

Boku

H122 trading update

Currency moves mask underlying growth

While currency headwinds reduced growth on a reported basis in H122, Boku expects to report constant currency growth of 14% for total payment volume (TPV) and 7% for Payment revenue. Local payment methods (LPMs) are seeing rapid adoption and are making up a growing proportion of volumes (up 11x y-o-y) and monthly active users (MAUs – up 8x y-o-y). On revised forecasts which reflect the stronger dollar, the stock trades at a large discount to peers. We expect this gap to close as LPMs start to make a material contribution to revenue growth.

Year end	Revenue (\$m)	EBITDA* (\$m)	Diluted EPS* (c)	DPS (c)	P/E (x)	EV/EBITDA (x)
12/20	56.4	15.3	3.2	0.0	33.1	15.5
12/21	69.2	20.0	3.9	0.0	27.5	11.8
12/22e	62.5	19.7	4.0	0.0	26.8	12.0
12/23e	69.6	22.7	4.4	0.0	24.0	10.4

Note: *EBITDA and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. FY20/21 include Identity business (sold in Q122).

Stronger dollar creates currency headwinds

Boku expects to report H122 revenue of at least \$30.3m, down 1% versus H121 Payments revenue, but 7% higher on a constant currency basis. The dollar has strengthened significantly against the main currencies in which Boku generates revenue, providing a significant headwind in H122 and we also expect in H222. We also note that Boku benefited from a COVID boost in Q121. While natural hedging partially mitigated the top-line drop through to profitability, H122 EBITDA of \$9.5m (H121: \$11.1m) includes a \$2m negative currency impact. We have revised our forecasts to reflect the stronger dollar in FY22, resulting in a 7.5% cut to revenue and a 10.5% cut to EBITDA, although the effect is much lower at the normalised operating profit and EPS level, down 2.3% and 2.4% respectively.

Rapid adoption of local payment methods

Local payment methods (eWallets and real-time payments) are growing contributors to volumes (up 11x y-o-y) and MAUs (up 8x y-o-y), making up 4.5% of MAUs in June and 10.8% of new users in H122. These methods give merchants access to customers in regions where Boku's direct carrier billing may not be available or where these alternative methods of payment are more popular. These payment methods have the added benefit of widening the addressable market of goods that can be paid for beyond digital content.

Valuation: Large discount to peers

Down 46% year to date, Boku is trading on EV/EBITDA multiples of 12.0x FY22e and 10.4x FY23e, at a c 50% discount to the payment processing peer averages (which are down on average 24% year to date). Applying the average multiple for FY22e would imply a share price of 172.6p and 146.5p for FY23e. In our view, evidence that strong revenue growth can be sustained will be the main catalyst for the share price, with a growing contribution from local payment methods and new major merchants signing up key indicators.

Software and comp services

27 July 2022

Price **88.5p**
Market cap **£265m**

\$1.20:£1

Net cash (\$m) at end H122 67.8

Shares in issue 299.0m

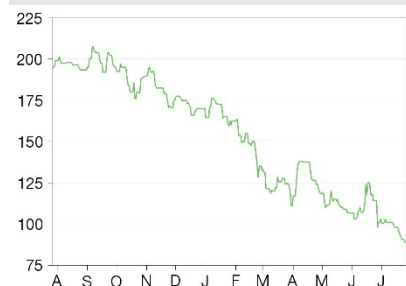
Free float 93%

Code BOKU

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (17.7) (28.6) (53.2)

Rel (local) (18.9) (27.4) (53.3)

52-week high/low 208p 98p

Business description

Boku operates a billing platform that connects merchants with mobile network operators and alternative payment methods in more than 90 countries. It has c 350 employees, with its main offices in the US, UK, Estonia, Germany and India.

Next events

H122 results September 2022

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H122 trading update

Exhibit 1: Summary of H122 trading update metrics

	H122	H121*	Growth y-o-y	Growth constant currency
Total payment volume (TPV)	\$4.4bn	\$4.0bn	10%	14%
Revenue	At least \$30.3m	\$30.7m	-1%	7%
EBITDA	\$9.5m	\$11.1m	-14%	4%
Monthly active users (MAU)	46.3m	37.9m	22%	N/A
New users	28.8m	N/A		
Local payment methods (LPM):				
MAUs	>2.1m	0.23m	800%	
New users	3.1m	0.44m	600%	
LPM MAU/total MAU	4.5%	0.6%		
LPM new users/total new users	10.8%	N/A		
Take rate	0.69%	0.77%		

Source: Boku, Edison Investment Research *Payments business only (Identity business sold in Q122)

Currency moves mask underlying performance

Boku expects to report **revenue** of at least \$30.3m for H122, 1% lower than Payments revenue reported in H121. While Boku reports in US dollars, the vast majority of its revenues are generated in other currencies. Asian currencies (most significantly Japanese yen, Taiwanese dollar and Korean won) make up more than half of revenues, followed by euro (c 15%) and sterling (c 7%). In H122, the US dollar strengthened by roughly 10% against these currencies and for H222, the effect is likely to be even more pronounced. The company has calculated that on a constant currency basis, revenue was 7% higher year-on-year. We note that H121 was always going to be a tough comparison period as the company benefited from a boost in Q121 due to another COVID lockdown.

