



## Pushing into BNPL

With the acquisitions of Australia-based fintech firm, YOZO Finance Pty Ltd (YOZO) and Hong Kong-based firm, OneStep Technology Investment Ltd (OneStep), Credit Intelligence (ASX: CI1), has expanded its focus on funding requirements of Small and Medium Enterprises (SMEs).

CI1 picked up a 60% stake in YOZO that has developed a proprietary artificial intelligence (AI)-based system allowing for rapid loan qualification for business loans with limited support staff. YOZO's data-driven and machine-learning based approach provides it a competitive edge and this will help CI1 in realising its goal of becoming an integrated fintech player. The acquisition has also enabled CI1 to grow into credit funding, factoring and debt management solutions.

### BNPL space offers lucrative opportunity

One of the key offerings of YOZO and OneStep will focus on the fast-growing 'Buy Now Pay Later' (BNPL) segment. It is estimated that the Australian BNPL revenue will grow at 10% CAGR over FY2020-2025 to reach A\$1.1B. BNPL platforms are set to witness a surge in demand as businesses, particularly SMEs, explore alternative funding routes during this period of economic uncertainty. BNPL services are typically geared towards individuals, especially in e-commerce retail, and not many companies are focussing on BNPL solutions for businesses. This places CI1 in a strong position to tap the opportunities in the lucrative BNPL space for SMEs, both in Australia and Hong Kong.

### New product launch – Personal BNPL

Apart from providing BNPL to SMEs, CI1 also launched an online shopping platform, ekbuy.com.hk, in FY22. This platform effectively targets the Hong Kong personal BNPL space, offering a wide range of consumer products including electronics, home appliances and consumer staples. Given the likely structural shift towards online shopping, we expect this backdrop to positively benefit CI1 and its new product in the coming years.

### Valuation revised to \$0.04 – 0.05 per share

We have revised our valuation model to incorporate: 1) FY21 results and subsequent revisions to our expectations for CI1's future sales and earnings, 2) YOZO's acquisition and 3) an expanded share base. Please see our valuation section for more detail. Key risks we see include: (1) acquisition integration challenges; (2) technology-related issues with YOZO and OneStep platforms and (3) significant improvement in business outlook.

Share Price: A\$0.01

ASX:CI1

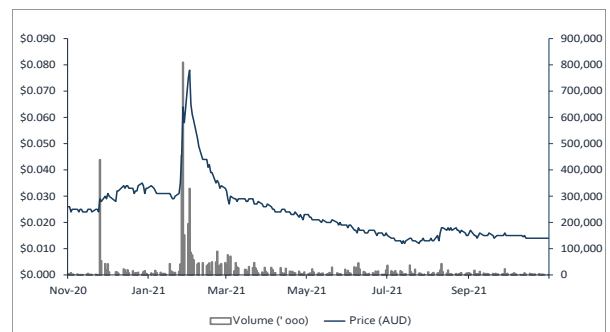
Sector: Commercial & Professional Services

24 November 2021

Market Cap. (A\$ m)	22.4
# shares outstanding (m)	1,602.7
# shares fully diluted (m)	1,645.5
Market Cap Ful. Dil. (A\$ m)	23.0
Free Float	63.2%
52-week high/low (A\$)	0.13 / 0.01
Avg. 12M daily volume ('000)	22,717.9
Website	<a href="http://www.ci1.com.au">www.ci1.com.au</a>

Source: Company, Pitt Street Research

### Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Refinitiv Eikon, Pitt Street Research

<b>Valuation metrics (A\$ per share)</b>	
Blended valuation (DCF & RV, 50:50)	0.04 – 0.05

