

High quality result, setting the stage for a strong FY25

Kinatico Ltd (ASX:KYP) is a 'Know Your People' regtech company providing workforce compliance monitoring and management technology and services. KYP has reported FY24 adjusted NPAT of \$1.0m, a 32% increase on the adjusted NPAT reported in FY23 and ~70% ahead of our forecast for \$0.6m. Software-as-a-Service (SaaS) revenue growth for the year was 90%, with H2 revenue growth of 21%, as reported late last month. SaaS revenue is now 34% of total revenue with the company noting that \$2m was sourced from new customers in FY24. Particularly pleasing in the result, in our view, was the conversion of EBITDA to operating cashflow, with the metric rising to 92% in FY24, compared with 85% in FY23 and 60% two years ago. The results were ahead of our forecasts and reflect the continued migration of existing customers from one-off transactional revenue to ongoing subscription for its compliance monitoring platform. We have upgraded our FY25 forecasts to reflect the improved cost base with the underlying EBITDA forecast rising by 5.0% to \$4.0m. We have also published our FY26 and FY27 forecasts for the first time. Our DCF valuation has increased to \$0.30/share (previously \$0.25/share) after reflecting the changed observed beta and rolling the model. A +/-10% sensitivity analysis gives us a valuation range of \$0.20-\$0.43/share.

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 34% of FY24 revenue up from 18% in FY23 and was a significant factor in the increased EBITDA adjusted margin in FY24 (13.5% in FY24 versus 11.2% 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.

FY24 result demonstrates the benefit of SaaS focus

Kinatico delivered a 24% increase in underlying EBITDA to \$3.9m, well ahead of our forecast for \$3.3m. Reported EBITDA increased 41% to \$3.7m. Operating cashflow increased 15% on the previous corresponding period (pcp) to \$4.2m, again ahead of our forecast for \$4.0m. Adjusted NPAT increased 32% to \$1.0m while reported NPAT rose 230% to \$0.8m. Both gross margin and EBITDA margin increased respectively by 2% and 20% on the pcp, reflecting the shift to higher-margin SaaS revenue. SaaS revenue jumped 90% in FY24, offsetting the 16% decline in transactional revenue and now makes up 34% of total revenue. We expect this trend to continue and reflect this in our forecasts which we discuss in more detail in this report.

DCF valuation of \$0.30/share (previously \$0.25/share)

Our DCF valuation has increased to \$0.30/share (previously \$0.25/share) after rolling the financial model to the new financial year and also incorporating the LSEG observed beta of 1.41 (previously used 1.6). Our DCF methodology incorporates a WACC of 13.2% (previously 14.4%), a risk-free rate of 4.0% and a terminal growth rate of 2.2%. In our view, the reduction in WACC is justified given the sustained profitability and free cashflow that this company has delivered over the past two financial years. Our upgraded DCF implies EV/Revenue multiples of 4.0x for FY25f and 3.6x for FY26f, compared with the current multiples implied in our forecasts of 1.1x FY25f and 1.0x FY26f. 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.	EPS adj.	EV/Revenue (x)	EV/EBITDA (x)	PER (x)
06/23a	27.7	18.2	3.1	0.8	0.17	1.1	9.8	58.6
06/24a	28.9	19.2	3.9	1.0	0.24	1.2	9.1	42.9
06/25f	31.7	21.0	4.0	1.1	0.30	1.1	8.7	34.6
06/26f	35.0	23.4	5.1	1.7	0.45	1.0	6.7	22.9
06/27f	38.7	26.1	6.8	2.9	0.73	0.8	4.6	14.1

Sources: Company data; RaaS estimates for FY25f, FY26f and FY27f. Adjusted EBITDA, NPAT and EPS exclude one-time and non-cash items including share-based compensation

Software & Services

27 August 2024

Share Details

ASX code	KYP
Share price (26-Aug)	\$0.10
Market capitalisation	\$43.4M
Shares on issue	433.6M
Net cash at 30-Jun-24	\$9.9M
Free float	~57%

Share Performance (12 months)



