



11th June 2020

Small Cap

Damstra Holdings Limited – Strong SaaS Player Launching New Products to Protect the Workplace as Restrictions Ease

Reading Time: 5 Mins

By Team Ace Investors

Stock Code	ASX: DTC
Shares O/S	139.48 million
Closing Price	AUD 1.02
Market Cap	152.73 million
52 High/Low	1.345/0.40
One Year Stock Performance	-17%
Avg volume (TTM)	0.28 million
EPS (TTM)	-0.039
P/E	-
Annual Dividend Yield	-
Franking	-
Last Dividend Ex-Date	-
Last Dividend Pay Date	-
DPS (AUD)	-
ROE %	-

COMPANY OVERVIEW

Damstra Holdings Limited ("**DTC**" or the "**Company**") is a leading provider of integrated workplace management solutions across the globe. The Company develops, sells and implements integrated hardware and software-as-a-service (SaaS) solutions. These solutions assist Damstra's clients to better track, manage and protect their staff, contractors and their organisations

The Company's clients are from a diverse range of industries, consisting of blue-chip companies in the mining, construction, manufacturing, energy & utilities, government and a range of other sectors.

Innovative Fever Detection Platform – In order to prevent and protect the workforce during coronavirus pandemics, the Company on **22nd April 2020**, launched innovative fever detection platform. The Company's software is used as a one-stop shop for about 400,000 workers on sites around the world, with customers including gold miner Newmont, mining giant Glencore, telco NBN Co, energy firm AGL and construction groups

CPB and John Holland.

Acquisition of SmartAsset Software – On 1st June 2020, the Company announced that it has acquired the assets of the SmartAsset business for a total consideration of \$0.45 million. SmartAsset Software is a provider of end-to-end enterprise asset management software with ~20 clients in Australia, New Zealand and the Philippines, across a diverse range of sectors. The Company believes that this will accelerate its product offering in asset and plant management and represents a significant opportunity to cross-sell this integrated solution to existing Damstra clients.

One Year Stock Price Performance



Source: ASX

The stock got listed on ASX on 16th October 2019 after raising \$49.3 million at \$0.90. Since 23rd March 2020, after hitting its 52 week low level, the stock price has already rebounded 155%. At current price, the Company is trading at around 17% discount to its average 52 week high and low valuation, which indicates upside potential for the investors.

INVESTMENT RATIONALE/CONCERNS

- **Stellar H1 FY2020 Performance** – For H1 FY2020, the Company reported revenue growth of 44% to \$10.1 million, driven by new contract wins and cross-selling product suite to existing client base. EBITDA of \$2.6 million, significantly above the H1 FY 2019 result of \$0.7 million.

Half Year Ended 31 December			
\$m	H1 FY19	H1 FY20	% Change
Revenue	7.0	10.1	+44%
Gross profit	3.8	7.0	+82%
Pro forma EBITDA	0.7	2.6	+289%
Pro forma EBITDA margin (%)	9%	25%	+1,590 bps
EBIT	(1.8)	0.1	+105%
Net profit after tax	(1.7)	0.4	+122%

Source: Company Report

To sustain its technology leadership and position to capture the global market opportunity, the Company is investing for future growth. During H1 FY2020, Operating expenses were \$7.7 million, up from \$6.9 million in the first half of FY19, reflecting substantial increases in sales and marketing capability and Research & Development.

- **Strong March Quarter Performance** – The Company recorded a cash receipts of \$7.2 million for the quarter, representing growth of 120% on the prior corresponding period. The Company operates with a closing cash balance of \$10.4 million, no debt and undrawn debt facilities of \$5.4 million. For full year, the Company expects the revenue to be in the range of 30-40% and EBITDA margin is forecasted to exceed prospectus forecasts of 20.3% on the back of strong operating leverage. During the quarter, Damstra added new clients in its core domestic business, including Evolution Mining, peopleTerracom and the City of Newcastle.
- **Covid 19 Impact** – The impact of COVID-19 on the overall business has been minimal given the majority of income is derived from contracted and recurring revenue. Contracts for key clients are typically 3-5 years. In addition, the Company's solutions are often critical to business operations, while many of its clients are in sectors such as telecommunication, mining, and construction of infrastructure projects which have not been impacted by the Government's restrictions on "non-essential services". During the quarter, the recurring revenue was 92% and net dollar retention remains strong at 121%.
- **Focus on Product Development** – the Company is accelerating the rollout of a number of products and enhanced features, where clients are able to increase the protection of their workforces and further reduce the requirement of human interaction at worksites. These include increased fever detection, online training, and touchless operations supported by a paperless solution.
- **Acquisition of APE Mobile** – Damstra's acquisition of APE Mobile (as announced on 27 February 2020) was driven to expand its paperless product suite. APE Mobile is a leading provider of digital form and workflow management solutions to the civil construction and mining industries. The Company acquired APE Mobile for total cash consideration of \$5.5 million. out of which \$2.5 million was funded in cash from Damstra's existing reserves, as well as the issue of Damstra shares to the vendors equivalent to up to \$3.0 million.
- **Increase in Institutional Interest Indicates Positive Sentiments**– On 14th April 2020, the Company updated that Perennial Value Management has increased its stake in the Company from 6.20% in Jan 2020 to 7.36%.
- **Delay Across Several Greenfield Sites and Projects** – Due to COVID-19 related shutdowns, the Company experienced some delay in commissioning its projects including the rollout of Newmont in South America, the U.K. business has seen a delay in the awarding of a major tender, and a planned North American client rollout in Q4 FY20 has been deferred until FY 2021.

STOCK RECOMMENDATION

The Company is strategically well-placed to navigate the disruptions caused by COVID-19 due to its resilient business model and balance sheet strength. The current unforeseen situation is likely to open new opportunities as clients will seek solutions which helps in reducing business and workforce risks. The Company expects that continued organic revenue growth and margin expansion will support an expected full year EBITDA that will exceed the prospectus forecast of \$4.3 million.

The Company has not experienced any reduction in user numbers or revenue from its 10 largest clients (by revenue) in the quarter. This is in large part driven by its product offering being considered critical to business operations of its clients. We believe that new product launches, technological innovations and acquisitions are likely to drive the Company's fundamental in the coming quarters.

*At current levels, we would like to recommend **BUY** rating on the stock.*

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