

Spacetalk Limited

Just getting started

Spacetalk has reported better than expected December half FY22 results, further highlighting that the Company is only getting started. We are upgrading our revenue forecasts by 3-4% over FY22 to FY24. Our fair value rises by 3% to 62c per share, more than 3x upside versus the current share price.

- **Better than expected results:** Spacetalk reported 1H22 revenue growth of 50% YoY to \$11.4m, \$1m higher than our \$10.4m estimate driven by 58% YoY growth of device sales versus our 45% estimate. Gross margin was 56% versus our 53% estimate and 54% in the prior comparative period on the negotiation of better prices with retailers.
- **The best is yet to come:** Growth in the period was impressive despite a minimal contribution from the recently signed distribution arrangements in the Nordics and US which went live at the end of the period. Spacetalk competitor Xplora sells approximately 100,000 units per year in the Nordics alone (roughly double Spacetalk’s global volume in FY21) with much of their distribution likely to be through partners recently signed by Spacetalk (Elkjøp, Elisa and Telenor). We believe that all major electronics and mobile network operators will sell connected smartwatches for children in time and that Spacetalk has the best available customer proposition. We expect more distribution deals to be announced accordingly.
- **Board expansion underway:** Spacetalk currently has three board members and is well advanced in the search for two more non-executives, including an independent chairman. The search was delayed by the second-strike at November’s AGM.
- **Popular children’s entertainer to promote Spacetalk:** American children’s performer JoJo Siwa will promote Spacetalk over social media and at all live performances from January to March 2022 in order to build awareness of the product and category in the US. JoJo has more than 49 million followers on TikTok, Instagram and Facebook.
- **Raising fair value by 3% to \$0.62 per share:** Our DCF derived fair value rises by 3% on upgrades to our forecasts and puts the shares on an EV/Revenue of 2.8x vs. 0.8x currently and peers on 4.2x in FY23.

Figure 1: Changes to Veritas forecasts for Spacetalk (\$m)

Year ended June 30 (\$m)	FY22E			FY23E			FY24E		
	Old	New	Chg.	Old	New	Chg.	Old	New	Chg.
Revenue	23.0	23.9	0.9	43.5	45.1	1.6	58.9	60.5	1.6
Growth (% YoY)	52.3	58.3	6.0	88.9	88.5	-0.4	35.5	34.2	-1.3
EBITDA	-1.5	-0.9	0.6	2.2	2.4	0.2	7.0	7.1	0.1
Margin (%)	-6.5	-3.7	2.9	5.0	5.2	0.3	11.9	11.8	-0.1
Profit before tax	-5.7	-5.0	0.6	-2.5	-2.3	0.2	2.1	2.2	0.1
Normalised dil. EPS (cps)	-2.6	-2.3	0.3	-0.8	-0.7	0.1	0.6	0.7	0.0
Free Cash Flow	-7.3	-9.7	-2.4	-2.3	-2.0	0.3	2.7	2.8	0.2

Source: Veritas estimates.

SPA.ASX

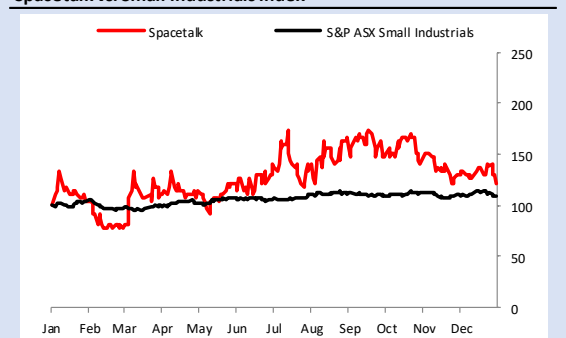
BUY

Tuesday 18 January 2022

Share Price	\$0.19
Price Target	\$0.63
Valuation Method	DCF
Market capitalisation	\$40.9m
Enterprise value	\$37.7m
GICS sector	Software and Services
12 month price range	\$0.11 - \$0.24
Shares in issue	215.5m
Top 20 holders	69.8m
Previous rating	Buy

Year ended June 30		FY21	FY22E	FY23E	FY24E
Revenue	\$m	15.1	23.9	45.1	60.5
Growth	%	44.2	58.3	88.5	34.2
EBITDA	\$m	0.7	(0.9)	2.4	7.1
Margin	%	4.8	(3.7)	5.2	11.8
NPAT	\$m	(1.8)	(5.0)	(1.7)	1.6
EPS	cps	(1.0)	(2.3)	(0.7)	0.7
CFPS	cps	(0.7)	(2.6)	0.9	2.5
PER	x	N/A	N/A	N/A	28.3
Price/Cash Flow	x	N/A	N/A	21.8	7.5
EV/Revenue	x	2.5	1.6	0.8	0.6
EV/EBITDA	x	51.6	N/A	15.9	5.3
EV/EBIT	x	N/A	N/A	N/A	14.1
EV/Capital	x	4.0	2.5	2.3	2.3
Gearing (net debt: capital)	%	1	7	20	4
Fixed charge cover	x	N/A	N/A	N/A	4
Return on capital	%	N/A	N/A	N/A	12

Spacetalk vs. Small Industrials Index



Source: FactSet, Veritas

Spacetalk provides communications solutions to families and is a leader in the emerging children and seniors smartwatch categories.