Company Interviews

[Kinatico Georg Chmiel Interview 19 July 2024](#)
[Kinatico Georg Chmiel Transcript 19 July 2024](#)
[Kinatico RaaS Interview 23 July 2024](#)
[Kinatico RaaS Transcript 23 July 2024](#)

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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FY24 Results Analysis

Kinatico delivered a better-than-forecast adjusted EBITDA of \$3.9m for FY24, which was an increase of 24% on the pc. Reported EBITDA, which incorporates the non-cash share-based payments, increased 41% to \$3.7m. The result was delivered on a 4% increase in total revenue which included a 90% lift in higher-margin SaaS revenue to \$9.7m. The shift to SaaS revenue, which now accounts for 34% of total revenue, compared with 18% in FY23 and 9% in FY22, has been the key driver in Kinatico's improved operating margins.

Operating cash flow for the period increased 15% to \$4.2m while free cash flow, after capex and capitalised development, improved to a positive \$1.0m from a negative \$0.3m in FY23 and bettered our forecast for the period. Balance sheet liquidity also improved in FY24, with net current assets increasing 7% in FY24 to \$6.3m.

Underlying EBITDA as a percentage of operating cash flow also improved markedly in FY24, rising to 92% versus 83% in FY23 and 60% in FY22. This underscores the increasing quality of Kinatico's earnings as it matures as a business.

Exhibit 1: Key figures from FY23 financial statements (in A\$m unless otherwise stated)				
	FY23a	FY24a	% chg on pc	RaaS FY24 fct
Revenue	27.7	28.7	4	28.7
Gross margin (%)	65.7	66.9	2	67.0
EBITDA pre non-cash/one-time items (adjusted)	3.1	3.9	24	3.3
EBITDA reported	2.6	3.7	41	3.3
Operating cash flow	3.6	4.2	15	4.0
Free cash flow (after capex and capitalised development)	(0.3)	1.0	(430)	(0.7)
NPAT adjusted for non-cash items	0.8	1.0	32	0.6
Reported net profit/(loss) after tax	0.2	0.8	230	0.6
Cash/net cash	9.6	9.8	1	10.1
Net current assets (current assets less current liabilities)	5.9	6.3	7	6.0
Source: KYP FY24 annual report				

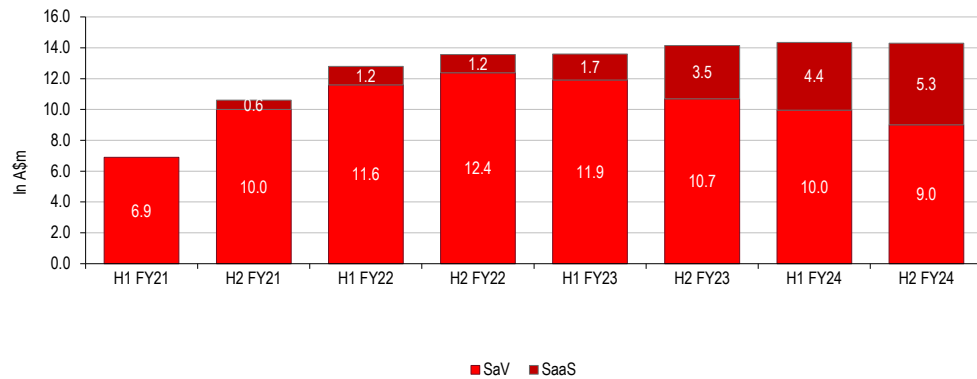
P&L - actuals vs. RaaS forecasts

KYP's P&L results for FY24 showed improvement in both revenue and cost management, resulting in increased margins over FY23 and outperformance against our forecasts as set out in the following table.

