

NOVATTI GROUP LTD (ASX: NOV)

FINANCIAL TECHNOLOGY AND SERVICES



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Key Highlights

- Record total revenue - \$3.0m - reported for Q3;
- \$1.72m revenue from payment processing business, representing 67% YoY growth;
- Acquisition of Emersion, who had \$1.7m and 300k EBITDA
- Major growth in the cash-alternatives sector through COVID-19;
- Isolation and working-from-home catalysing online business demands;
- Prepaid Visa business thriving, new Asia-Pacific business to launch;
- Alipay partnership strengthened via in-app integration;
- Instant validation of Emersion acquisition with growth beating expectations

Outlook - Buy/Hold

Despite challenging conditions through COVID-19, Novatti has thrived to report record revenues in Q3 which has been followed up by growth-oriented corporate activity to leverage their burgeoning payment processing businesses.

The growth was highlighted by Novatti's Q3 quarterly report where the company reported \$3m in total revenues for the quarter, their highest on record, which was driven by \$1.72m from their payment processing business, also a record. Whilst the total Group revenue was 21% higher than Q2, business growth is being driven by Novatti's various payment processing business units which have significantly increased their customer reach through COVID-19 as isolation measures have led to an increase in online business activity in lieu of cash transactions.

Date 12 June 2020

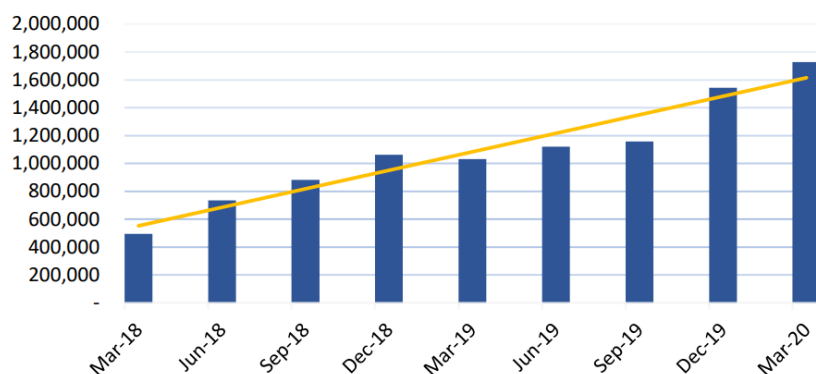
Price (12 June): \$0.20
Ticker: ASX: NOV

52-Week range: \$0.11-\$0.31
Market cap (AUD): \$44.4m
Shares on issue 167m

	FY19	FY18	FY17
Revenue (\$m)	8.89	6.36	3.54
EBITDA (\$m)	-4.25	-4.71	-4.65
NPAT (\$m)	-4.95	-2.07	-4.72



