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Credit Intelligence Limited

Accelerating Asian expansion

Share Price: A$0.015

Valuation range: A$0.048-0.071

ASX: CI1

Sector: Commercial & Professional Services

27 May 2019

Credit Intelligence Limited (ASX:CI1) has accelerated its expansion into the Asia Pacific region with the acquisition of two companies in Singapore.

CI1 announced it will acquire 60% stakes in ICS Funding and Hup Hoe Credit (HHC) in a cash and scrip transactions with a 12-month lock-up for the vendors. HHC is primarily focussed on providing personal loans while ICS provides credit financing to corporates.

CI1 will pay A$1.84M in cash and 115.7M CI1 shares for ICS and A$1.29M in cash and 81M CI1 shares for HHC, with A$0.03 per share being the basis for the scrip components of the purchase prices. This is well ahead of the company's current share price. Given the adjustment mechanisms built into the two purchase agreements, that call for a share top up in case CI1 shares are below A$0.03 twelve months after the acquisition, we believe this signals confidence in the future development of its share price on the part of CI1. Both acquired companies are expected to be earnings accretive from the date of acquisition.

Both companies are relatively young, having been established in 2014 and 2015 respectively, and will add to CI1's existing presence in Singapore through the joint venture with Arrow Business Consultants that was established late in 2018. We expect this jv may contribute positively to CI1's top line by the second half of this year.

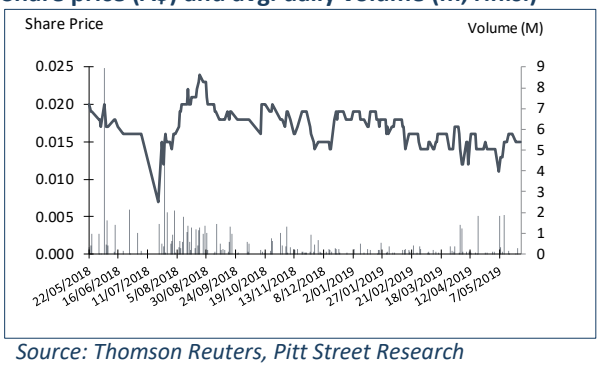
Year to June (A$)	2017A	2018A	2019f	2020f	2021f
Sales (m)	3.8	4.9	6.2	7.5	8.7
YoY growth		28.8%	26.7%	21.3%	14.9%
EBITDA (m) Adjusted	2.1	2.4	1.5	3.9	4.6
Net Profit (m) Adjusted	1.8	2.0	1.1	2.6	3.1
Adj. EBITDA Margin (%)	55.9%	48.8%	24.9%	51.6%	53.1%
ROA (%)	127.1%	63.0%	23.5%	59.4%	63.5%
EPS before extr. & amort.	0.25c	0.27c	0.12c	0.29c	0.34c
EPS	0.25c	-0.03c	0.12c	0.29c	0.34c
DPS	0.21c	0.18c	0.21c	0.28c	0.32c
EV/Sales	NA	1.7x	1.4x	1.2x	0.9x
EV/EBITDA before extra	NA	3.6x	5.8x	2.2x	1.8x
P/E before extra	NA	6.6x	12.8x	5.2x	4.4x
Dividend yield %	NA	10.4%	14.1%	18.4%	21.1%

Source: Company, Pitt Street Research

Market Cap. (A$ m)	12.3
# shares outstanding (m)	820.4
# share fully diluted	899.7
Market Cap diluted (A$ m)	13.5
Free Float	16.5%
12 months high/low	$0.024 / $0.007
Website	www.ci1.com.au

Source: Company, Pitt Street Research

Share price (A$) and avg. daily volume (m, r.h.s.)



Source: Thomson Reuters, Pitt Street Research

Valuation metrics base case	
DCF (A$)	0.061
Relative valuation (EV/EBITDA) (A$)	0.035
Equal weighted average (A$) per share	0.048

Source: Pitt Street Research

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Substantial firepower for further acquisitions

Given that a significant portion of the two acquisitions will be paid for in CI1 scrip, the company retains its financial fire power to acquire more companies across the AsiaPac region as well as Australia. We anticipate additional transactions in the near to medium term.

Cor Cordis collaboration not formalised yet

CI1 also indicated that it is still working on formalisation of the intended JV with Cor Cordis in Australia. Cor Cordis is specialised in business insolvency and advisory, not unlike CI1's own activities in Hong Kong. As the company is working to hammer out this JV agreement, it is also looking into other acquisition opportunities in Australia, specifically to ride the expected wave of personal insolvency cases in the next few years, i.e. as the Australian housing market is weakening.

Strong 1HY19 revenue growth

As reported in February CI1 posted a strong revenue increase of 40% in the six months through 31 Dec 2018. This growth can largely be attributed to CI1's solid growth in their Hong Kong business.

This performance further solidifies our view that CI1 still has strong growth opportunities in its home base of Hong Kong.

The increase in costs during the reporting period are in line with our projections. The spike in costs can be associated with ASX listing costs incurred and other business development costs and should be temporary.

We believe these strong results in Hong Kong provide an excellent cash base for the company to pursue its planned expansion in Asia Pacific given the company is actively engaged in scouting out further strategic acquisitions in both Australia and Singapore to support its Asia Pacific expansion.

Conclusion

Overall, the outlook for CI1 remains positive with revenue growth and the company's expansion plans in line with our projections. We re-iterate a valuation range from A$0.048 in the base case to A$0.071 in the optimistic scenario, leaving substantial potential for value creation.

Please see our initiating coverage dated 20 December 2018 for a summary of the risks related to CI1.

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