Exhibit 2: FY24 P&L vs. FY23 and RaaS FY24 forecasts (in A\$m unless otherwise stated)				
	FY23a	FY24a	% chg on pc	vs. RaaS FY24
Transactional revenue	22.6	19.0	(16)	19.1
SaaS revenue	5.1	9.7	90	9.6
Total sales revenue	27.7	28.7	4	28.7
Cost of sales	(9.5)	(9.5)	(0)	(9.4)
Gross profit	18.2	19.2	6	19.3
Gross margin (%)	65.7	66.9	2	67.1
Operating costs				
- Employment costs	(10.4)	(10.2)	(1)	(10.6)
- Other expenses	(4.7)	(5.1)	8	(5.4)
- Share-based payment expenses (non-cash)	(0.5)	(0.2)	(59)	(0.02)
Total operating costs	(15.6)	(15.6)	(0)	(16.0)
EBITDA exc. non-cash items (adjusted)	3.1	3.9	24	3.3
EBITDA adjusted margin (%)	11.2	13.5	20	11.5
EBITDA reported	2.6	3.7	41	3.3
EBITDA reported margin (%)	9.3	12.7	36	11.4
Total D&A	(2.6)	(3.1)	19	(2.8)
EBIT exc. non-cash items	0.5	0.7	54	0.5
Net interest	0.1	0.3	104	0.2
Net profit/(loss) before tax	0.6	1.0	66	0.7
Income tax expense	0.1	(0.1)	(142)	(0.1)
Net profit/(loss) after tax	0.8	1.0	32	0.6
NPAT reported	0.2	0.8	230	0.6
Sources: KYP FY24 annual report, RaaS forecasts				

As we have previously highlighted in this report, we attribute the improvement in margin to the shift in revenue mix from transactional (SaV) revenue which tends to be one-time, although repeatable, to SaaS revenue which is recurring. The company has derived SaaS revenue from both existing and new customers. This has resulted in a reduction in SaV revenue as a proportion of total revenue as existing customer migrate to Kinatico's monitoring compliance platform. The company also estimates that \$2m of the \$9.7m in SaaS revenue generated in FY24 came from new customers (company FY24 annual report, page 6.)

Exhibit 3: Revenue by half-year and source FY21-FY24



Source: Company data, RaaS analysis

Earnings Adjustment

Our earnings forecasts for FY25f have been adjusted after taking into account the FY24 results. We have moderated our revenue and cost forecasts off the new (FY24a base) and this has resulted in modest increases in revenue and underlying EBITDA and NPAT. Our forecasts now also include forecasts for non-cash share-based payments of \$0.12m for FY25f to FY27f, although these are not captured in the exhibit below. Our revised forecasts are set out below.

Exhibit 4: Earnings adjustments (in A\$m unless otherwise stated)

	FY25f old	FY25f new
SaV revenue	16.3	17.1
SaaS revenue	14.9	14.6
Revenue	31.2	31.7
Gross profit	21.0	21.0
EBITDA underlying	3.8	4.0
EBIT underlying	1.5	1.6
NPAT underlying	1.1	1.2

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 13.2% (previously 14.4%) includes a beta of 1.41 (previously 1.7), which is the five-year rate observed by LSEG. We have also rolled the model to the new financial year which sets a higher, more profitable base for our valuation. This gives us a DCF valuation of \$0.30/share (previously \$0.25/share), which implies an EV/Revenue of 4.0x FY25F and 3.6x FY26f. We note that a +/- 10% sensitivity analysis on our base-case forecasts derives a valuation range of \$0.20-\$0.43/share.

Exhibit 5: DCF valuation

Parameters	Outcome
Discount rate / WACC	13.2%
Beta*	1.41
Terminal growth rate assumption	2.2%
Sum of PV (A\$M)	48.4
PV of terminal value (A\$M)	73.5
PV of enterprise (A\$M)	122.0
Net debt / (cash) – 30 June 2024 (A\$M)	(9.0)
Net valuation – equity (A\$M)	131.0
No. of shares on issue (fully-diluted for options on issue & adjusted for share buyback) (M)	433.6
NPV per share (A\$)	\$0.30

Sources: RaaS estimates, *LSEG's observed beta of 1.41 based on its five-year monthly beta methodology

