

BANGO

MOBILE SERVICES

BGO.L

127 p

Market Cap: £83.1m

SHARE PRICE (p)



12m high/low

154p/45p

Source: LSE Data

KEY INFORMATION

Enterprise value	£77.5m
Index/market	FTSE AIM
Next news	Interims, Sep 2017
Gearing	N/A
Interest cover	N/A

 BANGO IS A RESEARCH CLIENT OF
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Making waves in Japan

Bango has announced what is, in our view, a significant Direct Carrier Billing (“DCB”) launch with Amazon in Japan. Bango Platform technology is enabling customers on Japan’s two largest mobile operator networks to purchase physical goods from Amazon Japan, charging the cost to their phone bill. We believe this is the first carrier billing payments service for physical goods from Amazon. The announcement contains no details on the terms of the transaction and for now we make no revisions to forecasts. Nevertheless, with the Japanese e-commerce market estimated at US\$100bn annually and Amazon the market leader, we expect the deal to be substantial for Bango.

- DCB for physical goods launched with Amazon Japan:** For the first time, Amazon has launched carrier billing as a payment option for physical goods. Customers with either a KDDI (au) or NTT DOCOMO mobile phone subscription can choose carrier billing as the payment option to instantly and securely purchase physical goods from the Amazon Japan online retail store, charging the cost to their mobile phone bill, powered by the Bango Platform.
- Significant mobile market:** Japan has over 162m mobile subscribers (Q1 2017, 128% penetration) with smartphone penetration at 75%¹. Market leader NTT DOCOMO has 74.9m mobile customers, followed by KDDI with 48.5m². Bango’s launch with Amazon Japan therefore covers over 75% of Japanese mobile subscribers. We would therefore be unsurprised if third player Softbank were to follow KDDI & DOCOMO.
- A material e-commerce opportunity:** Japan has been positioned at the forefront of mobile commerce for 20 years, as evidenced by the 1999 launch of NTT DOCOMO’s pioneering i-mode service. Industry sources estimate the Japanese e-commerce market at over US\$100bn annually³. Japan has over 81m e-commerce users out of a 127m population and Mobile is estimated to contribute around 15% of total e-commerce sales⁴.
- Amazon is a leading player in Japanese e-commerce:** Amazon reported sales of US\$10.7bn (+31%) in Japan for 2016, making Japan its third largest market after the US and Germany.

Overall, we believe that this deal with the largest global e-tailer, which prides itself on excellent customer experience represents perhaps the strongest endorsement yet of Bango and the Bango Platform.

YEAR TO JAN £M	2014	2015	2016	2017E	2018E
End user spend	25.2	44.7	132.3	266.0	492.1
Revenue	5.1	1.3	2.6	3.7	6.5
Adjusted EBITDA	-3.7	-3.1	-2.4	-2.0	0.8
Adjusted PBT	-5.4	-5.0	-4.1	-4.0	-1.2
Adjusted EPS (p)	-8.5	-9.5	-6.3	-6.1	-1.8
EV/ Adj. EBITDA	-21.1x	-24.6x	-32.0x	-39.7x	99.6x
P/E	-14.9x	-13.4x	-15.5x	-16.0x	-53.3x

Source: Company Information and Progressive Equity Research estimates

A significant launch for Bango

In our view today's announcement represents a significant launch for Bango, heralding a significant expansion into physical retail goods. The Japanese e-commerce market is vast, and Bango is entering alongside the market leader. Whilst we are aware of certain aggregators using first-generation carrier billing for small-scale purchases like ticketing, to our knowledge Bango is the first to power carrier-billed payments at the scale of Amazon Japan's business. Other large ecommerce players are likely to eye Amazon's move with interest and Bango would be well placed to work with other market entrants.

Bango has made considerable platform investment over the past two years. We understand that this may be related to the increased complexity of physical goods sales, which can involve partial shipments, delayed shipping and extended refund periods. In our view this gives Bango significant competitive advantage if other e-tailers wish to follow Amazon's lead.

The graphics overleaf describe the Amazon Japan end-user order and payment cycle as powered by Bango DCB.

References:

- 1 – <http://www.lek.com/our-publications/lek-insights/japan-smartphone-surge-impacts-mobile-market>
- 2 – <http://www.tca.or.jp/english/database/>
- 3 – <https://www.statista.com/statistics/289736/japan-retail-e-commerce-sales-figures/>
- 4 - e-commerce foundation: Japan B2C e-commerce report 2016

Amazon Japan end-user order payment cycle powered by Bango DCB

Customer selects goods



Customer selects to buy using carrier billing



Payment is confirmed



Order is confirmed



Source: Company information

SUMMARY FINANCIALS

	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18
	£m	£m	£m	£m	£m	£m
Profit & Loss	Act	Act	Act	Act	Est	Est
Turnover	8.8	5.1	1.3	2.6	3.7	6.5
Adj EBITDA	-3.0	-3.7	-3.1	-2.4	-2.0	0.8
Adj EBIT	-3.4	-4.2	-3.6	-2.9	-2.5	0.2
Reported PBT	-4.9	-5.4	-5.0	-4.7	-4.2	-1.4
PBT before exceptionals and AAG	-4.5	-5.0	-4.6	-3.7	-3.7	-0.9
Fully adj PBT	-4.9	-5.4	-5.0	-4.1	-4.0	-1.2
NOPAT £	-2.5	-3.0	1.0	-2.9	-2.5	0.2
Reported EPS (p)	-10.5	-11.0	-9.0	-6.8	-6.0	-1.8
EPS before exceptionals and AAG (p)	-7.1	-7.7	2.4	-5.8	-5.7	-1.4
Fully adj EPS (p)	-8.2	-8.5	-9.5	-6.3	-6.1	-1.8
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow & Balance sheet						
Operating cash flow	-2.8	-3.4	-3.5	-2.6	-1.9	2.6
Free Cash flow £m	-4.0	-4.2	-4.1	-6.0	-2.8	1.7
FCF per share p	-8.9	-8.9	-7.8	-9.2	-4.3	2.6
Capex	-1.6	-1.0	-1.1	-3.5	-1.2	-1.2
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Net cash flow	2.9	1.1	5.9	-6.2	-2.7	1.8
Shares issued	6.6	5.7	10.5	0.1	0.0	0.0
Net (debt)/cash	4.7	5.7	11.8	5.6	2.8	4.5
Metrics	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18
Adj EBIT growth	<i>n.a.</i>	23.2%	-14.0%	-19.4%	-14.2%	-107.5%
Adj PBT growth	<i>n.a.</i>	9.9%	-7.2%	-18.6%	-2.7%	-69.9%
Adj EPS growth	<i>n.a.</i>	4.3%	10.8%	-33.0%	-3.5%	-69.9%
Dividend growth	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Adj EBIT margins	-39.0%	-82.9%	-279.1%	-111.5%	-66.9%	2.9%
Valuation	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18
EV/Sales	8.8	15.2	59.6	29.5	20.7	12.0
EV/EBITDA	-25.7	-21.1	-24.6	-32.0	-39.7	99.6
EV/NOPAT	-31.4	-25.5	76.2	-26.5	-30.9	410.1
PER	-15.5	-14.9	-13.4	-15.5	-16.0	-53.3
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	-3.2%	-3.3%	-3.3%	-4.7%	-2.9%	1.7%

Source: Company information, Progressive Equity Research estimates

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