Orcoda Limited

ODA.AX

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We love cash

NEED TO KNOW

- 4Q result flags FY23e revenue of $20.7m – 6% above MSTe of $19.5m
- Cash receipts $22.4m, 8% above revenue; Closing cash of $4.8m vs MSTe estimate of $2.8m.
- Future Fleet acquisition and contracts underpin upgrades.

FY23 revenue expected to be $20.7m – 25% growth on FY22 as new contracts add to recurring revenue.

Strong cash performance with cash receipts for FY23 31% above FY22. While no FY23 profit guidance was provided we expect positive EBITDA given strong operating cash flow of $2.1m. Cash at 30 June 2023 was $4.8m, up from $2.0m on 31 Dec 2022.

The strong result, Future Fleet acquisition and on-going contract announcements has underpinned our upgrades to forecasts and valuation – now A$0.40 (previously A$0.32).

Investment thesis

SaaS software solving real world problems: Orcoda Logistics Management System (OLMS) for scheduling, routing and optimisation functionality for the management of people, parcels and transport assets; and Orcoda Workforce Logistics Software (OWLS) for workforce logistics management for remote resources sites. Both offer compelling value propositions and include a patent protected booking system.

Electrical and communications contracting: Orcoda's contracting business, Betta Group, is well positioned for on-going profitable growth with reduced risk. We expect it to continue to offer cross sell opportunities for the software products.

Smart Cities of the future: Orcoda is pursing involvement in the development and management of Smart Cities that it expects to emerge in the next decade. Capability in both physical installation and sophisticated transport management software provides Orcoda with a strong base to participate in the both the Digital Twins simulation projects and Smart Cities.

Valuation

We have increased FY23 revenue to be in line with this result and retained similar growth rates and margins with EBITDA increasing by 7% – 12% over the forecast period. We value Orcoda at $0.40 per share (previously $0.32) based on a DCF valuation. Forecasts are reliant on strong software growth, albeit lower than FY22, at strong gross margins. We forecast Contracting (Betta Group) growth of ~10% at gross margins in line with market. Upside to our valuation is most likely to come from higher software growth, and strong contracting growth and gross margins.

Risks

Key risks include an inability for Orcoda's software to attract commitment from target market customers, partnerships failing to deliver growth, as well as increased marketing from competitors. Contracting risks include inflationary pressure affecting material costs, labour shortages, and inability to win new work.

Equities Research Australia

Software Technology / Contracting

Andrew Johnston, Senior Analyst
andrew.johnston@mstaccess.com.au

Noah Hunt, Associate
noah.hunt@mstaccess.com.au

ORCODA

Orcoda Limited (ASX: ODA) is a contracting and software business. It provides electrical and communications contracting services for infrastructure projects. It also provides workforce logistics software for remote worksites and software for complex transport scheduling of people, parcels and assets in applications across healthcare, disability support and local government. It has recently signed agreements with channel partners including Teletrac Navman, and TutisVReddo that are already yielding results. Orcoda aims to be integral to the development of the Smart Cities of the future.

Valuation	**A$0.40** *(previously A$0.32)*
Current price	**A$0.27**
Market cap	**A$43m**
Cash on hand	**A$4.8m**

Additional Resources

OWLS: Workforce logistics system - Demo

OLMS: Logistics management system - Demo

Upcoming Catalysts and Newsflow

Period	
August 2023	Full year results

Share Price (A$)

Source: FactSet

Financial Summary

Orcoda (ODA-AU)

Year end 30 June		FY21	FY22	FY23E	FY24E	FY25E
Core PE	**x**	**58.2x**	**106.2x**	**45.8x**	**21.8x**	**9.4x**
EV/EBIT*	x	56.8x	90.8x	42.8x	20.9x	9.3x
EV/EBITDA*	**x**	36.6x	38.8x	25.0x	14.5x	7.5x
Div yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF Yield	%	5.5%	1.3%	3.4%	6.9%	13.4%

* includes Lease Liabilities

Stock information	
Share Price	A$0.27
Market capitalisation (SOI) (A$m)	43.3
Valuation (A$)	**$0.40**
Shares on issue (Basic) (m)	160.4
Shares on issue (diluted) (m)	167.8