Source: Pitt Street Research

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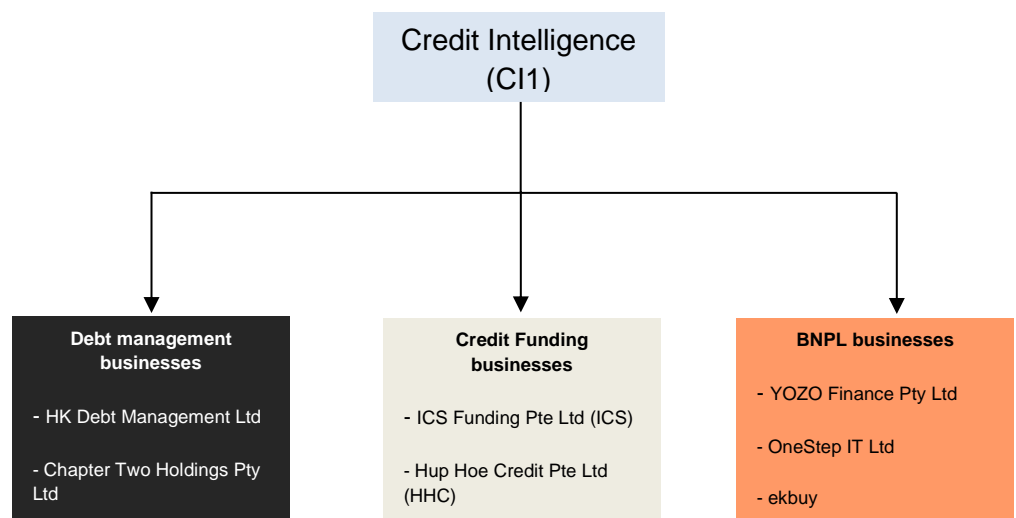


## Entering the BNPL arena

In FY21, CI1 expanded its service offering to include BNPL. It achieved this through acquiring a majority interest in two businesses, namely YOZO Finance Pty Ltd (YOZO) and OneStep Information Technology Ltd (OneStep).

Following the acquisitions, management has effectively transformed CI1 from a debt restructuring company into a diversified financial group. CI1 now runs three business divisions, with each division aiming to capitalise on a different market segment (Figure 1).

Figure 1: CI1 divisional break-down



Source: Pitt Street Research

## Acquisition spree continues

### YOZO takeover

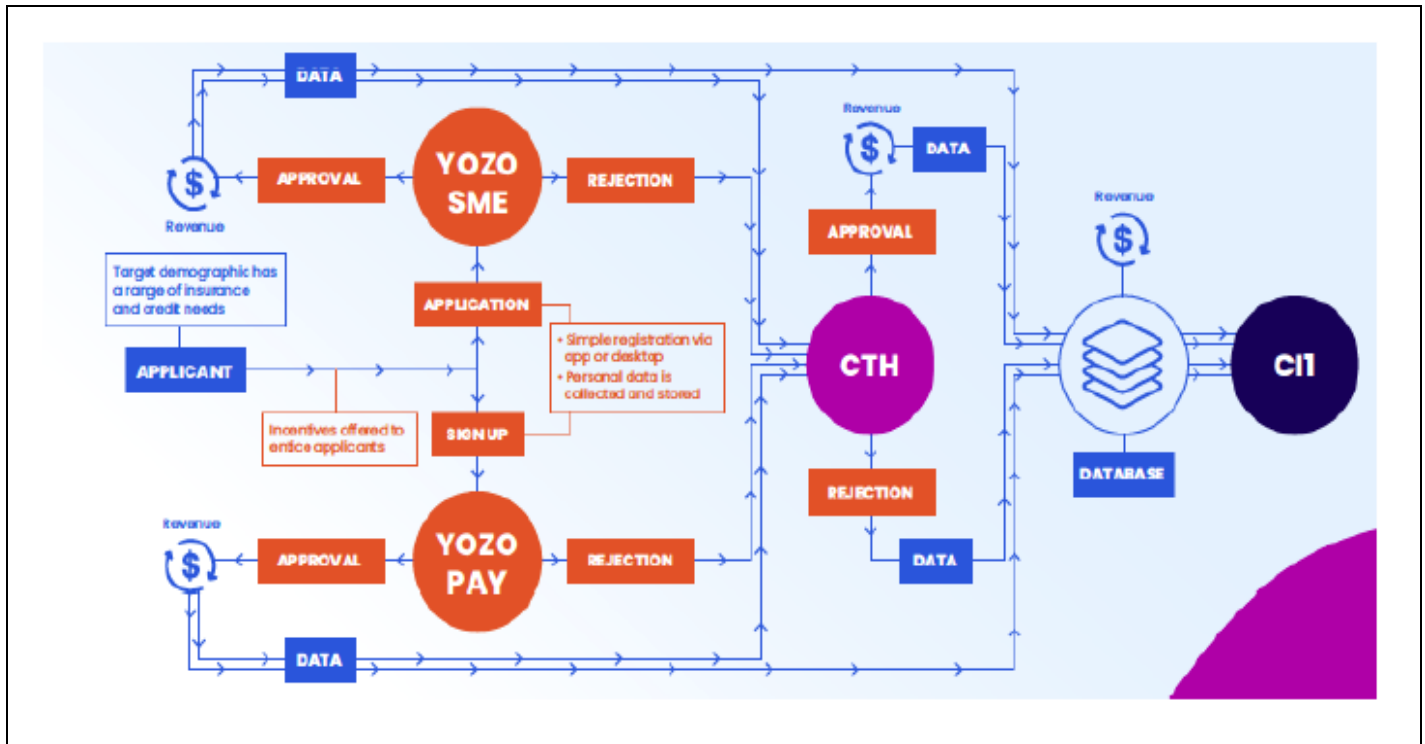
The YOZO platform and its proprietary AI-driven algorithms have been developed in collaboration with Dr. Guangdong Xu, who leads the Computer Science and Advanced Analytics Institute at UTS Sydney. The platform was developed to particularly aid funding requirements to support the growth of Australia's SMEs. YOZO, a 24/7 self-service intuitive AI engine, caters to small business owners providing them with financial tools and calculators to better assess their financial position and potential borrowing capacity. The YOZO project is unique owing to its purely data-driven and machine learning-based approach that enables customised and streamlined experience for small business loans.

