

Boku

H122 results

Wider payments reach drives underlying growth

Boku reported H122 revenue and adjusted EBITDA in line with its July trading update. During H122, payments made via local payment methods (LPMs) grew significantly y-o-y and, since the end of H1, the company has signed a multi-year contract with Amazon for its LPM services and rolled out eWallets in China for another major merchant. We maintain our forecasts and highlight that underlying growth for the business remains strong, despite currency headwinds.

Year end	Revenue (\$m)	EBITDA* (\$m)	Diluted EPS* (\$)	DPS (\$)	P/E (x)	EV/EBITDA (x)
12/20	56.4	15.3	0.032	0.0	34.8	17.4
12/21	62.1	22.9	0.047	0.0	23.8	11.6
12/22e	62.5	19.7	0.040	0.0	28.3	13.5
12/23e	69.6	22.7	0.044	0.0	25.2	11.7

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

H122 underlying revenue growth of 7%

Boku reported a 1% decline in revenue y-o-y for H122; in constant currency, growth was 7%. Total payment volume (TPV) was 8% higher y-o-y on a reported basis. Adjusted EBITDA of \$9.5m was 15% lower y-o-y due to currency headwinds and increased investment in building out its global mobile-first payments platform. End-H1 net cash of \$67.8m included the receipt of \$26m from the sale of the Identity business in February. Having recently revised our forecasts to reflect currency moves, we maintain our revenue, EBITDA and normalised operating profit forecasts for FY22–24. We note that as Boku earns a percentage of the value of transactions it processes (take rate), this provides an inflation hedge.

Local payment methods business accelerating

Both new users and monthly active users (MAUs) of LPMs grew significantly in H122 (six times and eight times respectively versus H121), with TPV from LPMs increasing 11 times y-o-y. Post period end, the company announced further progress in this area, signing up Amazon in five countries in Asia/Africa and launching Alipay services for a major merchant in China. Five major merchants now use Boku for both direct carrier billing (DCB) and LPMs.

Valuation: Sustained growth to drive upside

Down 38% year to date, Boku is trading on EV/EBITDA multiples of 13.5x FY22e and 11.7x FY23e, at a 47% and 32% discount respectively to the payment processing peer averages (which are down on average 29% year to date). Applying the average multiple for FY22e would imply a share price of 175.3p and 142.0p 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 LPMs and new major merchants signing up key indicators of progress.

Software and comp services

29 September 2022
Price 102.5p
Market cap £306m

\$1.09:£1

Net cash (\$m) at end H122 67.8

Shares in issue 298.1m

Free float 93%

Code BOKU

Primary exchange AIM

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 4.6 1.5 (47.6)

Rel (local) 11.6 7.2 (44.6)

52-week high/low 197p 77p

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

FY22 trading update January 2023

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Review of H122 results

Exhibit 1: Half-yearly results highlights			
\$m	H122	H121	y-o-y
Total payment volume (TPV) - \$bn	4.3	4.0	8%
Take rate	0.70%	0.77%	(0.07%)
Revenue	30.3	30.7	-1%
Gross profit	29.4	29.5	0%
Adjusted EBITDA	9.5	11.2	-15%
Normalised operating profit	7.5	9.0	-16%
Reported operating profit	4.1	4.6	-11%
Normalised net income	5.7	6.9	-18%
Reported net income	28.0	4.0	597%
Normalised diluted EPS (\$)	0.019	0.023	-18%
Reported basic EPS (\$)	0.094	0.006	1495%
Net cash	67.8	40.2	69%
Gross margin	96.8%	95.9%	0.9%
EBITDA margin	31.3%	36.4%	-5.0%
Normalised EBIT margin	24.7%	29.2%	-4.4%
Reported operating margin	13.4%	14.9%	-1.4%