Profit & Loss Statement	A$m	FY21	FY22	FY23E	FY24E	FY25E
Operating Revenue		**7.6**	**16.1**	**20.7**	**24.5**	**28.8**
Change pcp	%		*110%*	*29%*	*18%*	*18%*
Gross Profit		**3.1**	**5.7**	**6.7**	**8.9**	**12.1**
Gross margin	%	40.5%	35.5%	32.6%	36.5%	42.1%
Overheads		-3.1	-5.2	-5.6	-6.1	-6.5
Other income		1.2	0.6	0.6	0.1	0.1
EBITDA (underlying)		**1.2**	**1.1**	**1.7**	**3.0**	**5.7**
EBITDA margin	%	15%	7%	8%	12%	20%
D&A		-0.4	-0.6	-0.7	-0.9	-1.1
Net Finance Costs		-0.1	-0.1	-0.1	-0.1	-0.1
Tax		0.0	0.0	0.0	0.0	0.0
NPAT (underlying)		**0.7**	**0.4**	**0.9**	**2.0**	**4.6**
Significant items		0.0	-0.6	0.0	0.0	0.0
FX differences		0.0	0.6	0.0	0.0	0.0
Share-based payments		0.0	-0.2	-0.2	-0.2	-0.2
NPAT (Reported)		0.4	-0.4	0.7	1.8	4.4

	1H22	2H22	1H23	2H23E	1H24E	2H24E
Operating Revenue	7.9	8.2	9.2	15.3	10.9	13.6
Change pcp			*17%*	*86%*	*18%*	*-11%*
Gross Profit	**2.6**	**2.7**	**2.5**	**4.3**	**3.5**	**5.7**
Gross margin	33.6%	32.9%	27.0%	27.9%	32.0%	41.8%

Performance ratios	FY22	FY23E	FY24E	FY25E
ROE	2.8%	6.2%	11.8%	21.6%
ROIC	2.8%	5.7%	10.5%	19.5%
Net Debt / EBITDA	0.3x	-0.1x	-0.9x	-1.4x
Fixed Charge Cover	6.6x	14.0x	28.6x	64.7x
GCF / EBITDA	1.0x	1.1x	0.9x	1.0x
Price to Book	0.3x	0.4x	0.4x	0.6x
Current Ratio	1.7x	1.7x	2.2x	3.1x

Per Share Data		FY21	FY22	FY23E	FY24E	FY25E
Shares on issue (basic)	m	148	159	159	160	160
Underlying EPS	**A$ cps**	**0.5**	**0.3**	**0.6**	**1.2**	**2.9**
growth pcp	%		*-45%*	*132%*	*110%*	*131%*
Reported EPS	A$ cps	**0.3**	**-0.3**	**0.5**	**1.1**	**2.7**
growth pcp	%		*-187%*	*-278%*	*145%*	*147%*
DPS (declared)	A$ cps	0.0	0.0	0.0	0.0	0.0
Payout (on reported)	%	0%	0%	0%	0%	0%

Balance sheet	A$m	FY21	FY22	FY23E	FY24E	FY25E
Cash & Deposits		2.4	2.4	2.9	5.4	10.6
Receivables		2.4	3.1	3.4	4.0	4.7
PP&E		3.1	4.6	5.8	6.8	7.7
Intangibles		8.7	8.7	8.6	8.6	8.5
Right of Use Assets		0.3	0.2	0.2	0.2	0.2
Other Assets		0.7	0.6	0.6	0.6	0.6
Total Assets		**17.6**	**19.7**	**21.7**	**25.7**	**32.5**
Payables		1.4	2.1	2.6	3.0	3.5
Borrowings		2.5	2.5	2.5	2.5	2.5
Lease Liabilities		0.4	0.3	0.3	0.3	0.3
Provisions / other		0.5	0.5	0.5	0.5	0.5
Total Liabilities		**4.7**	**5.4**	**5.8**	**6.3**	**6.8**
Shareholders' Funds		12.8	14.4	15.9	19.5	25.7
Net Debt (incl. Lease Liab)		**0.5**	**0.3**	**-0.2**	**-2.6**	**-7.9**

Segments	A$m	FY22	FY23E	FY24E	FY25E
ODA segment revenue					
Resource Logistics		13.4	15.4	17.1	19.2
growth			*15%*	*11%*	*12%*
Healthcare & Transport		2.6	5.3	7.4	9.6
growth			*100%*	*40%*	*30%*
Total		**16.1**	**20.7**	**24.5**	**28.8**
Segment revenue (MST est.)					
Software		3.5	6.6	9.2	12.0
growth			*90%*	*40%*	*30%*
Contracting		12.6	14.1	15.2	16.8
growth			*12%*	*8%*	*10%*
Total		**16.1**	**20.7**	**24.5**	**28.8**
Segment Gross Profit (MST est.)					
Software		2.4	3.5	6.6	9.6
margin		70%	53%	72%	80%
Contracting		3.3	3.2	2.3	2.5
margin		26%	23%	15%	15%
Total Gross Profit		**5.7**	**6.7**	**8.9**	**12.1**
Total GP Margin		36%	33%	37%	42%
Overheads (MST est.)		-5.2	-5.6	-6.1	-6.5
Other income		0.6	0.6	0.1	0.1
EBITDA (Underlying)		**1.1**	**1.7**	**3.0**	**5.7**
EBITDA margin		6.7%	8.3%	12.1%	19.9%