Since initial development in May 2019, YOZO has helped about 300 clients in accessing credit solutions and has a total loan book of about A\$3M. CI1 will be focussing on integrating the YOZO platform (Figure 2) and its proprietary AI into its operations. Notably, with the use of intuitive machine learning algorithms, YOZO can process loan applications in just 30 minutes, leading to significant reduction of back office staff required to qualify loans.

**YOZO Finance platform has a base of ~300 customers**



Figure 2: CI1's comprehensive platform



Source: Company

**YOZO Pay will be launched in 2021**

**YOZO deal is expected to aid CI1 in transforming into a full-service fintech player, especially for Australian SMEs**

YOZO has two key offerings (Figure 3) – YOZO SME and YOZO Pay (BNPL). YOZO SME provides a larger loan size and quick and hassle-free business loans with minimal back office costs. Whilst YOZO Pay plays in the BNPL space. CI1 and YOZO will continue to sign up new vendors across various key industries and offer the BNPL service wherein the repayments will be divided into Four instalments providing greater flexibility repayment term. With the backing of CI1, YOZO is poised to fast-track its commercialisation journey for both its offerings.

**We believe that the acquisition and integration of YOZO is expected to offer a multitude of benefits to CI1.** First, CI1 has traditionally been a debt restructuring and personal insolvency consultant but with the YOZO acquisition, it has expanded into adjacent areas of credit funding, factoring and debt management. Second, with the YOZO technology now under its umbrella, CI1 is expected to transform into a full-service fintech player, especially for Australian SMEs. CI1 will deploy YOZO’s AI in order to provide it a competitive edge in both lending and debt management for SMEs. It is also expected to fully digitise its entire offering for more efficient processes, wherein it can build a database and upsell the suite of products to new customers. Third, this acquisition complements CI1’s previous acquisition of Sydney-based Chapter Two Holdings (CTH) that provides debt restructuring and personal insolvency management services.