Novatti Processing Revenue



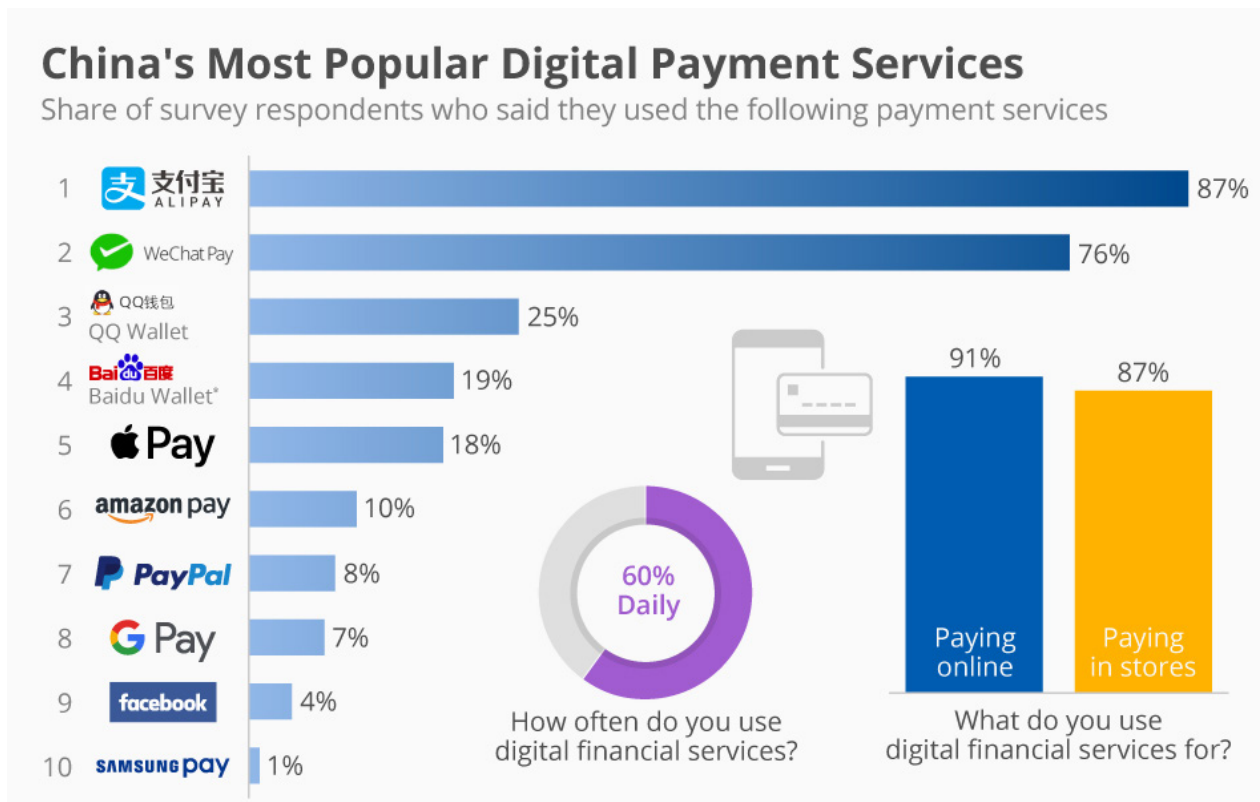
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The Q3 revenue growth followed on from their sound H1 results, which saw 27.9% growth in total revenue, anchored by four consecutive quarters of revenue growth.

Although Q3 has seen a cornerstone investor withdraw funds from Novatti's neobank subsidiary due to APRA's COVID-19 enforced delays, Novatti is well positioned to capitalise on rising interest in neobanks. Significant funds have already been invested in Novatti IBA to advance the business to the point that their banking license application is under review so there is a strong outlook upon resumption of APRA business activities. The management team for Novatti IBA is a strong team who have continued to develop and drive the business plan and opportunity during the COVID-19 period.

Existing agreements with WeChat Pay, Alipay, Bank of Shanghai, IBM World Wire, SendFX, SplitPay and Visa Inc are strong signs of industry confidence in the services provided by Novatti. This was evidenced by their recent integration of ChinaPayments into the Alipay app homepage, further facilitating payments for a Tier 1 partner and future cash alternative opportunities within the world's leading lifestyle platform. Novatti's larger network of B2B international payment facilitators opens up an opportunity for rapid customer acquisition from the untapped migrant market for digital banking services in Australia.

Beyond their day-to-day business growth through COVID-19, Novatti's acquisition of Emersion Software Systems in a challenging environment further strengthened their position in the payments sector. The securing of a business which had \$300,000 EBITDA through CY19 has been quickly validated by Emersion's performance through COVID-19 where the clip-on business secured six new clients and \$250k invoiced assisting businesses to transition towards online operations. Emerald Financial expects these digital shifts to be maintained post-COVID-19 as working from home is more widely adopted and cash usage continues declining.



Source: Statista Tech Giants China 2019



Further highlighting the rising shift in cash alternatives which Novatti is well-positioned to capitalise on, Visa Inc reported a 5% rise in total transaction volumes for the March quarter whilst Point of Sales (POS) merchant processor Tyro has reported June YTD growth of 16% in transaction values.