Source: Boku, Edison Investment Research

Boku reported H122 revenue and adjusted EBITDA in line with its July trading update. As we [wrote](#) in July, while Boku reports in US dollars, the vast majority of its revenues are generated in other currencies. Asian currencies (most significantly the Japanese yen, Taiwanese dollar and Korean won) make up more than half of revenues, followed by the euro (c 15%) and sterling (c 7%). In H122, the US dollar strengthened by roughly 10% against these currencies. H122 **TPV** of \$4.3bn was 8% higher y-o-y but would have been higher in constant currency (c 14%). While **revenue** was down 1% y-o-y on a reported basis, the company estimates that it was 7% higher on a constant currency basis. As a reminder, H121 was always going to be a tough comparison period as the company benefited from a boost in Q121 due to another COVID lockdown. The take rate in H122 was 0.70% compared to 0.77% in H121 – this was a function of the mix between settlement and transaction volumes (ie faster growth of the lower take rate transaction business). The company noted that it had not reduced rates for any of its merchants and had not lost any material merchants or connections.

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 at the **adjusted EBITDA** level. Without this, the company estimates that EBITDA would have been more in line with the prior year. The company also increased investment to support its LPM strategy. Excluded from adjusted EBITDA were an FX gain of \$61k, income from providing accounting services to the Identity business post disposal (\$385k) and a write-down of the Fortumo brand intangible asset as the brand is no longer in use (\$1,264k).

This is the first time that Boku has reported the sold Identity business in discontinued operations. The business was sold on 28 February and the company received net proceeds of \$26.0m (after working capital adjustment). During H122, the Identity business generated a loss of \$1.1m up to the date of disposal. Overall, **discontinued operations** contributed \$24.6m to reported net income (\$26.6m profit on disposal less \$1.4m disposal costs, \$0.5m share-based payments expense reversal and \$1.1m losses for the period). Proceeds were used to pay down remaining debt of \$8.1m. A further \$6.5m of contingent consideration is receivable in August 2023, of which \$5.6m represents an indemnity against future possible claims. The \$5.6m is included on the balance sheet as a 'financial asset at fair value through profit or loss'.

Net cash at the end of H122 of \$67.8m was 69% higher y-o-y and 39% higher h-o-h. The company no longer has any debt other than finance leases. To smooth out the effect of carrier and merchant payments, average daily cash in June was \$63.3m, up from \$38.0m in June 2021 and \$50.8m in December 2021. The company suggested that it could use some of this cash for M&A.

Local payment methods gaining traction

The company's mobile-first payment network covers more than 7.1bn user accounts in 92 countries. Of this total, 3bn are for LPMs such as eWallets and real-time payments. LPMs offer consumers an alternative to credit cards or cash and are particularly popular in Asia. Merchants need to offer these payment methods if they are to build their customer bases in countries where LPMs are popular. Boku simplifies this process for merchants by taking care of integrations as well as local regulations and taxes. Netflix has already highlighted that in Q122, Asia was the only region in which it grew subscribers, and put this down to its ability to offer LPMs (which are managed by Boku).

Supporting these payment methods also provides the potential for higher transaction values, as LPMs are not limited to digital content.

The table below shows progress the company has made in its emerging LPM business. New LPM users made up more than 10% of group new users in H122, up from only 2% a year ago and were six times higher y-o-y. Monthly active users of LPMs increased eightfold y-o-y and made up close to 5% of group MAUs in H122 compared to less than 1% a year ago. LPM MAUs have increased to 2.5 million in August. Volumes generated by LPMs have increased elevenfold y-o-y.

Exhibit 2: Progress of monthly active users and new users			
	H122	H121	Growth y--o-y
Monthly active users (MAU)	46.3m	37.9m	22%
New users	28.8m	29.9m	-4%
Local Payment Methods (LMP):			
MAUs	>2.1m	0.25m	708%
New users	3.1m	0.5m	520%
LPM MAU/Total MAU	4.5%	0.7%	
LPM new users/total new users	10.8%	1.7%	
Source: Boku			

The recently [announced contract with Amazon](#) should make a material contribution to Boku's LPM business. Boku will process digital wallet and other LPM payments for Amazon Prime Video subscriptions for customers located in certain countries in South-East Asia and Africa (12 wallets across five countries). The contract has been signed for a minimum period of three years, with annual contract renewals thereafter, and allows Boku to provide payment services to any Amazon division. We expect this service to launch in late 2022/early 2023. Via Fortumo, Boku already provides DCB services for Amazon bundling, although this is one of Boku's less material DCB contracts. This new contract also grants Amazon warrants over up to 11.2m Boku shares dependent on Amazon meeting certain revenue targets over a seven-year period. In our view, this incentivises Amazon to encourage the use of LPMs and creates a closer working relationship with this major merchant.