TPV for H122 was \$4.4bn, representing 10% growth on a reported basis and 14% on a constant currency basis. We estimate that the **take rate** declined from 0.77% in H121 to 0.69% in H122 due to the mix of settlement versus transaction volumes.

Boku expects to report H122 **EBITDA** of \$9.5m compared to \$11.1m for Payments in H121. While there is some natural hedging for costs in the UK and Europe, a material proportion of costs are generated in the US and India, resulting in a currency headwind of \$2m in the period.

As a reminder, the **Identity** business was sold in March 2022 for total proceeds of \$32.3m (\$26.2m cash upfront and \$6.1m cash deferred for up to 18 months). The company expects to report a net profit on disposal of \$24.0m (\$26.8m profit on disposal less related costs of \$2.8m). For H122, Boku expects to report group profit before tax (PBT) of \$29.5m, which includes the \$24.0m net profit on disposal of the Identity business.

At the end of H122, Boku had **cash** of \$67.8m and had repaid all debt. This compares to net cash of \$48.8m at the end of FY21 and \$40.2m at the end of H121. Average daily cash during June 2022 was \$63.3m compared to \$50.8m in December 2021 and \$38.0m in June 2021.

Local payment methods show strong growth

Newer LPMs such as eWallets and real-time payments continue to make up a growing proportion of total payment volumes, MAUs and new users. Volumes from these payment methods increased 11 times year-on-year, MAUs eight times and new users six times compared to H121. LPM users made up 4.5% of MAUs in June 2022 compared to 0.6% in June 2021 and made up 10.8% of new users in H122. Stripping out LPM users, underlying MAUs increased 17% y-o-y.

Changes to forecasts

We have revised our forecasts to take account of the trading update and the effect of currency. With the lower share price year to date, we reduce our share-based payments estimates. We have also reduced our depreciation and amortisation forecasts to reflect the disposal of the Identity business.

While our FY22 forecast implies 2.5% revenue growth in H222 on a reported basis, we estimate this is closer to 17% growth on a constant currency basis. While a large proportion of the revenue reduction drops through to EBITDA, our normalised operating profit and EPS forecasts are less affected, as we have reduced our depreciation and amortisation forecasts.