Exhibit 6: Financial Summary

Kinatico						Share price (26 August 2024)						A\$	0.10
Profit and Loss (A\$m)						Interim (A\$m)	H124A	H224A	H125F	H225F	H126F	H226F	
Y/E 30 June	FY23A	FY24A	FY25F	FY26F	FY27F	Revenue	14.4	14.4	15.5	16.1	17.4	17.6	
Transactional revenue	22.6	19.0	17.1	16.3	15.6	EBITDA	1.9	2.0	2.1	1.9	2.6	2.5	
SaaS revenue	5.1	9.7	14.6	18.7	23.1	EBIT	0.3	0.5	1.0	0.7	1.4	1.3	
Sales Revenue	27.7	28.8	31.7	35.0	38.7	NPAT (normalised)	0.4	0.6	0.7	0.5	1.0	0.9	
Gross Profit	18.2	19.2	21.0	23.4	26.1	Minorities	-	-	-	-	-	-	
EBITDA underlying	3.1	3.9	4.0	5.1	6.8	NPAT (reported)	0.4	0.4	0.7	0.5	0.9	0.9	
Depn	(0.5)	(0.5)	(0.2)	(0.2)	(0.1)	EPS (normalised)	0.09	0.15	0.17	0.13	0.23	0.22	
Amort	(2.1)	(2.6)	(2.1)	(2.3)	(2.4)	EPS (reported)	0.09	0.10	0.16	0.11	0.22	0.21	
EBIT underlying	0.5	0.7	1.6	2.5	4.2	Dividend (cps)	-	-	-	-	-	-	
Interest	0.1	0.3	0.1	0.1	0.2	Imputation	-	-	-	-	-	-	
Tax	0.1	(0.1)	(0.6)	(0.8)	(1.3)	Operating cash flow	1.5	2.7	1.3	1.8	2.2	2.2	
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow	3.1	4.3	2.8	3.3	3.7	3.7	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Divisions							
NPAT pre significant items	0.8	1.0	1.2	1.8	3.0	Transactional Revenue	10.0	9.1	9.0	8.1	8.5	7.7	
Significant & non-cash items	(0.5)	(0.2)	(0.1)	(0.1)	(0.1)	SaaS Revenue	4.4	5.3	6.6	8.0	8.9	9.8	
NPAT (reported)	0.2	0.8	1.1	1.7	2.9	Sales revenue	14.3	14.4	15.5	16.1	17.4	17.6	
Cash flow (A\$m)						COGS	(4.6)	(4.9)	(5.2)	(5.4)	(5.8)	(5.8)	
Y/E 30 June	FY23A	FY24A	FY25F	FY26F	FY27F	Gross Profit	9.7	9.5	10.3	10.7	11.6	11.8	
EBITDA	3.1	3.9	4.0	5.1	6.8	GP Margin (%)	67.7	66.1	66.3	66.4	66.7	66.9	
Interest	0.1	0.3	0.1	0.1	0.2	Employment	(5.1)	(5.1)	(5.5)	(5.9)	(6.1)	(6.2)	
Tax	(0.1)	(0.1)	(0.6)	(0.8)	(1.3)	Technology, licence fees	(2.4)	(2.1)	(2.3)	(2.4)	(2.5)	(2.6)	
Working capital changes	0.5	0.1	(0.5)	0.0	0.0	Other costs	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	
Operating cash flow	3.6	4.2	3.1	4.4	5.7	EBITDA (normalised)	1.9	2.0	2.1	1.9	2.6	2.5	
Mtce capex	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	Margins, Leverage, Returns							
Free cash flow	3.6	4.2	3.0	4.4	5.7	FY23A	FY24A	FY25F	FY26F	FY27F			
Capitalised Dev. Costs	(3.9)	(3.2)	(3.0)	(3.0)	(3.0)	EBITDA	11.2%	13.4%	12.8%	14.5%	17.7%		
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBIT	1.7%	2.6%	5.1%	7.2%	10.9%		
Other	0.0	0.0	0.0	0.0	0.0	NPAT pre significant items	2.7%	3.5%	3.7%	5.2%	7.8%		
Cash flow pre financing	(0.3)	1.0	0.0	1.4	2.7	Net Debt (Cash)	8.5	9.0	9.1	10.5	13.1		
Equity	(1.3)	(0.1)	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	2.7	2.3	2.2	2.1	1.9	
