



# DISA

(DISA SP/532.SI)

## Cease Coverage

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- 2Q19 net losses declined to \$1.88mn from \$2.83mn in 2Q18 as growth in technology business continues.
- QoQ, the number of codes grew 9.89%, much slower than the previous 2 quarters. (4Q18: 82%, 1Q19: 30%)
- Cease coverage in line with our defensive theme.

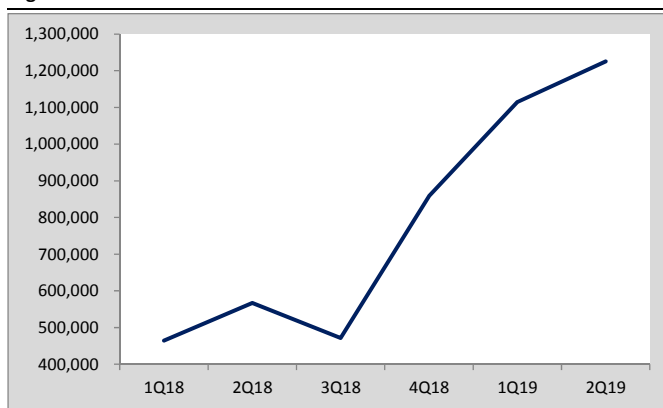
### Financials & Key Operating Statistics

YE Jun SGD (mn)	2018A	2019F	2020F	2021F	2022F
Revenue	0.2	5.9	11.6	23.2	46.3
Operating Profit/Loss	(9.7)	(6.2)	(2.4)	6.1	23.9
Net income	(10.6)	(7.3)	(3.5)	4.2	18.9
EPS (SGD Cents)	(0.3)	(0.1)	(0.1)	(0.0)	0.0
EPS growth (%)	-	-	-	-	3.5
P/E (x)	-	-	-	-	19.3
P/B (x)	2.2	2.7	3.1	2.6	1.6
P/S (x)	336.0	13.6	6.9	3.5	1.7
EV/EBITDA (x)	-	-	-	-	7.9
Debt / Equity	44.5%	34.3%	42.6%	48.3%	41.7%
Net Margin (%)	-	-	-	18.0	40.8
ROE (%)	-	-	-	14.7	47.3

Source: Company Data, KGI Research

**Revenue growth continues driven by higher asp.** While the number of DISA codes grew by 9.9% QoQ, revenue from the sale of codes grew 53% to \$133,000 from \$87,000, driven by higher selling prices and an increase in the number of new suppliers. Gross margins however, declined to 81.5% from 84.8% in 1Q19.

Figure 1: DISA codes sold



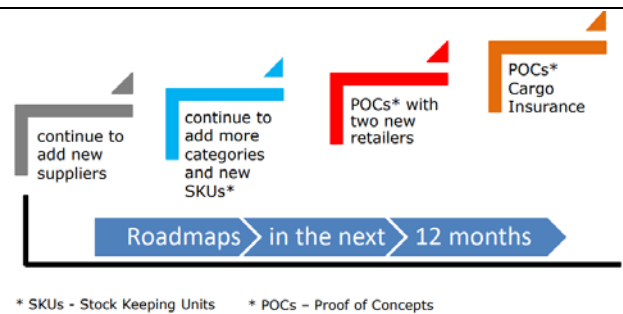
Source: Company data, KGI Research

**Cost Control Improved while balance sheet remains strong after the redemption of convertible bonds.** Net losses for the quarter declined to \$2.1mn from \$3.1mn in 2Q18, driven by an improvement in total cost and expenses, which declined 25.8% YoY with less engagement of professional firms for legal, PR and consultation needs. During the quarter, the firm made cash outflows of \$13.4mn due to the redemption of its convertible bond, alongside interest payments but the balance sheet remains strong with a net cash position. Given the quarter's FCF of -\$1.7mn and cash levels of \$16.1mn, we believe the company has ample time to execute its plans but endorsements of additional retailers however, remains crucial in our view.

