6)	0.5	0.8	1.5	EPS (reported)	(0.14)	(0.20)	(0.23)	0.28	0.09	0.09
Interest	0.0	0.0	0.1	0.2	0.1	Dividend (cps)	-	-	-	-	-	-
Tax	0.0	(0.2)	0.1	(0.2)	(0.5)	Imputation	-	-	-	-	-	-
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	1.2	1.8	0.9	2.7	1.5	2.5
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	2.4	3.5	3.1	4.5	3.1	4.0
NPAT pre significant items	0.3	(0.7)	0.8	0.8	1.1	Divisions						
Significant & non-cash items	(1.3)	(0.8)	(0.5)	0.0	0.0	H122A	H222A	H123A	H223A	H124F	H224F	
NPAT (reported)	(1.0)	(1.5)	0.2	0.8	1.1	Transactional Revenue	11.6	12.3	11.9	10.7	10.0	9.0
Cash flow (A\$m)						SaaS Revenue	1.2	1.2	1.7	3.4	4.4	5.3
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	Sales revenue	12.8	13.6	13.6	14.1	14.3	14.3
EBITDA	1.5	1.8	3.1	3.6	3.8	COGS	(4.7)	(5.0)	(4.8)	(4.7)	(4.6)	(4.8)
Interest	0.0	0.0	0.1	0.2	0.1	Gross Profit	8.2	8.6	8.8	9.4	9.7	9.5
Tax	0.8	(0.1)	(0.1)	(0.3)	(0.5)	GP Margin (%)	63.7	63.5	64.5	66.9	67.7	66.3
Working capital changes	(1.4)	1.3	0.5	0.5	0.0	Employment	(5.0)	(5.1)	(5.7)	(4.7)	(5.1)	(5.0)
Operating cash flow	1.0	3.1	3.6	4.0	3.5	Technology, licence fees	(1.8)	(2.5)	(1.7)	(2.3)	(2.4)	(2.5)
Mtce capex	(0.0)	(0.2)	(0.1)	(0.0)	(0.0)	Other costs	(0.3)	(0.3)	(0.7)	0.1	(0.3)	(0.3)
Free cash flow	1.0	2.8	3.6	4.0	3.5	EBITDA (normalised)	1.1	0.8	0.6	2.5	1.9	1.7
Capitalised Dev. Costs	(0.9)	(2.6)	(3.9)	(3.1)	(3.0)	Margins, Leverage, Returns						
Acquisitions/Disposals	(1.8)	(0.7)	0.0	0.0	0.0	FY21A	FY22A	FY23A	FY24F	FY25F		
Other	0.3	(0.0)	0.0	0.0	0.0	EBITDA	8.8%	7.0%	11.2%	12.6%	12.3%	
Cash flow pre financing	(1.4)	(0.4)	(0.3)	0.9	0.5	EBIT	1.3%	(2.1%)	1.7%	2.8%	4.7%	
Equity	9.9	0.0	(1.3)	(0.1)	0.0	NPAT pre significant items	1.7%	(2.7%)	2.7%	2.7%	3.6%	
Debt	0.0	(0.3)	(0.3)	(0.2)	0.0	Net Debt (Cash)		12.9	10.4	8.5	9.2	9.7
Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	8.4	5.6	2.7	2.5	2.5
Net cash flow for year	8.6	(0.7)	(1.8)	0.6	0.5	ND/ND+Equity (%)	(%)	(97.0%)	(69.2%)	(52.1%)	(56.2%)	(57.0%)
Balance sheet (A\$m)						EBIT interest cover (x)	(x)	(0.1)	n/a	-	0.3	(0.2)
Y/E 30 June	FY21A	FY22A	FY23A	FY24F	FY25F	ROA		1.1%	(1.7%)	1.4%	2.4%	4.4%
Cash	12.9	11.9	9.6	10.1	10.6	ROE		(6.2%)	(5.8%)	0.9%	3.0%	4.3%
Accounts receivable	3.0	3.0	2.4	1.9	2.1	ROIC		1.9%	(10.3%)	18.1%	26.7%	35.2%
Inventory	0.0	0.0	0.0	0.0	0.0	Working capital						
Other current assets	0.4	0.0	0.3	0.7	0.7			(0.8)	(0.9)	(1.1)	(0.7)	(0.7)
Total current assets	16.3	14.9	12.4	12.7	13.4	WC/Sales (%)		(4.6%)	(3.4%)	(4.0%)	(2.3%)	(2.2%)
PPE	0.3	2.0	1.6	1.2	1.1	Revenue growth		41.3%	50.9%	5.0%	3.4%	8.9%
Intangibles and Goodwill	15.9	16.4	18.2	18.8	19.7	EBIT growth pa		n/a	n/a	-187%	nm	85%
Investments	0.0	0.0	0.0	0.0	0.0	Pricing						
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	FY21A	FY22A	FY23A	FY24F	FY25F		
Other non current assets	0.0	0.3	0.3	0.3	0.3	No of shares (y/e)	(m)	429	434	420	434	434
Total non current assets	16.2	18.8	20.1	20.4	21.1	Weighted Av Dil Shares	(m)	429	434	430	434	434
Total Assets	32.5	33.7	32.4	33.1	34.4	EPS Reported	cps	(0.30)	(0.35)	0.05	0.18	0.26
Accounts payable	3.8	3.9	3.5	2.6	2.8	EPS Normalised/Diluted	cps	0.09	(0.17)	0.17	0.18	0.26
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS growth (norm/dil)		n/a	n/a	(205.6%)	nm	39%
Tax payable	0.1	0.2	0.1	0.0	0.0	DPS	cps	-	-	-	-	-
Other current liabilities	2.4	2.7	2.9	4.0	4.0	DPS Growth		n/a	n/a	n/a	n/a	n/a
Total current liabilities	6.3	6.8	6.5	6.7	6.9	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Long term debt	0.0	1.5	1.1	0.9	0.9	Dividend imputation		0	0	0	0	0
Other non current liab	0.0	0.0	0.0	0.0	0.0	PE (x)		-	-	190.9	58.6	41.0
Total long term liabilities	0.0	1.5	1.1	0.9	0.9	PE market		18.0	18.0	18.0	18.0	18.0
Total Liabilities	6.3	8.3	7.6	7.6	7.8	Premium/(discount)		(100.0%)	(100.0%)	960.8%	225.4%	127.7%
Net Assets	26.2	25.4	24.9	25.5	26.6	EV/EBITDA		20.9	19.1	10.2	10.1	0.0
Share capital	47.2	47.9	46.7	46.5	46.5	FCF/Share	cps	0.0	0.1	(0.1)	0.2	0.1
Accumulated profits/losses	(22.1)	(23.3)	(23.1)	(22.3)	(21.2)	Price/FCF share		372.2	175.9	(143.1)	49.2	93.2
Reserves	1.1	0.8	1.3	1.3	1.3	Free Cash flow Yield		0.3%	0.6%	(0.7%)	2.0%	1.1%
Minorities	0.0	0.0	0.0	0.0	0.0							
Total Shareholder funds	26.2	25.4	24.9	25.5	26.6							

Sources: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

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