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EQUITIES RESEARCH

Spacetalk

Share Price: \$0.19 ps

Valuation: \$0.63 ps

Financial Performance (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	7.1	10.5	15.1	23.9	45.1	60.5
Cost of sales	(1.9)	(3.0)	(5.8)	(10.7)	(22.9)	(31.1)
Gross profit	5.2	7.4	9.4	13.2	22.3	29.4
Operating costs	(5.5)	(7.6)	(8.3)	(13.6)	(18.9)	(21.3)
Share based payments	(3.4)	(2.5)	(0.4)	(0.5)	(1.0)	(1.0)
Normalised EBITDA	(3.6)	(2.7)	0.7	(0.9)	2.4	7.1
Depreciation and amortisation	(2.0)	(2.5)	(3.0)	(3.7)	(4.2)	(4.5)
Normalised EBIT	(5.6)	(5.1)	(2.3)	(4.5)	(1.8)	2.7
Associate income	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(0.0)	(0.1)	(0.2)	(0.5)	(0.5)	(0.5)
Normalised Pre-tax Profit	(5.6)	(5.3)	(2.4)	(5.0)	(2.3)	2.2
Normalised tax	1.0	1.0	0.7	0.0	0.6	(0.6)
Profit attributable to minorities	0.0	0.0	0.0	0.0	0.0	0.0
Normalised profit to holders	(4.7)	(4.3)	(1.8)	(5.0)	(1.7)	1.6
One off items (post-tax)	0.0	0.0	0.0	0.0	0.0	0.0
Reported profit to holders	(4.7)	(4.3)	(1.8)	(5.0)	(1.7)	1.6

Cash Flow Statement (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Normalised EBITDA	(3.6)	(2.7)	0.7	(0.9)	2.4	7.1
Non cash items	3.4	2.5	0.4	0.5	1.0	1.0
Cash net interest	(0.0)	(0.1)	(0.3)	(0.5)	(0.5)	(0.5)
Cash tax (paid)/received	0.6	1.0	0.7	0.0	0.6	(0.6)
Working capital/other	(0.9)	0.3	(2.7)	(4.8)	(1.5)	(1.1)
Operating Cash Flow	(0.5)	0.9	(1.2)	(5.7)	2.0	5.9
Capex	(2.2)	(3.1)	(3.0)	(4.0)	(4.0)	(3.0)
Free Cash Flow	(2.8)	(2.2)	(4.2)	(9.7)	(2.0)	2.8
Disposals/Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Equity raised/buybacks	0.5	5.2	2.5	9.0	0.0	0.0
Borrowings/(debt repayment)	1.3	(1.3)	3.0	2.0	0.0	(2.0)
Other inc. finance leases	0.0	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net increase/(decrease) cash	(1.0)	1.5	1.0	1.0	(2.2)	0.6
Cash at beginning	2.6	1.6	3.2	4.2	5.2	3.0
Cash at end (including bank deposit)	1.6	3.2	4.2	5.2	3.0	3.6

Balance Sheet (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Cash and cash equivalents	1.6	3.2	4.2	5.2	3.0	3.6
Trade and other receivables	0.8	1.0	2.2	7.3	9.3	10.8
Inventories	1.2	1.0	1.7	2.8	5.2	6.9
Other current assets	1.0	1.1	2.8	2.8	2.8	2.8
Current assets	4.7	6.3	10.9	18.1	20.2	24.1
Plant and equipment	0.2	0.2	0.2	0.2	0.2	0.3
Intangible assets	2.8	3.7	3.9	4.5	4.6	3.4
Right of use	0.0	0.1	0.3	0.3	0.3	0.3
Deferred tax assets	0.0	0.5	0.7	0.7	0.7	0.7
Non current assets	3.0	4.5	5.1	5.7	5.8	4.7
Assets	7.7	10.7	16.0	23.8	26.0	28.7
Trade and other payables	1.3	2.1	1.9	3.3	6.2	8.3
Provisions	0.3	0.2	0.4	0.4	0.4	0.4
Borrowings & leases	0.0	0.1	0.2	0.2	0.2	0.2
Income tax liability	0.0	0.0	0.1	0.1	0.1	0.1
Current liabilities	1.6	2.4	2.6	3.9	6.8	8.9
Borrowings	1.3	0.0	4.1	6.1	6.1	4.1
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Non current liabilities	1.3	0.0	4.1	6.1	6.1	4.1
Total liabilities	2.9	2.4	6.7	10.0	12.9	13.0
Issued shares	10.8	16.1	18.7	28.2	29.2	30.2
Reserve options	3.7	6.2	6.4	6.4	6.4	6.4
Accumulated losses	(9.7)	(14.0)	(15.8)	(20.8)	(22.5)	(20.9)
Total equity	4.8	8.3	9.4	13.8	13.2	15.7

Directors and Key Management Personnel

	Shares	Holding
Mark Fortunatow	17.3m	8.0%
Martin Pretty	0.2m	0.1%
Brandon Gien	0.1m	0.1%

Major Shareholders

	Shares	Holding
Regal	26.2m	11.9%
Thorney Investment Group	17.9m	8.1%
Mark Fortunatow	17.3m	7.9%
Top 20 shareholders	69.8m	31.7%

Source: Company data, Veritas Securities estimates.

