

BANGO

SOFTWARE AND COMPUTER SERVICES

BGO.L

228p

Market Cap: £150.9m

SHARE PRICE (p)


12m high/low

272p/67p

Source: LSE Data

KEY INFORMATION

Enterprise value	£145.3m
Index/market	FTSE AIM
Next news	Trading Update, Jan-18
Gearing	N/A
Interest cover	N/A

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On track for breakeven and positive cash flow

Bango has reported strong interim results, with impressive growth in End User Spend (EUS) and revenue, alongside reduced losses and cash outflow. Operational momentum remains strong, with new billing routes activated across the world. The first half also saw the launch of Direct Carrier Billing (DCB) for physical goods with Amazon Japan. We make minor increases to forecasts following the announcement, and believe the H1 2017A outcome is encouraging for the second half performance.

- Impressive growth in EUS and revenue, losses reduced:** EUS doubled during the period to £93.2m, driven by a combination of new billing route activations and new product types. Cost discipline remained firm, with opex broadly stable at £2.7m. The result was a c£600k reduction in LBITDA to £1.05m. Capex reductions and improved working capital management were the key drivers of a significant reduction in cash outflow during the period, with the closing cash position broadly stable at £5.6m (versus £5.7m FY 2016A).
- Strong operational momentum:** A number of new billing routes were added during the first half, including Indonesia, Italy, the UK and the Windows Store launch with Verizon Wireless, the #1 US mobile operator. In addition, two Google Play billing routes were migrated from third-party providers to the Bango Platform. A further highlight was the launch of Direct Carrier Billing (DCB) for physical goods with Amazon Japan. It was also revealed that five of the top ten Android developers have access to the Bango Boost v2 technology.
- Positive outlook, funded through to profitability:** The release contains a number of positive comments on the outlook, with management expecting EUS growth to increase in the second half of FY 2017E and the business to achieve breakeven on a monthly basis by the end of FY 2017E. Management also re-iterated their belief that the business is sufficiently funded through to profitability.

We make minor upward revisions to 2018E forecasts following the release (revenue +3%, EBITDA increases by £200k), reflecting increased expectations of EUS growth. Overall, we believe the H1 2017A results demonstrate that Bango is firmly on track to achieve our FY 2018E forecast EBITDA breakeven and positive cash generation. Growth rates remain robust and the accompanying improvements in both profits and cash flow will be warmly welcomed.

YEAR TO DECEMBER	2014A	2015A	2016A	2017E	2018E
End user spend (£m)	25.2	44.7	132.3	266.0	509.4
Revenue (£m)	5.1	1.3	2.6	3.7	6.7
Adjusted EBITDA (£m)	-3.7	-3.1	-2.4	-2.0	1.0
Adjusted PBT (£m)	-5.4	-5.0	-4.1	-4.0	-1.0
Adjusted EPS (p)	-8.5	-9.5	-6.3	-6.1	-1.5
EV/ Adj. EBITDA	-39.5x	-46.2x	-60.0x	-74.4x	148.0x
P/E	-26.7x	-24.1x	-36.0x	-37.3x	-149.6x

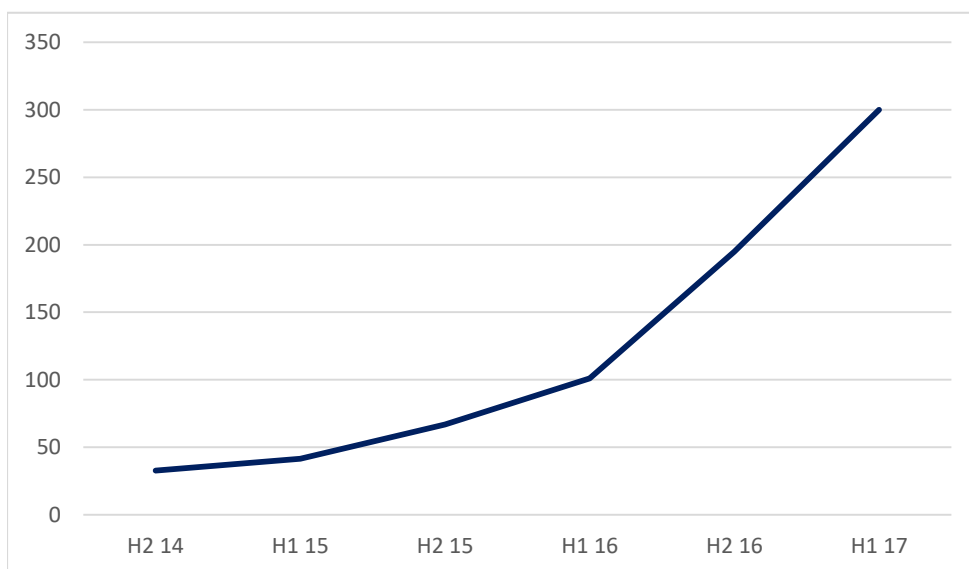
Source: Company Information and Progressive Equity Research estimates

H1 2017A results

Growth

End User Spend (EUS) is the volume of transactions processed through the Bango Platform (BP). H1 2017A EUS was £92.3m, a doubling of the H1 2016A level, with growth driven by both existing and new activations. On an annual exit run-rate basis, EUS closed H1 2017A (June 2017) at over £300m, and had grown to £400m entering September 2017. As demonstrated in the following chart, Bango has a strong recent history of EUS growth and the trend was maintained in H1 2017A.