Exhibit 2: Changes to forecasts

\$'m	FY22e				FY23e				FY24e			
	Old	New	Change	y-o-y	Old	New	Change	y-o-y	Old	New	Change	y-o-y
Payment revenues	67.5	62.5	-7.5%	0.7%	74.6	69.6	-6.7%	11.4%	81.5	76.9	-5.6%	10.5%
Identity revenues	0.0	0.0	N/A	-100.0%	0.0	0.0	N/A	N/A	0.0	0.0	N/A	N/A
Total revenues	67.5	62.5	-7.5%	-9.7%	74.6	69.6	-6.7%	11.4%	81.5	76.9	-5.6%	10.5%
Gross profit	65.1	60.3	-7.5%	-5.0%	71.9	67.1	-6.7%	11.4%	78.6	74.2	-5.6%	10.5%
Gross margin	96.4%	96.4%	0.0%	4.7%	96.4%	96.4%	0.0%	0.0%	96.4%	96.4%	0.0%	0.0%
Payment EBITDA	22.0	19.7	-10.5%	-14.0%	26.2	22.7	-13.4%	15.4%	29.5	26.4	-10.5%	16.1%
Identity EBITDA	0.0	0.0	N/A	N/A	0.0	0.0	N/A	N/A	0.0	0.0	NA	N/A
Total EBITDA	22.0	19.7	-10.5%	-1.6%	26.2	22.7	-13.4%	15.4%	29.5	26.4	-10.5%	16.1%
Payment EBITDA margin	32.6%	31.5%	-1.1%	-5.4%	35.2%	32.7%	-2.5%	1.1%	36.2%	34.3%	-1.9%	1.6%
Identity EBITDA margin	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
EBITDA margin	32.6%	31.5%	-3.3%	2.6%	35.2%	32.7%	-7.2%	1.1%	36.2%	34.3%	-5.2%	1.6%
Normalised operating profit	16.1	15.7	-2.3%	1.8%	18.6	17.7	-4.8%	12.9%	22.9	20.9	-8.7%	17.8%
Normalised operating margin	23.8%	25.1%	1.3%	2.8%	25.0%	25.5%	0.5%	0.3%	28.1%	27.2%	-0.9%	1.7%
Reported operating profit	5.2	9.7	86.7%	89.0%	7.7	9.9	28.3%	2.4%	12.0	13.1	9.1%	31.7%
Reported operating margin	7.7%	15.5%	7.8%	8.1%	10.4%	14.3%	3.9%	-1.3%	14.7%	17.0%	2.3%	2.7%
Normalised PBT	15.6	15.2	-2.4%	3.8%	18.2	17.4	-4.9%	14.0%	22.5	20.5	-8.8%	18.2%
Reported PBT	4.7	9.2	95.6%	110.3%	7.4	9.6	29.8%	3.6%	11.6	12.7	9.4%	33.0%
Normalised net income	12.5	12.2	-2.4%	3.8%	14.4	13.7	-4.9%	12.6%	17.8	16.2	-8.8%	18.2%
Reported net income*	31.0	30.8	-0.5%	392.0%	6.3	8.1	29.8%	-73.7%	9.9	10.8	9.4%	33.0%
Normalised basic EPS (\$)	0.042	0.041	-2.4%	2.6%	0.048	0.046	-4.9%	11.5%	0.059	0.053	-8.8%	17.0%
Normalised diluted EPS (\$)	0.041	0.040	-2.4%	2.6%	0.046	0.044	-4.9%	11.5%	0.057	0.052	-8.8%	17.0%
Reported basic EPS (\$)	0.104	0.104	-0.5%	386.4%	0.021	0.027	29.8%	-73.7%	0.033	0.036	9.4%	31.7%
Net debt/(cash)	(88.3)	(82.3)	-6.7%	68.6%	(115.3)	(106.6)	-7.6%	29.5%	(139.7)	(127.9)	-8.5%	20.0%
TPV (\$bn)	9.20	9.06	-1.5%	10.1%	10.30	10.12	-1.7%	11.7%	11.28	11.11	-1.6%	9.7%
Take rate	0.73%	0.69%	-0.04%	-0.06%	0.72%	0.69%	-0.04%	0.00%	0.72%	0.69%	-0.03%	0.00%

Source: Edison Investment Research. Note: *Reported net income in FY22 includes contribution from discontinued operations (Identity business sold in Q122).