Cease Coverage		Performance (Absolute)	
Price as of 14 Feb 19 (SGD)	0.003	1 Month (%)	-25.0
12M TP (\$)	-	3 Month (%)	-25.0
Previous TP (\$)	0.02	12 Month (%)	-75.0
Upside (%)	-		
Trading data		Perf. vs STI INDEX (Red)	
Mkt Cap (\$mn)	30		
Issued Shares (mn)	10,039		
Vol - 3M Daily avg (mn)	2.9		
Val - 3M Daily avg (\$mn)	0.0		
Free Float (%)	69.9%		
Major Shareholders		Previous Recommendations	
Wang Yu Huei	8.7%	1-Nov-18	BUY \$0.02
Tang Wee Loke	7.0%	4-Sep-18	BUY \$0.02
Chng Weng Wah	5.9%	21-Jun-18	BUY \$0.02

**Cease Coverage.** Our investment thesis was built around DISA's ability to become the market leader if it can get 2 other large US retailers other than Walmart to endorse their technology. While quarterly sales of codes have slowed, management has executed their plans accordingly and the company remains on track to executing POCs with 2 new retailers, according to the timeline from October 2018's AGM.

Figure 2: DISA Target Timeline (AGM October 2018)



Source: Company Presentation, KGI Research

However, given our defensive positioning on equity markets, we have decided to cease coverage on DISA to focus on stocks that are more defensive in nature.

**Valuation & Action:** Our last recommendation was a BUY with a TP of \$0.02 based on a DCF model assuming 14% WACC and a terminal growth rate of 0%.

**Risks:** Failure to obtain the endorsement of additional US retailers, slow user adoption and a breach in DISA's encryption could lead to reputational damages and a decline in revenue. Going concern could become a problem if DISA fails to scale and cover its burn rate.

Figure 3: Quarterly Results

SGD (S\$'000)	2Q18	2Q19	YoY (%)	Comments
Revenue	46	162	252.2	
Sale of Codes	35	133	280.0	Driven by higher ASP per code and more suppliers coming on board
Gross Profit	22	132		
Gross Margin (%)	47.8	81.5		
Depreciation and Amortization Expenses	(378)	(408)		
Employee Benefits Expenses	(1,832)	(1,206)	-34.2%	Reversal of share-based expenses due to reduced number of employees
Legal & Professional Expenses	(122)	(59)		
Operating Lease Expense	(110.0)	(153.0)		
Other Expense	(469.0)	(322.0)	-31.3%	Lesser expenses from traveling, recruitment and computing costs
<b>Operating Profit/Loss</b>	<b>(2,834)</b>	<b>(1,877)</b>		
Operating Margin(%)				
Net Profit	(3,064)	(2,090)		

Source: Company data, KGI Research

Figure 4: DCF Valuation

DCF	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Revenues	169.0	5,850.3	11,605.8	23,162.2	46,298.5	55,552.0	66,659.2	79,989.4
Services Rendered	64.1	33.5	17.5	9.1	4.8	2.5	1.3	0.7
<b>Net revenue</b>	<b>233.1</b>	<b>5,883.7</b>	<b>11,623.3</b>	<b>23,171.3</b>	<b>46,303.3</b>	<b>55,554.5</b>	<b>66,660.5</b>	<b>79,990.1</b>
YoY growth (%)	-	2424.3%	97.5%	99.4%	99.8%	20.0%	20.0%	20.0%
<b>Cost and Operating Expense</b>	<b>(9,917.0)</b>	<b>(12,073.4)</b>	<b>(14,021.4)</b>	<b>(17,039.6)</b>	<b>(22,418.6)</b>	<b>(25,481.8)</b>	<b>(29,088.7)</b>	<b>(33,337.2)</b>
<b>EBIT</b>	<b>(9,683.9)</b>	<b>(6,189.6)</b>	<b>(2,398.1)</b>	<b>6,131.7</b>	<b>23,884.7</b>	<b>30,072.8</b>	<b>37,571.8</b>	<b>46,652.8</b>
<b>FCFF</b>	<b>(6,889.9)</b>	<b>(4,412.6)</b>	<b>(621.1)</b>	<b>7,056.5</b>	<b>21,792.2</b>	<b>26,928.6</b>	<b>33,153.0</b>	<b>40,690.3</b>
YoY growth (%)	-	-	-	-	208.8%	23.6%	23.1%	22.7%
<b>Terminal value</b>								
<b>Implied enterprise value</b>	<b>191,837.1</b>							
Add: Cash	30,594.0							
Less: Debt	12,715.0							
Less: Preferred stock								
Less: Minority interest	-							
<b>Implied equity value</b>	<b>209,716.1</b>							
Diluted Shares Outstanding	10,038,683.4							
<b>Implied target price (S\$)</b>	<b>0.02</b>							
Upside (%)	422%							

Source: Company data, KGI Research

**KGI's Ratings**

<b>Rating</b>	<b>Definition</b>
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
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<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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