Company Summary

Novatti Group Limited (ASX: NOV) is an Australian fintech company which operates in three key spaces within the financial services industry - international payment transactions, banking, and growth-oriented eCommerce project incubation.

International payment services are the core business units with cash voucher service Flexepin, international remittance service Flexewallet, China bill payment service Chinapayments.com and prepaid credit card processor Vasco Pay being the key revenue drivers for Novatti via recurring SaaS fees and transaction processing fees.

Expanding on its existing fintech infrastructure, Novatti has submitted an application to APRA for a banking licence. This follows banking sector regulatory changes in 2017 enabling consumers to gain access to a greater range of competitive banking products and the introduction of digital banks in Australia. Once issued with their restricted banking licence, it is expected to lead to the launch of a digital banking business in conjunction with their application for a full banking licence.

Novatti has established business partnerships through existing B2B payment service networks which will enable the rapid expansion of their digital banking services which will differentiate from competitors by primarily targeting migrant demographics. With a network of Tier 1 corporate partnerships already secured, Novatti's digital banking service is positioned to significantly disrupt existing mediums of migrant banking services in Australia.

RADI Licence Application & Digital Bank Fintech Disruption

Due to COVID-19, APRA announced they would be delaying new licences until after the pandemic ended as a result of due diligence requirements which could not safely be conducted during the pandemic. With significant investment having been spent reaching the point of their application, it is still expected that Novatti will be granted a licence after COVID-19 restrictions are lifted.

Digital banks are a relatively new concept to the Australian market, however, none are listed publicly, nor do any of them target the market Novatti intends to.

Without the expenses and large capital overheads applicable to the traditional banks, digital banks are therefore able to offer customers greater value in banking products.

With their existing B2B network of international payment providers and strategic partners already secured as cornerstone investors in NBHC, Novatti is expected to rapidly grow customer acquisition through affiliate marketing. This will enable migrants to open digital bank accounts in Australia prior to arrival and transact across borders through Novatti's existing payment service infrastructure. This will grow Novatti's customer base in preparation for its full banking licence application to significantly increase banking services to migrant



customers, which will include credit cards, home and business loans, alongside international transactions between Australia and their home country.

Since the emergence of digital banks in Australia, neobank Xinja has reported more than \$100 million in deposits as banking customers seek an alternative to traditional banking systems. These deposits were accepted over the course of 19 days when the company had planned to acquire \$120 million in deposits for the year.

In 2017, USD \$16.8 billion was sent from Australia to other countries. Substantial growth from \$3.7b in 2011. Of the \$16.8b sent from Australia, China was the preferred destination country with \$3b, followed by India at \$2b.

In May 2020, Xinja reduced their interest rates from 2.25% to 1.8% due to growth in their high-interest savings accounts surpassing \$300m, however, this is still notably higher than major commercial bank alternatives. At the same time, media coverage around Xinja significantly heightened public interest in neobanks with 1 in 4 Australians considering switching to a neobank at the time.

Payments Technology, Anti-Money Laundering & Fintech Incubation

Novatti's payments processing, reporting and compliance technology continue to uphold the fintech infrastructure which has enabled the Company to continue delivering record revenue. It will further form a pillar of their banking subsidiary business. This add-on value was highlighted in March 2020 when Novatti confirmed an incubation partnership with Rent.com.au to redevelop RentPay - a 'next generation' rental payments app which provides Novatti with exposure to the lucrative rental payments market.

Between their award-winning payments processing technology and Visa Principal Issuer status, Novatti has a clear growth strategy to leverage their intellectual property, regulatory licences and industry standing to identify clear growth opportunities in the fintech space for projects which will have minimal impact on operating expenses.