Exhibit 3: Financial summary

	\$m	2017	2018	2019	2020	2021	2022e	2023e	2024e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT									
Revenue*		24.4	35.3	50.1	56.4	69.2	62.5	69.6	76.9
Cost of Sales		(2.3)	(2.5)	(5.6)	(4.9)	(5.7)	(2.2)	(2.5)	(2.7)
Gross Profit		22.1	32.8	44.6	51.5	63.4	60.3	67.1	74.2
EBITDA*		(2.3)	6.3	10.7	15.3	20.0	19.7	22.7	26.4
Normalised operating profit		(4.0)	4.8	4.5	11.6	15.4	15.7	17.7	20.9
Amortisation of acquired intangibles		(1.3)	(1.3)	(1.6)	(2.2)	(2.9)	(1.8)	(1.8)	(1.8)
Exceptionals		(2.2)	(1.4)	(0.3)	(21.1)	(0.0)	0.0	0.0	0.0
Share-based payments		(1.5)	(4.6)	(6.8)	(4.9)	(7.4)	(4.2)	(6.0)	(6.0)
Reported operating profit		(9.0)	(2.4)	(4.1)	(16.7)	5.1	9.7	9.9	13.1
Net Interest		(2.4)	(0.6)	(0.4)	(0.6)	(0.7)	(0.5)	(0.4)	(0.4)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(17.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)		(6.4)	4.3	4.1	11.0	14.7	15.2	17.4	20.5
Profit Before Tax (reported)		(28.5)	(3.0)	(1.3)	(17.3)	4.4	9.2	9.6	12.7
Reported tax		(0.1)	(1.3)	1.7	(1.5)	1.9	(1.4)	(1.4)	(1.9)
Profit After Tax (norm)		(4.8)	3.4	3.2	8.8	11.7	12.2	13.7	16.2
Profit After Tax (reported)		(28.7)	(4.3)	0.4	(18.8)	6.3	7.8	8.1	10.8
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0	23.0	0.0	0.0
Net income (normalised)		(4.8)	3.4	3.2	8.8	11.7	12.2	13.7	16.2
Net income (reported)		(28.7)	(4.3)	0.4	(18.8)	6.3	30.8	8.1	10.8
Basic average number of shares outstanding (m)		150.3	217.1	246.8	273.8	294.0	297.4	300.4	303.4
EPS - basic normalised (\$)		(0.03)	0.02	0.01	0.03	0.04	0.04	0.05	0.05
EPS - diluted normalised (\$)		(0.03)	0.02	0.01	0.03	0.04	0.04	0.04	0.05
EPS - basic reported (\$)		(0.19)	(0.02)	0.00	(0.07)	0.02	0.10	0.03	0.04
Dividend (\$)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		42.0	44.5	42.2	12.5	22.6	(9.7)	11.4	10.5
Gross Margin (%)		90.7	92.9	88.9	91.3	91.7	96.4	96.4	96.4
EBITDA Margin (%)		(9.5)	17.9	21.3	27.1	29.0	31.5	32.7	34.3
Normalised Operating Margin		(16.5)	13.7	9.0	20.5	22.3	25.1	25.5	27.2
BALANCE SHEET									
Fixed Assets		26.9	23.0	52.2	69.8	71.9	66.6	65.2	63.4
Intangible Assets		25.8	22.5	46.8	65.6	63.1	59.0	58.7	58.4
Tangible Assets		0.4	0.3	3.5	3.8	5.7	4.9	4.2	3.6
Investments & other		0.7	0.3	1.8	0.5	3.1	2.7	2.3	1.4
Current Assets		79.3	84.0	89.2	155.2	145.0	181.9	209.9	237.7
Stocks		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debtors		59.1	51.7	53.6	92.5	82.6	93.7	97.5	104.1
Cash & cash equivalents		18.7	31.1	34.7	61.3	56.7	82.3	106.6	127.9
Other		1.4	1.3	0.9	1.4	5.8	5.8	5.8	5.8
Current Liabilities		(78.0)	(79.6)	(81.8)	(139.7)	(122.1)	(125.3)	(137.8)	(147.0)
Creditors		(75.5)	(77.4)	(78.0)	(136.8)	(119.6)	(123.9)	(136.3)	(145.5)
Tax and social security		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short term borrowings		(2.5)	(2.2)	(2.1)	(1.4)	(1.1)	0.0	0.0	0.0
Other		(0.0)	0.0	(1.7)	(1.4)	(1.3)	(1.4)	(1.5)	(1.6)
Long Term Liabilities		(0.2)	(0.8)	(2.6)	(13.6)	(12.3)	(5.7)	(5.7)	(5.7)
Long term borrowings		(0.0)	0.0	0.0	(10.8)	(6.7)	0.0	0.0	0.0
Other long-term liabilities		(0.1)	(0.8)	(2.6)	(2.8)	(5.7)	(5.7)	(5.7)	(5.7)
Net Assets		28.0	26.6	57.0	71.8	82.4	117.5	131.6	148.4
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		28.0	26.6	57.0	71.8	82.4	117.5	131.6	148.4
CASH FLOW									
Op Cash Flow before WC and tax		(2.3)	6.3	7.4	15.3	20.0	19.7	22.7	26.4
Working capital		1.0	7.2	3.0	20.1	(7.1)	(0.8)	2.5	2.6
Exceptional & other		(5.5)	0.2	(1.3)	(3.8)	(0.6)	(4.0)	0.0	0.0
Tax		0.0	(0.2)	(0.1)	(0.3)	(0.4)	(1.0)	(1.0)	(1.0)
Net operating cash flow		(6.8)	13.5	9.0	31.3	11.9	13.9	24.3	28.0
Capex		(0.3)	(0.3)	(2.1)	(3.4)	(5.8)	(4.6)	(5.2)	(5.8)
Acquisitions/disposals		0.0	(0.2)	(0.7)	(36.6)	0.0	26.2	6.1	0.0
Net interest		(0.9)	(0.6)	(0.4)	(1.0)	(0.6)	(0.4)	(0.3)	(0.3)
Equity financing		19.8	0.5	0.6	26.2	1.1	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(1.1)	0.2	(1.5)	(2.6)	(6.1)	(0.6)	(0.6)	(0.6)
Net Cash Flow		10.6	13.1	4.857	13.8	0.5	34.5	24.3	21.3
Opening net debt/(cash)		9.9	(16.2)	(28.9)	(32.6)	(49.0)	(48.8)	(82.3)	(106.6)
FX		0.4	(0.5)	(1.1)	1.3	(0.6)	0.0	0.0	0.0
Other non-cash movements		15.1	(0.0)	(0.0)	1.2	(0.1)	(1.0)	0.0	0.0
Closing net debt/(cash)		(16.2)	(28.9)	(32.6)	(49.0)	(48.8)	(82.3)	(106.6)	(127.9)

Source: Boku, Edison Investment Research *Note: In FY19-21 includes Identity business which was sold in Q122.

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