Cashflow statement	A$m	FY21	FY22	FY23E	FY24E	FY25E
EBITDA		1.2	1.1	1.7	3.0	5.7
Net interest (debt + leases)		0.0	-0.1	-0.1	-0.1	-0.1
Working capital movements		-1.1	0.0	0.1	-0.2	-0.2
Other		-0.3	-0.1	0.0	0.0	0.0
Operating CF		**0.3**	**1.1**	**1.8**	**2.7**	**5.5**
Payments for PPE		-0.1	-0.6	-0.1	-0.1	-0.1
Acquisition costs		-1.0	-1.0	-0.5	0.0	0.0
Other investments		0.3	0.0	0.0	0.0	0.0
Investing CF		**-0.7**	**-1.6**	**-0.6**	**-0.1**	**-0.1**
Net change in borrowings		0.3	-0.6	-0.6	0.0	0.0
Princ. lease payments		-0.2	-0.1	-0.1	-0.1	-0.1
Dividends paid		0.0	0.0	0.0	0.0	0.0
Net proceeds from cap raising		1.2	1.2	0.0	0.0	0.0
Financing CF		**1.4**	**0.5**	**-0.7**	**-0.2**	**-0.2**
Net change in cash		**1.0**	**0.0**	**0.5**	**2.5**	**5.2**

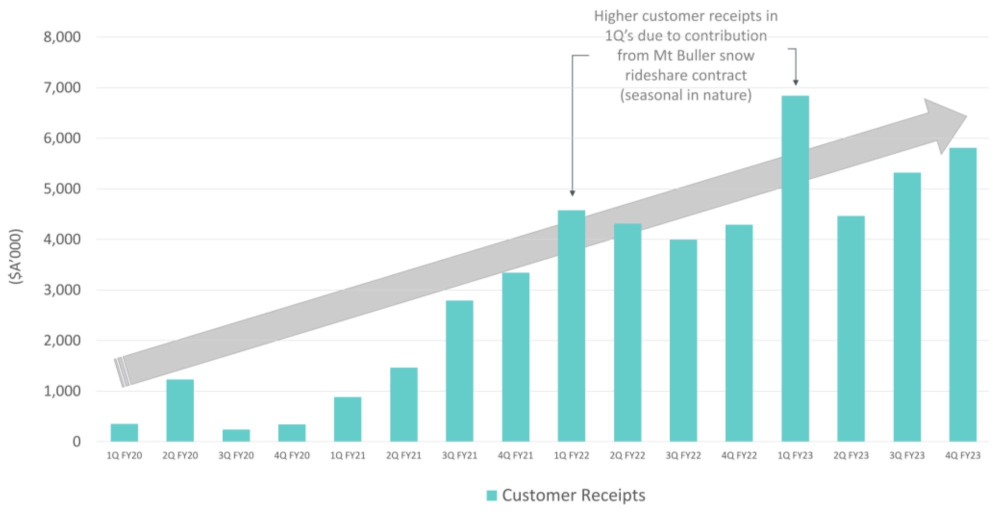
Share Price

Company Update

4Q FY23 revenue and cash flow

Orcoda pre-announced FY24 revenue flagging $20.7m compared with MSTe of $19.5m. 4Q revenue of $5.3m was 15% up on the previous corresponding period (pcp). Cash receipts for the quarter were 9% above revenue, consistent for the full year where FY23 cash receipts were also 9% above revenue.

Figure 1: Customer receipts



Source: Company

In addition to the net cash of $4.8m Orcoda also has additional working capital of $1.0m through its unused debt facility.

Our FY23e EBITDA forecast increases to $1.7m from $1.6m noting that while no guidance has been provided for earnings, operating cash flow of $2.1m makes profitability likely.

Note that more in-depth analysis will be possible following the release of the full year result in late August.

No guidance has been provided for FY24.

Acquisition of Future Fleet

In late April this year, Orcoda announced the acquisition of Future Fleet with completion announced at the end of June. This acquisition is right in the sweet spot of Orcoda's strategy with cross-sell opportunities into Future Fleet customers.

At an acquisition price of $1.39m funded through available cash and shares, acquisition metrics (FY22) are 0.4x Revenue multiple and 2.8x EBITDA multiple. The $1.39m consideration is through cash, shares and cash earnout. Future Fleet FY22 revenue was $3.5m and EBITDA of ~0.5m.