Valuation Metrics

	Valuation
Price Target (ps)	\$0.63 230%
Share Price (ps)	\$0.19
FY22E EV/Sales (x)	1.6
Implied FY22 EV/Sales (x)	5.5 250%
Implied FY23 EV/Sales (x)	2.9 86%
Market Capitalisation (A\$m)	40.9
Enterprise Value (A\$m)	37.7
Shares in issue (m)	215.5

Valuation Multiples

Year ended June	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E (x)	N/A	N/A	N/A	N/A	N/A	28.3
Price/Cash Flow (x)	N/A	28.5	N/A	N/A	21.8	7.5
EV/Revenue (x)	5.3	3.6	2.5	1.6	0.8	0.6
EV/EBITDA (x)	N/A	N/A	51.6	N/A	15.9	5.3
EV/EBIT (x)	N/A	N/A	N/A	N/A	N/A	14.1
Equity FCF yield (%)	-6.8	-5.4	-10.3	-23.8	-4.9	6.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/capital (x)	8.5	7.1	4.0	2.5	2.3	2.3
Price to book value (x)	5.0	3.2	3.6	3.0	3.4	2.8

Per Share Data

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
EPS diluted - adjusted (cps)	(3.69)	(3.03)	(1.01)	(2.31)	(0.71)	0.67
EPS diluted (cps)	(3.69)	(3.03)	(1.01)	(2.31)	(0.71)	0.67
Cash flow per share (cps)	(0.4)	0.7	(0.7)	(2.6)	0.9	2.5
Free cash flow per share (cps)	(2.2)	(1.6)	(2.4)	(4.5)	(0.9)	1.2
Cash (cps)	1.3	2.2	2.4	2.4	1.3	1.5
Net assets (cps)	3.8	5.9	5.3	6.3	5.6	6.7
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0	0.0
Shares on issue - avg. basic (m)	121	138	164	200	215	215
Shares on issue - avg. diluted (m)	127	141	175	218	233	233

Segmental Revenue (A\$m)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
App ARR	0.8	1.5	2.8	4.6	8.4	13.0
App revenue	0.4	1.2	2.2	3.4	6.4	10.7
Device revenue	4.2	6.5	10.6	18.8	37.0	48.1
SpaceTalk revenue	4.6	7.7	12.8	22.2	43.4	58.8
MGM schools revenue	2.2	2.7	2.2	1.8	1.8	1.8
Trading revenue	6.8	10.4	15.0	23.9	45.1	60.5
Grants & other income	0.3	0.1	0.1	0.0	0.0	0.0
Revenue	7.1	10.5	15.1	23.9	45.1	60.5

Segmental Revenue Growth (% YoY)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
App ARR growth	N/A	87.5	86.7	63.1	84.2	54.2
App revenue growth	N/A	180.0	79.3	58.5	86.8	67.9
Device revenue growth	836.5	53.8	63.8	77.1	97.0	30.0
SpaceTalk revenue growth	931.9	65.4	66.2	74.0	95.5	35.6
MGM schools revenue growth	(1.9)	25.1	(18.1)	(22.1)	0.0	0.0
Trading revenue growth	154.5	52.5	44.0	59.6	88.5	34.2
Revenue growth	160.3	46.8	44.2	58.3	88.5	34.2

Performance Ratios (%)

Year ended June 30	FY19	FY20	FY21	FY22E	FY23E	FY24E
Gross margin	73.1	70.9	61.9	55.2	49.3	48.6
EBITDA margin	(51.0)	(25.6)	4.8	(3.7)	5.2	11.8
Gross debt inc. leases (\$ m)	1.3	0.1	4.2	6.2	6.2	4.2
Net cash/(debt) (\$ m)	0.4	3.0	(0.1)	(1.0)	(3.3)	(0.7)
Gearing (net debt/(cash): capital)	(8.7)	(57.3)	0.6	6.9	19.9	4.1
Fixed charge cover	N/A	N/A	N/A	N/A	N/A	3.9
Return on capital	N/A	N/A	N/A	N/A	N/A	11.8

RATING

- BUY – anticipated stock return is greater than 10%
- SELL – anticipated stock return is less than -10%
- HOLD – anticipated stock return is between -10% and +10%
- SPECULATIVE – high risk with stock price likely to fluctuate by 50% or more

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