The company noted that it recently launched its service for another major merchant in China enabling connections to China's largest wallet, Alipay (according to Statista, Alipay had 640 million MAUs in December 2021). Volumes via this connection are already ahead of expectations.

Of Boku's existing major merchants, it is now providing both DCB and LPM services to Amazon, Meta, Netflix, Sony and Spotify.

Ongoing progress at a group level

During H122, Boku launched more than 50 new connections for merchants including Apple, Amazon, EA Games, Meta, Netflix, Samsung, Sky and Spotify. The company was also granted a payments licence in the Philippines, entered the ride sharing market and launched services for the first time in Vietnam, Pakistan and Nigeria. Boku's DCB business has 300 connections globally and, on average, merchants only use 10% of these, providing scope for further growth in DCB volumes.

Outlook and changes to forecasts

In July, we reduced our revenue forecasts to reflect the dollar's strength versus most of the currencies in which Boku operates. Boku has more sterling-based cost than revenue and euro-based costs match euro-based revenue, going some way to mitigating the currency impact at the EBITDA level. As Boku earns a percentage of the value of transactions processed, it benefits as merchants apply price increases, providing an inflation hedge. The company has not yet seen any evidence of consumer spending reducing in the current tough economic climate. As it is used for transactions that are typically lower value (average transaction value is c \$10), consumers may look elsewhere to save money before cutting this type of spending.

We maintain our revenue, EBITDA and normalised operating profit forecasts. Reported operating profit and net income changes reflect H122 one-off items and lower ongoing amortisation of acquired intangibles.

We note that the company started a share buyback programme in July (up to £8m-worth or 5m shares until 30 June 2023), in part to offset employee share awards. To date, Boku has acquired 950,000 shares at a cost of £0.86m/\$1.01m.

Exhibit 3: 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
Revenues	62.5	62.5	0.0%	0.7%	69.6	69.6	0.0%	11.4%	76.9	76.9	0.0%	10.5%
Gross profit	60.3	60.4	0.2%	-0.2%	67.1	67.1	0.0%	11.2%	74.2	74.2	0.0%	10.5%
Gross margin	96.4%	96.6%	0.2%	-0.8%	96.4%	96.4%	0.0%	-0.2%	96.4%	96.4%	0.0%	0.0%
Adjusted EBITDA	19.7	19.7	0.1%	-14.0%	22.7	22.7	0.0%	15.3%	26.4	26.4	0.0%	16.1%
Adjusted EBITDA margin	31.5%	31.5%	0.0%	-5.4%	32.7%	32.7%	0.0%	1.1%	34.3%	34.3%	0.0%	1.6%
Normalised operating profit	15.7	15.7	0.1%	-15.4%	17.7	17.7	0.0%	12.8%	20.9	20.9	0.0%	17.8%
Normalised operating margin	25.1%	25.1%	0.0%	-4.8%	25.5%	25.5%	0.0%	0.3%	27.2%	27.1%	0.0%	1.7%
Reported operating profit	9.7	8.6	-11.8%	-19.5%	9.9	10.3	3.6%	20.2%	13.1	13.5	2.8%	30.6%
Reported operating margin	15.5%	13.7%	-1.8%	-3.4%	14.3%	14.8%	0.5%	1.1%	17.0%	17.5%	0.5%	2.7%
Normalised PBT	15.2	15.2	-0.4%	-15.0%	17.4	17.4	0.3%	14.9%	20.5	20.6	0.3%	18.1%
Reported PBT	9.2	8.0	-13.2%	-19.1%	9.6	10.0	4.4%	24.6%	12.7	13.1	3.3%	31.6%
Normalised net income	12.2	12.1	-0.4%	-15.0%	13.7	13.8	0.3%	13.4%	16.2	16.2	0.3%	18.1%
Reported net income	30.8	31.7	2.9%	406.3%	8.1	8.5	4.4%	-73.3%	10.8	11.2	3.3%	31.6%
Normalised basic EPS (\$)	0.041	0.041	-0.4%	-16.0%	0.046	0.046	0.3%	12.3%	0.053	0.054	0.3%	16.9%
Normalised diluted EPS (\$)	0.040	0.040	-0.4%	-15.9%	0.044	0.044	0.3%	12.3%	0.052	0.052	0.3%	17.0%
Reported basic EPS (\$)	0.104	0.107	2.9%	400.5%	0.027	0.028	4.4%	-73.5%	0.036	0.037	3.3%	30.3%
Net debt/(cash)	(82.3)	(82.8)	0.6%	69.5%	(106.6)	(106.0)	-0.6%	28.0%	(127.9)	(126.2)	-1.3%	19.1%
TPV (\$bn)	9.06	8.94	-1.3%	8.6%	10.12	10.00	-1.2%	11.9%	11.11	10.99	-1.1%	9.9%
Take rate	0.69%	0.70%	0.01%	-0.06%	0.69%	0.70%	0.01%	0.00%	0.69%	0.70%	0.01%	0.00%