Figure 3: YOZO's service offerings

YOZO SME	YOZO Pay
<b>Fast, hassle-free business loans, available 24/7 with significantly less back office processing cost</b>	<b>A BNPL solution designed for SMEs vs. other BNPL providers focussing on individuals</b>
Access to finance for startups	On-demand lending allows customers to pay their invoices and bills on time
Finance extended without real estate as collateral	YOZO Pay can be used to make online and in-store purchases
<b>Quick:</b> Application takes ~10 minutes, approval takes ~30 minutes	<b>Loan repayment</b> is split into four installments
<b>Simple:</b> Applicants fill out few details, upload their bank feed and the AI does the rest	<b>Simple, fast sign-up</b> , requiring only a personal guarantee, identification and credit card details
<b>Long contract:</b> Customers have up to 24 months to pay back their loan	<b>Suppliers are paid the full amount immediately</b> , at the time of purchase

Source: Company

## OneStep takeover

In 4Q FY21, CI1 bought a 60% stake in OneStep Technology Investment Ltd (OneStep), a Hong Kong based company that provides corporate services to c.20,000 clients. Its newly launched BNPL and loan platform, OneFlexi, allows SMEs to access BNPL service for certain corporate services such as settling on-demand corporate and utility bills, and thereby provides cashflow flexibility to SMEs. In return, OneStep will earn a one-off registration fee and a recurring monthly handling fee with a minimum charge. OneStep will initially target the Hong Kong SMEs, after which it plans to roll-out its services in other markets including Australia, UK, Singapore and Malaysia.

## Recent acquisitions provide entry into the fast-growing BNPL segment

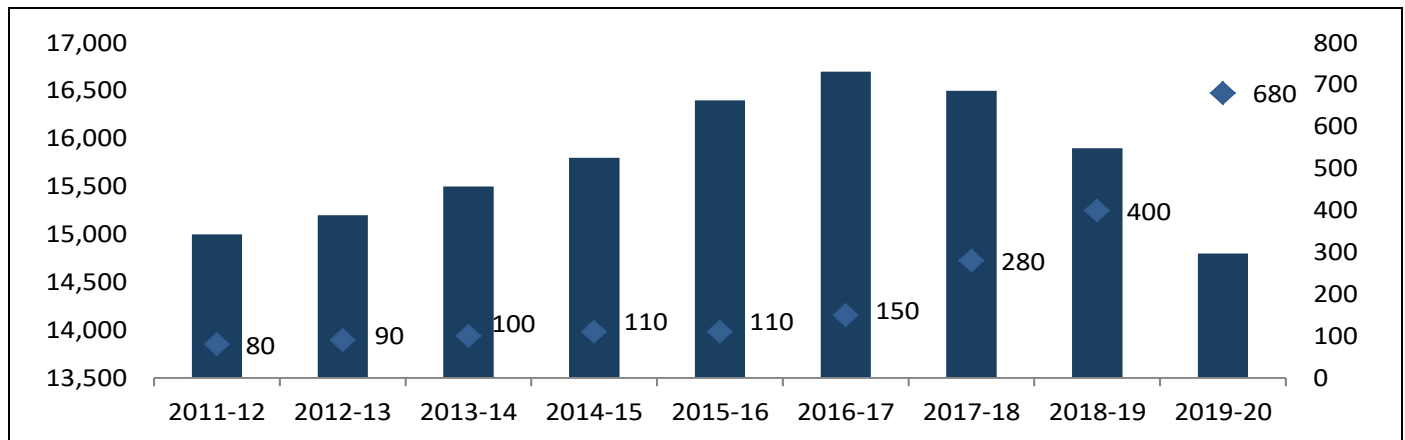
With the YOZO and OneStep businesses in its kitty, CI1 is poised to exploit the plethora of opportunities in the lucrative BNPL segment. According to IBISWorld, a leading market research company, Australian BNPL revenue is expected to grow at ~10% CAGR over FY2020-2025 to reach A\$1.1B. Australians are skipping credit cards as other interest-free services such as BNPL solutions are gaining traction (Figure 3). According to the Reserve Bank of Australia, the number of credit cards in Australia declined 6.6% in FY2019-2020, as more consumers switched to BNPL providers during the COVID-19 crisis.

BNPL platforms are set to witness a surge in demand as businesses explore alternative funding routes. SMEs are currently facing the heat of economic uncertainty and their needs remain largely unaddressed. Banks are often reluctant to provide financing without real estate as collateral and the process can be lengthy and burdensome, possibly hindering the business operations and expansion activities.