Bango EUS – exit run rate (£m)



Source: Company data

Growth rates are being sustained by a favourable combination of an increasing number of new payment routes and an increasing volume of sales across all billing routes. In H1 2017A, new billing routes were added across the world, including key (large) mobile markets Indonesia, Italy, Japan the UK and USA. Two Mobile Network Operators (MNOs) migrated their existing DCB activations from third party providers across to the Bango Platform. Encouragingly, an immediate increase of 35% in EUS was experienced.

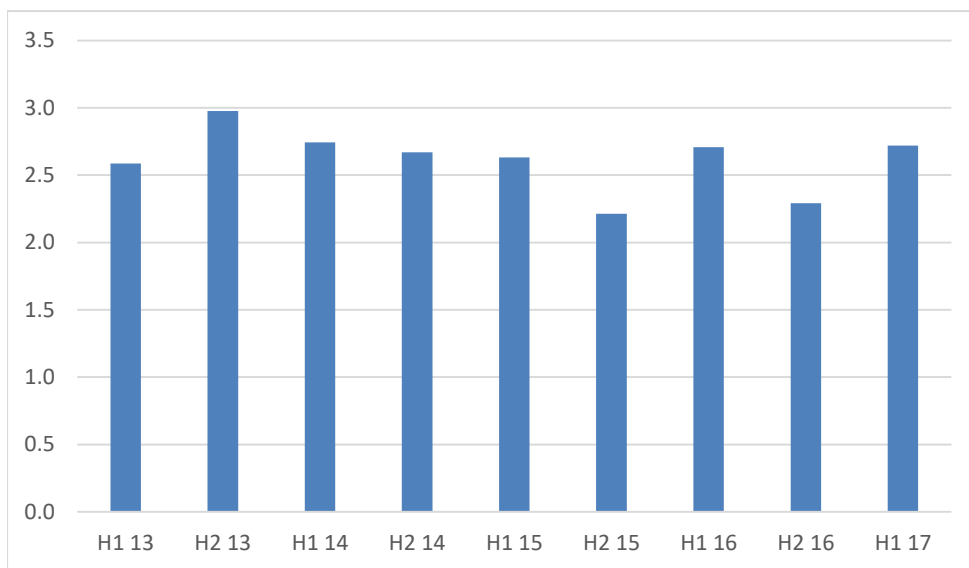
Revenue

Bango reported H1 2017A revenue growth on EUS of 114%, reflecting the doubling of EUS from H1 2016A. H1 2017A revenue of £1.7m represents 46% of our FY 2017E estimate. With triple-digit growth in EUS expected to continue into the second half (see *overleaf*) we remain comfortable with our expectation of the H2 2017E revenue outcome. We also note that Bango has traditionally reported seasonality in revenues, with H1 contributing between 35% and 43% of the annual figure between 2013A and 2016A.

Operating costs

Bango reported opex of £2.7m H1 2017A, broadly stable on the £2.5m figure for H1 2016A. Noting the triple-digit growth in EUS and revenue and the increase in annual transaction capacity to over £5bn, we believe the stable opex continues to demonstrate the high degree of operating leverage in the business. As the following chart shows, management has a strong recent history of cost control, the H1 2017A performance continuing an established trend.

Bango Opex (£m)



Source: Company data

Profitability

H1 2017A saw an impressive reduction in losses. Reported Adjusted Loss Before Interest, Tax, Depreciation and Amortisation (LBITDA) of -£1.05m compares with -£1.64m H1 2016 – a near 40% decrease. The key drivers were the factors discussed above – the growth in EUS, the increased revenue from EUS and the stable opex.

Cash flow & position

Bango reported a closing H1 2017A gross cash position of £5.6m. This represents a £141k outflow in the half, compared with a H1 2016A outflow of -£4.9m. The key drivers of the improvement were a £2.1m reduction in investments (H1 2016A outflow was inflated by the acquisition of BilltoMobile in the US) and a £1.1m improvement in working capital.