Future Fleet is a provider of fleet management systems with clients including Toll, Alsco, Pacific National, NSW Government. Most of the revenue is subscription fees. With a total 6,400 vehicles being serviced a fee of $45 / vehicle / month is implied.

This acquisition expands Orcoda's penetration into this the fleet management space. Note that Future Fleet currently use a telematics product from competitor of Teletrac Navman – Orcoda's existing telematics partner.

New contracts

Since our initiation in April this year, Orcoda has signed a number of important contracts.

- The Northline contract will see Orcoda's software platform service 18 depots across major Australian cities, providing fleet optimisation and delivery management software for Northline's commercial freight fleet. This SaaS contract has an initial term of 3 years, with forecast revenue of ~$900k. This contract is expected to contribute ~5% of our FY23 revenue forecast.

● In June, the Company announced that its wholly owned Betta Group had signed a $6.8m contract with Aurizon generating revenue in 2H FY23 and 1H FY24. The contract represents ~9% of our revenue forecast for that period.

Aurizon is a long-term client of Betta Group.

● In July, Orcoda announced that its Healthcare and Transport Logistics business has won a $400k SaaS contract with Comlink Australia Ltd to support the management of Comlink's substantial vehicle fleet. (Comlink is a provider of community services for the aged care sector in Queensland.) This contract engages the Orcoda Logistics Management and Booking System ('OLMS'), with an initial term of 2 years and the option to extend at Comlink's discretion. Revenue from this contract represents ~3% of software forecasts for the period.

Forecasts

Based on the Future Fleet acquisition, strength of new orders and FY23 revenue upgrade, we have increased our forecasts subject to further analysis following full year result.

Figure 2: Changes to forecasts

$Am	Previous		Current		Change	
	FY23e	FY24e	FY23e	FY24e	FY23e	FY24e
Revenue	19.5	23.0	20.7	24.5	6.3%	6.2%
Gross Profit	6.6	8.7	6.7	8.9	1.8%	2.6%
… margin	*34.0%*	*37.8%*	*32.6%*	*36.5%*	-4.2%	-3.4%
EBITDA (underlying)	**1.6**	**2.7**	**1.7**	**3.0**	7.6%	8.4%
NPAT (underlying)	0.8	1.8	0.9	2.0	15.0%	13.1%
Div (cps)	0.0	0.0	0.0	0.0	nm	nm

Source: MST Access

Valuation

We have used a discounted cash flow as the primary methodology for valuing Orcoda. Refer to our **Initiation**, where we undertook a sum of the parts valuation considering the software and the contracting businesses separately.

Discounted cash flow

We have used explicit forecasts to FY27, then for the next 5 years, growth rates fade to the long-term rate of we have reverted to long-term growth rate 2%.

The metrics used in conjunction with the forecast cash flows give a DCF based valuation of $0.40 per share.

Figure 3: Discounted cash flow valuation

DCF Valuation	A$m	DCF metrics	
		Nominal long term growth rate	2.0%
Sum of discounted forecast cash flows	29.1	Tax rate	30%
Discounted terminal value	38.5	Equity Beta	1.5
Enterprise value	67.6	Expected Market Return	5.5%
Less: Net Debt	-0.2	Cost of Equity	12.3%
Total equity value	67.7	Risk-free rate	4.0%
Diluted shares on issue (m)	167.8	Cost of debt	6.0%
Value per share	**0.40**	**WACC**	**9.6%**

Source: MST Access

Risks

Orcoda's risks can be categorised across the two revenue models which they operate.

Whilst the introduction of Betta Group in 2020 augmented the Orcoda service offering, it also exposed the business to additional risks:

Contracting

- Availability of labour – shortages of labour in trades such as electricians is likely to limit Orcoda's ability to service key clients. This can be mitigated through hiring from overseas directly and the benefits of immigration levels returning to post-Covid levels.
- Requirement to provide performance bonds (either bank guarantees or insurance bonds).
- Inflationary pressure affecting material and labour costs - Betta Group sales are tied to purchase orders and any fixed price elements opens it up to inflationary risks.

Software

- Inability for Orcoda's software products to attract commitment from its target market customers – meeting the complex transport requirements of large-scale mining operations.
- Competitors increase their marketing spend and successfully stymie Orcoda's growth.
- Partnerships fail to deliver the sales opportunities expected. This extends also to the channel partners failing to support the Orcoda service offering – there is an inherent risk in reputation by association.
- Software development costs required to ensure the competitiveness of the products are higher than higher than forecast.
- Loss of key clients could have a material revenue impact at this stage of the business.
- Software spend by Orcoda's actual and future customers is likely to be affected by tough economic conditions.
- Patent protection – Orcoda may be required to defend its patents which could require substantial financial resources.

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