*Australian BNPL revenue is expected to grow at ~10% CAGR over FY2020-2025*



Figure 4: Number of credit cards ('000, l.h.s.) and BNPL revenue (A\$M, r.h.s.)



Source: IBISWorld, Reserve Bank of Australia

**SMEs account for 98% of all businesses in Australia and contribute 35% to GDP**

SMEs play a significant role in the Australian economy. They account for 98% of all businesses in Australia and contribute 35% to the GDP. Currently, the SME lending market in Australia is estimated to be ~A\$247B and the funding gap/opportunity is projected to be over A\$70B. Typically, the challenge for SMEs is inconsistent cash flow leading to delayed loan repayment. This not only leads to poor relation with suppliers but also negatively impacts their credit rating. Notably, many small businesses look for quick credit in such situations in order to avoid disruption in operations and missed business opportunities.

YOZO/CI1 is set to leverage such opportunities through its YOZO Pay offering which is targeting the fast-growing BNPL space. This novel BNPL solution is designed for SMEs to split supplier payments into installments for better cash flow management. In our view, CI1 will be able to capitalise on SMEs rising need for flexible finance, quick online loans and approvals, BNPL arrangements and management of defaults in both Australia and Hong Kong through the integration of YOZO and OneStep platforms with its existing solutions.

## New product launch

### Tapping into the Hong Kong personal BNPL market

Apart from providing BNPL to SMEs, CI1 also launched an online shopping platform, ekbuy.com.hk, in FY22. This platform effectively targets the Hong Kong personal BNPL space, offering a diverse range of consumer products including electronics, home appliances and consumer staples.

Given the likely structural shift towards online shopping, we expect this to positively benefit CI1 and its new product in the coming years.

Moreover, the BNPL market in Hong Kong is still early and growing. And based our research, competition in that market is yet to pick up. Hence, we believe this new online platform provides CI1 with an early mover advantage to gain share and dominance in a lucrative market.

### CTH new mobile app expected to drive traction in the debt solutions market

FY22 saw CTH launching its debt management mobile app, which provides its customers a digitalised experience, allowing them to see all their debts in one place and their residual balances and repayment history on each account. It also provides benefits to CTH as the app will enable CTH to monitor its clients'



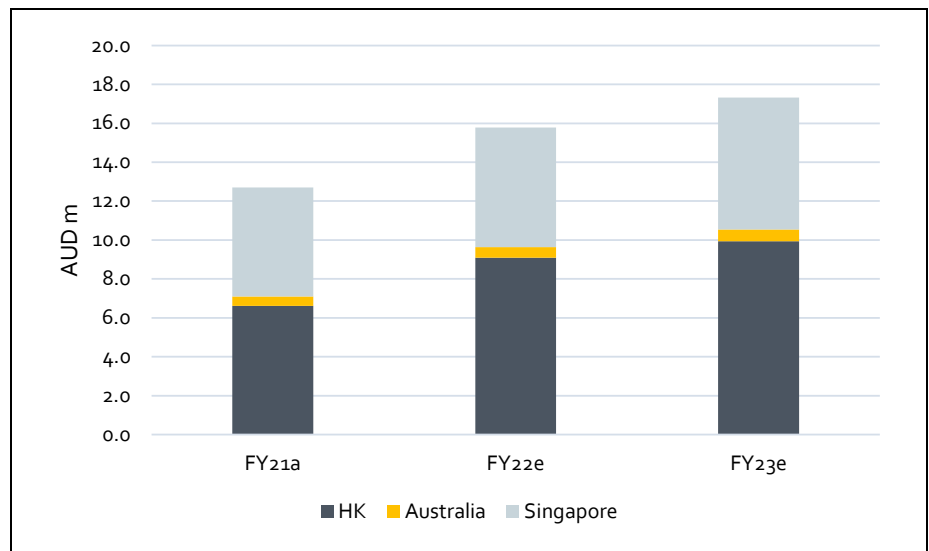
repayment histories and debt balances and cross-sell other financial services as clients' credit rating improves. We think this new offering will enhance UX which in turn should help CTH to attract more customers.