With Asia being a key growth market for digital payment services, Novatti partnered with leading European payments processor DECTA, to launch an Asia-Pacific Visa issuing business. With many remote areas within the Asia-Pacific region still reliant on cash economies, the opportunity to purchase goods and services digitally via prepaid Visa cards presents further opportunities to extend Novatti's payment processing revenue.

In recent years, the Australian Transaction Reports and Analysis Centre (AUSTRAC) has been thoroughly investigating companies that deal with cross-border payments in a bid to protect Australian shores from illegal money laundering.

Two of the more high-profile cases revolved around Westpac (ASX: WBC) and Crown Resorts (ASX: CWN), but with heightened regulation and monitoring of cross-border payments, there are further growth opportunities for Novatti and its payment processing software for operation, compliance and reporting purposes.



By offering their payments processing technology which is linked to an unblemished relationship with AUSTRAC, Novatti has proven to be open to exchanging their tech for small stakes in innovative fintech projects which also secure recurring revenue for payments processed.

Operational Performance and Q3 Earnings

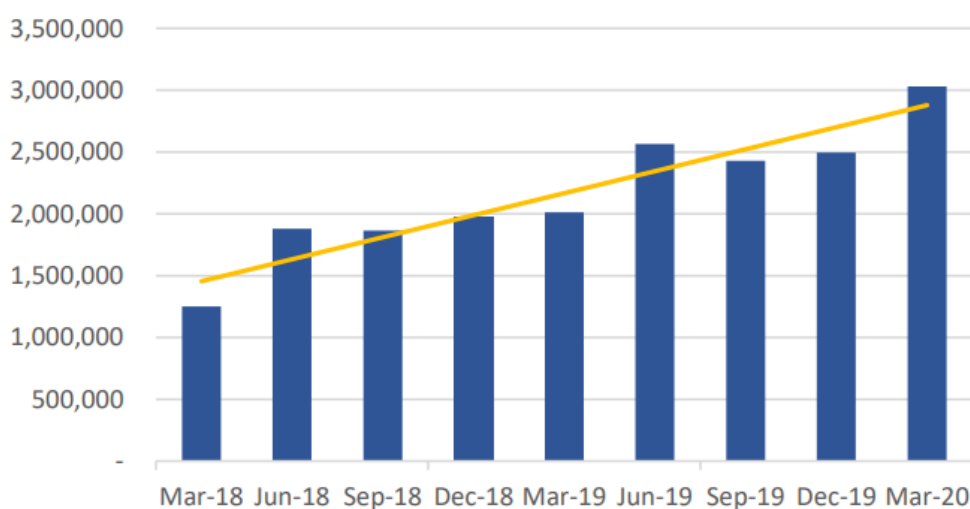
Novatti has continued a strong run of operational performance with organic growth in sales through Q320 despite economic challenges brought upon by COVID-19.

Highlighting continued growth in the transactions business, Novatti's \$3m revenue continued the company's upwards trajectory, made even more significant when their 21% revenue growth from Q2 came at the height of the coronavirus pandemic when many businesses were in lockdown or on reduced activity.

Whilst Novatti reported a net loss of \$4.9m in FY19, the company has since reported three very strong quarters in line with business growth in its payment processing business. A significant line item behind the FY19 loss can also be attributed to costs associated with Novatti's application for a RADI bank license where further expenses are expected to be immaterial until the license is granted, at which external funds are expected to be sourced.

Although Novatti reported a net cash operating loss of \$543k through Q3, the upwards trajectory in their payments business and securing of new recurring revenues through Emersion has Novatti positioned to see cash flow positivity in FY21 and beyond.

Novatti Quarterly Revenue



Disclaimer

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Please note past performance is not a reliable indicator of future performance.

All Figures in this report were correct as of 12th June 2020.

Directors of Emerald Financial Group hold shares in NOV.

NOV has engaged Principal IR on retainer to assist with Investor Communications

Recommendation Rating Guide	Total Return Expectations on a 12-mth view
Buy	Greater than +10%
Hold	Greater than 0%
Sell	Less than -10%