Although capex was reduced versus H1 2016A, Bango continued to invest in the BP during H1 2017A, including evolving the 5th generation platform (and API), enabling DCB for physical goods and delivering an enhanced payment experience for both merchants and end-customers. Bango also launched version 2 of the Bango Boost product, which was made available to a number of tier one developers, including King, Niantec and Supercell.

Outlook: Positive

The release contains a number of positive comments from management on the outlook. We highlight the following:

- Bango expect EUS growth to increase in the second half of FY 2017E, followed by substantial growth in subsequent years.
- Management believe the business will achieve monthly breakeven by the end of FY 2017E.
- EUS revenue as a percentage of total EUS will be in line with market forecasts going forward. (Note we expect 1.41% and 1.31% FY 2017E and FY 2018E respectively).
- Bango expects to exit FY 2017E with little or no uplift in opex (we forecast opex of £5.7m for both FY 2017E and FY2018E, compared to £2.72m H1 2017A).
- Closing (gross) cash of £5.6m is expected to be sufficient to fund the group through to profitability.
- Lastly, the BP was successfully tested to over £5bn/year transaction capacity. With the current run-rate at over £400m (entering September 2017), the room for future growth therefore remains high.

SUMMARY FINANCIALS

Profit & Loss	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY18E
End-user Spend (non-GAAP)	15.6	25.2	44.7	132.3	266.0	509.4
Revenue	8.8	5.1	1.3	2.6	3.7	6.7
Gross Profit	2.1	1.3	1.3	2.6	3.7	6.7
Adj EBITDA	(3.0)	(3.7)	(3.1)	(2.4)	(2.0)	1.0
Reported PBT	(4.9)	(5.4)	(5.0)	(4.7)	(4.2)	(1.2)
PBT before exceptionals and AAG	(4.9)	(5.4)	(5.0)	(4.1)	(4.0)	(1.0)
Fully adj PBT	(4.9)	(5.4)	(5.0)	(4.1)	(4.0)	(1.0)
NOPAT	(2.5)	(3.0)	1.0	(2.9)	(2.5)	0.4
Reported EPS (p)	(10.5)	(11)	(9.0)	(6.8)	(6.0)	(1.4)
EPS before exceptionals and AAG (p)	(7.9)	(8.3)	2.6	(6.3)	(6.1)	(1.5)
Fully adj EPS (p)	(8.2)	(8.5)	(9.5)	(6.3)	(6.1)	(1.5)
Dividend per share (p)	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow & Balance sheet	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY18E
Operating cash flow	(2.8)	(3.4)	(3.5)	(2.6)	(1.9)	2.9
Free Cash flow £m	(4.0)	(4.2)	(4.1)	(6.0)	(2.8)	2.0
FCF per share p	(8.9)	(8.9)	(7.8)	(9.2)	(4.3)	3.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Shares issued	6.6	5.7	10.5	0.1	0.0	0.0
Net cash flow	2.9	1.1	5.9	(6.2)	(2.7)	2.1
Overdrafts / borrowings	(0.4)	(0.6)	(0.4)	(0.1)	(0.2)	(0.3)
Cash & equivalents	5.1	6.3	12.1	5.7	3.0	5.0
Net (Debt)/Cash	4.7	5.7	11.8	5.6	2.8	4.8
NAV and returns	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY18E
Net asset value	8.9	9.8	15.9	12.4	10.6	9.7
NAV/share (p)	19.4	18.8	24.7	19.0	16.2	14.8
Net Tangible Asset Value	5.5	6.3	12.5	6.3	2.9	1.4
NTAV/share (p)	12.0	12.1	19.3	9.7	4.4	2.2
Average equity	8.9	9.3	12.9	14.1	11.5	10.1
Post-tax ROE (%)	-53.5%	-55.2%	-37.4%	-31.2%	-34.2%	-9.3%
Metrics	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY18E
EUS growth	<i>n.a.</i>	61.8%	77.5%	196.1%	101.1%	91.5%
Revenue growth	<i>n.a.</i>	-42.0%	-74.5%	101.8%	42.9%	78.0%
Adj EBIT 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 PBT 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 EPS 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>
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>
Margin on EUS	23.5%	26.3%	97.5%	99.7%	100.0%	100.0%
Valuation	FY-13A	FY-14A	FY-15A	FY-16A	FY-17E	FY18E
EV/Sales	16.5	28.5	111.7	55.4	38.7	21.8
EV/EBITDA	(48.1)	(39.5)	(46.2)	(60.0)	(74.4)	148.0
EV/NOPAT	(58.9)	(47.8)	143.0	(49.7)	(57.9)	369.9
PER	(27.9)	(26.7)	(24.1)	(36.0)	(37.3)	(149.6)
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	-1.8%	-1.8%	-1.8%	-2.6%	-1.2%	0.9%

Source: Company information, Progressive Equity Research estimates

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