## Valuation revised to \$0.04 – 0.05 per share

We have re-worked our DCF based on the following key changes:

- We have updated our model based on FY21 results. Actual results came under our expectations partly due to government's stimulus program and measures to protect consumers from debt collection. As a result, we have lowered our expectations for CI1's future revenues (Figure 5).
- We have revised our model to incorporate the YOZO acquisition. Given YOZO is still early in its commercialisation journey, we have conservatively assumed organic growth to be 5% for FY22e. Based off its FY21 sales, we expect YOZO to contribute \$11.7K in sales for FY22e.
- We have expanded our share base to 1.6B.

Figure 5: CI1's revised sales profile



Source: Pitt Street Research

At this stage, we haven't factored in any potential return from OneStep and ekbuy, as their sales and cashflows are yet to be accrued to the CI1 group. When their incremental contributions become available, we will consider incorporating them into our model.

Following our revisions, our DCF has produced a revised valuation range of \$0.05 – 0.07 per share.

On relative valuation, we have retained our previous comparable set but have also introduced some BNPL peers including OpenPay (ASX: OPY), Zip Co (Z1P) and LayBuy (ASX: LBY) to account for the growth potential of CI1's new BNPL offering. Our target FY22 sales multiple is set at 3.6x base case which reflects group peer average (Figure 6). If sales can rise to \$15.8m in FY22 as per our revised forecast, that would imply an EV of \$56.1m, which adjusted for net cash and an expanded share base points to an equity value of \$0.04 per share.



Figure 6: Peer group analysis

Company Name	Ticker	Market Cap (A\$ m)	EV/Sales	
			FY22	FY23
Credit Corp Group Limited	ASX:CCP	2,127.2	5.5X	4.9X
Navient Corporation	NasdaqGS:NAVI	4,411.1	3.0X	3.1X
Resurs Holding AB (publ)	OM:RESURS	1,351.5	2.5X	2.3X
Popular, Inc.	NasdaqGS:BPOP	9,135.4	2.6X	2.5X
Arrow Financial Corporation	NasdaqGS:AROW	795.6	4.2X	3.9X
Merkur Bank KGaA	XTRA:MBK	194.3	1.6x	1.5X
Berner Kantonalbank AG	SWX:BEKN	2,861.2	4.2X	4.1X
Virgin Money UK PLC	LSE:VMUK	4,663.8	1.5X	1.5X
<b>Average</b>			<b>3.1X</b>	<b>3.0X</b>
Zip Co	ASX:Z1P	3,356.4	7.3X	5.2X
OpenPay	ASX:OPY	148.4	2.7X	1.5X
Sezzle	ASX:SZL	986.8	3.6x	2.6X
Splitit Payments	ASX:SPT	140.8	4.5X	2.4X
LayBuy	ASX:LBY	106.8	1.8x	1.1X
<b>Average</b>			<b>4.0X</b>	<b>2.6X</b>
<b>Overall Average</b>			<b>3.6x</b>	<b>2.8x</b>

Source: Pitt Street Research

Overall, our blended valuation range (equal weighted between DCF & RV) is revised to \$0.04 – 0.05 per share (Figure 7).

Figure 7: Revised blended valuation summary

Base Case			Bull Case		
	Weights (%)			Weights (%)	
DCF	50.0%	0.05	DCF	50.0%	0.07
Relative valuation	50.0%	0.04	Relative valuation	50.0%	0.04
<b>Composite Value (A\$)</b>		<b>0.04</b>	<b>Composite Value (A\$)</b>		<b>0.05</b>
Current Price (A\$)		0.01	Current Price (A\$)		0.01
<b>Upside/ Downside (%)</b>		<b>208%</b>	<b>Upside/ Downside (%)</b>		<b>290%</b>

Source: Pitt Street Research

Please refer to [www.pittstreetresearch.com](http://www.pittstreetresearch.com) for our initiating coverage on CI1, including discussion of risk factors.



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