Debt	(0.3)	(0.4)	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	(52.1%)	(54.2%)	(50.7%)	(56.5%)	(69.1%)	
Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)	-	0.3	(0.4)	(0.1)	(0.1)	(0.0)
Net cash flow for year	(1.8)	0.5	0.0	1.4	2.7	ROA		1.4%	2.3%	4.9%	7.4%	11.4%	
Balance sheet (A\$m)						ROE		0.9%	3.1%	4.0%	6.1%	9.6%	
Y/E 30 June	FY23A	FY24A	FY25F	FY26F	FY27F	ROIC		15.4%	23.7%	34.1%	53.4%	85.3%	
Cash	9.6	9.8	9.8	11.2	13.8	Working capital		(1.1)	(1.3)	(0.8)	(0.8)	(0.9)	
Accounts receivable	2.4	2.6	2.1	2.4	2.6	WC/Sales (%)		(4.0%)	(4.6%)	(2.5%)	(2.3%)	(2.2%)	
Inventory	0.0	0.0	0.0	0.0	0.0	Revenue growth		5.0%	4.0%	9.9%	10.4%	10.8%	
Other current assets	0.3	0.4	0.4	0.4	0.4	EBIT growth pa		nm	nm	114%	58%	67%	
Total current assets	12.4	12.7	12.3	13.9	16.8	Pricing							
PPE	1.6	1.1	1.0	0.8	0.7	FY23A	FY24A	FY25F	FY26F	FY27F			
Intangibles and Goodwill	18.2	18.7	19.5	20.3	20.9	No of shares (y/e)	(m)	420	434	434	434	434	
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	430	419	434	434	434	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	0.05	0.19	0.27	0.42	0.70	
Other non current assets	0.3	0.3	0.3	0.3	0.3	EPS Normalised/Diluted	cps	0.17	0.24	0.30	0.45	0.73	
Total non current assets	20.1	20.1	20.8	21.4	22.0	EPS growth (norm/dil)		nm	nm	24%	51%	62%	
Total Assets	32.4	32.8	33.1	35.3	38.8	DPS	cps	-	-	-	-	-	
Accounts payable	3.5	3.9	2.9	3.2	3.5	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Short term debt	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Tax payable	0.1	0.0	0.0	0.0	0.0	Dividend imputation		0	0	0	0	0	
Other current liabilities	2.9	2.5	2.5	2.5	2.5	PE (x)		186.4	55.2	38.0	24.4	14.7	
Total current liabilities	6.5	6.4	5.4	5.7	6.0	PE market		26.9	26.9	26.9	26.9	26.9	
Long term debt	1.1	0.7	0.7	0.7	0.7	Premium/(discount)		nm	105.0%	41.4%	(9.4%)	(45.5%)	
Other non current liabs	0.0	0.0	0.0	0.0	0.0	EV/EBITDA		9.8	9.1	8.4	6.2	0.0	
Total long term liabilities	1.1	0.7	0.7	0.7	0.7	FCF/Share	cps	(0.1)	0.2	0.0	0.3	0.6	
Total Liabilities	7.6	7.1	6.1	6.4	6.7	Price/FCF share		(139.7)	43.8	1,033.1	32.4	16.7	
Net Assets	24.9	25.7	27.0	29.0	32.1	Free Cash flow Yield		(0.7%)	2.3%	0.1%	3.1%	6.0%	
Share capital	46.7	46.5	46.5	46.5	46.5								
Accumulated profits/losses	(23.1)	(22.3)	(21.0)	(19.1)	(15.9)								
Reserves	1.3	1.5	1.5	1.5	1.5								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	24.9	25.7	27.0	29.0	32.1								

FINANCIAL SERVICES GUIDE

RaaS Research Group Pty Ltd

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Corporate Authorised Representative, number 1248415, of

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Effective Date: 26th March 2024

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