Source: Edison Investment Research

Valuation

Boku is trading on EV/EBITDA multiples of 13.5x FY22e and 11.7x FY23e, at a 47% and 32% discount respectively to the payment processing peer averages (which are down on average 29% year to date). Applying the average multiple for FY22e would imply a share price of 175.3p and for

FY23e, 142.0p. 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 of progress.

Exhibit 4: Peer group financial and valuation metrics

	Share price	Market	Rev growth		EBITDA margin		EV/Sales (x)		EV/EBITDA (x)		P/E (x)	
		cap (m)	CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
Boku	102.5p	306	0.7%	11.4%	31.5%	32.7%	4.2	3.8	13.5	11.7	28.3	25.22
Adyen	€1,265	39,784	35.0%	33.4%	60.8%	62.4%	25.0	18.7	41.1	30.0	63.2	47.2
Bango	199.0p	157	52.2%	58.8%	13.1%	24.9%	5.1	3.2	39.2	12.9	N/A	29.3
Block	\$56.27	33,210	(0.4%)	18.9%	4.4%	5.5%	1.9	1.6	42.3	28.5	62.3	36.2
dLocal	\$22.62	6,674	72.3%	51.7%	35.7%	36.0%	14.8	9.8	41.6	27.2	54.3	34.7
FIS	\$80.29	48,815	5.7%	6.7%	44.4%	45.0%	4.5	4.2	10.1	9.4	11.4	10.3
Fiserv	\$97.95	62,647	8.8%	7.3%	42.5%	43.5%	4.9	4.6	11.5	10.5	15.1	13.2
Global Payments	\$115.04	31,885	4.6%	8.5%	48.7%	49.4%	5.3	4.9	10.9	9.9	12.2	10.5
PayPal	\$86.97	100,579	9.7%	14.3%	23.8%	24.3%	3.7	3.2	15.4	13.2	22.1	18.2
Worldline	€41.6	11,875	16.4%	10.5%	25.2%	26.4%	3.7	3.4	14.8	12.8	18.4	16.1
Average Payment Processors			22.7%	23.3%	33.2%	35.3%	7.7	5.9	25.2	17.1	32.4	24.0
Premium/(discount) to peers									(47%)	(32%)	(13%)	5%

Source: Edison Investment Research, Refinitiv. Note: At 26 September.

Exhibit 5: 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	62.1	62.5	69.6	76.9
Cost of Sales		(2.3)	(2.5)	(5.6)	(4.9)	(1.6)	(2.1)	(2.5)	(2.7)
Gross Profit		22.1	32.8	44.6	51.5	60.5	60.4	67.1	74.2
EBITDA		(2.3)	6.3	10.7	15.3	22.9	19.7	22.7	26.4
Normalised operating profit		(4.0)	4.8	4.5	11.6	18.6	15.7	17.7	20.9
Amortisation of acquired intangibles		(1.3)	(1.3)	(1.6)	(2.2)	(1.9)	(1.4)	(1.4)	(1.4)
Exceptionals		(2.2)	(1.4)	(0.3)	(21.1)	0.4	(0.8)	0.0	0.0
Share-based payments		(1.5)	(4.6)	(6.8)	(4.9)	(6.4)	(4.9)	(6.0)	(6.0)
Reported operating profit		(9.0)	(2.4)	(4.1)	(16.7)	10.6	8.6	10.3	13.5
Net Interest		(2.4)	(0.6)	(0.4)	(0.6)	(0.7)	(0.6)	(0.3)	(0.3)
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	17.8	15.2	17.4	20.6
Profit Before Tax (reported)		(28.5)	(3.0)	(1.3)	(17.3)	9.9	8.0	10.0	13.1
Reported tax		(0.1)	(1.3)	1.7	(1.5)	1.9	(0.9)	(1.5)	(2.0)
Profit After Tax (norm)		(4.8)	3.4	3.2	8.8	14.3	12.1	13.8	16.2
Profit After Tax (reported)		(28.7)	(4.3)	0.4	(18.8)	11.8	7.1	8.5	11.2
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	(5.5)	24.6	0.0	0.0
Net income (normalised)		(4.8)	3.4	3.2	8.8	14.3	12.1	13.8	16.2
Net income (reported)		(28.7)	(4.3)	0.4	(18.8)	6.3	31.7	8.5	11.2
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	0.05	0.04	0.05	0.05
EPS - diluted normalised (\$)		(0.03)	0.02	0.01	0.03	0.05	0.04	0.04	0.05
EPS - basic reported (\$)		(0.19)	(0.02)	0.00	(0.07)	0.02	0.11	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	10.1	0.7	11.4	10.5
Gross Margin (%)		90.7	92.9	88.9	91.3	97.5	96.6	96.4	96.4
EBITDA Margin (%)		(9.5)	17.9	21.3	27.1	36.9	31.5	32.7	34.3
Normalised Operating Margin		(16.5)	13.7	9.0	20.5	29.9	25.1	25.5	27.1
BALANCE SHEET									
Fixed Assets		26.9	23.0	52.2	69.8	71.9	67.1	67.3	66.9
Intangible Assets		25.8	22.5	46.8	65.6	63.1	58.4	59.2	59.7
Tangible Assets		0.4	0.3	3.5	3.8	5.7	5.5	5.4	5.4
Investments & other		0.7	0.3	1.8	0.5	3.1	3.2	2.7	1.8
Current Assets		79.3	84.0	89.2	155.2	145.0	183.2	210.8	237.6
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	94.6	99.1	105.6
Cash & cash equivalents		18.7	31.1	34.7	61.3	56.7	82.8	106.0	126.2
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)	(126.2)	(139.6)	(148.8)
Creditors		(75.5)	(77.4)	(78.0)	(136.8)	(119.6)	(124.8)	(138.1)	(147.2)
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	118.4	132.9	150.0
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	118.4	132.9	150.0
CASH FLOW									
Op Cash Flow before WC and tax		(2.3)	6.3	7.4	15.3	22.9	19.7	22.7	26.4
Working capital		1.0	7.2	3.0	20.1	(7.1)	(0.8)	2.7	2.6
Exceptional & other		(5.5)	0.2	(1.3)	(3.8)	0.8	(5.3)	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	16.2	12.6	24.5	28.0
Capex		(0.3)	(0.3)	(2.1)	(3.4)	(5.8)	(5.6)	(6.0)	(6.3)
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)	(0.5)	(0.2)	(0.2)
Equity financing		19.8	0.5	0.6	26.2	1.1	(0.7)	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)	(1.2)	(1.2)	(1.2)
Net Cash Flow		10.6	13.1	4.857	13.8	4.8	30.8	23.2	20.2
Opening net debt/(cash)		9.9	(16.2)	(28.9)	(32.6)	(49.0)	(48.8)	(82.8)	(106.0)
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	(4.4)	3.2	0.0	0.0
Closing net debt/(cash)		(16.2)	(28.9)	(32.6)	(49.0)	(48.8)	(82.8)	(106.0)	(126.2)

Source: Boku, Edison Investment Research

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