

CHINA
DEVELOPMENT
FINANCIAL

DISA

(DISA SP/532.SI)

Additional Retailers Key to FY19

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- 1Q19 net losses declined to \$2.3mn from \$2.5mn in 1Q18 as growth in technology business continues.
- We re-iterate our BUY recommendation and maintain our fair value of \$0.02 based on DCF valuation.

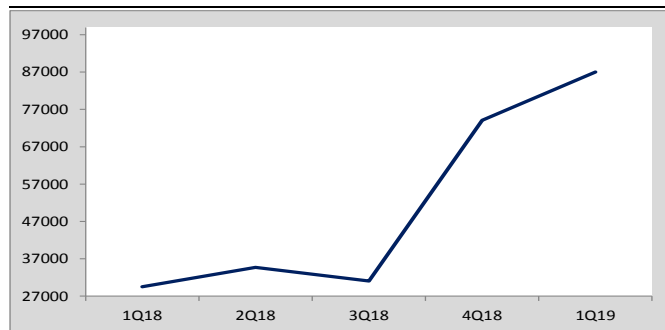
Financials & Key Operating Statistics

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

Growth in technology business continues. YoY, total revenue grew 110% to \$99,000, driven by revenue from the sale of codes, which grew 200% to \$87,000, making up 88% of total revenue. Total cost and expenses of the period declined 3.5% to \$2.2mn as net losses improved to \$2.3mn from \$2.45mn in 1Q18.

Figure 1: Quarterly Revenue Growth



Source: Company data, KGI Research

While net losses declined, employee benefits expenses rose 11.3% to \$1.3mn due to a higher number of outstanding share options. As highlighted in our earlier reports, we believe this is an area where prudence should be warranted, especially if operating activities remains cash flow negative.

Net cash positions improved but cash burn continues. Net cash position grew to \$19.1mn but high operating expenses continued to be a drag on performance. YoY, negative net operating cash flows improved to \$1.5mn from \$1.7mn. Prior to the completion of proof-of-concept trials with other US retailers, we believe operating expenses will continue to be a drag on earnings.

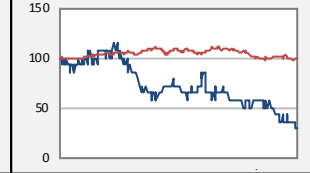
BUY - Maintain

Price as of 1 Nov 18 (SGD)	0.004	Performance (Absolute)	
12M TP (\$)	0.02	1 Month (%)	-33.3
Previous TP (\$)	0.02	3 Month (%)	-50.0
Upside (%)	422.3	12 Month (%)	-71.4

Trading data

Mkt Cap (\$mn)	40
Issued Shares (mn)	10,039
Vol - 3M Daily avg (mn)	7.1
Val - 3M Daily avg (\$mn)	0.0
Free Float (%)	66.7%

Perf. vs STI INDEX (Red)



Major Shareholders

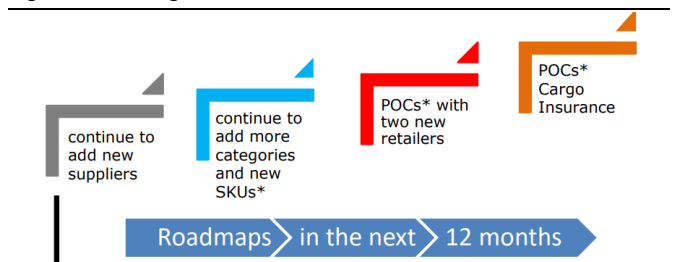
Wang Yu Huei	8.7%
Tang Wee Loke	7.0%
Chng Weng Wah	5.9%

Previous Recommendations

21-Jun-18	BUY \$0.02
4-Sep-18	BUY \$0.02

Additional retailers' endorsements remain key to the company's growth prospects. In the coming quarters, we expect suppliers to continue adding more categories and new SKUs for DISA but more importantly, we will be expecting more updates' surrounding the endorsement of large US retailers other than Walmart as this is the primary assumption to our investment thesis.

Figure 2: DISA Target Timeline



* SKUs - Stock Keeping Units * POCs - Proof of Concepts

Source: Company Presentation, KGI Research

Valuation & Action: We maintain our BUY recommendation with an unchanged TP of \$0.02. Our target price implies a 9.7x 2021F EPS and is based on a DCF model assuming 14.4% WACC and terminal growth rate at 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)	1Q18	1Q19	YoY (%)	Comments
Revenue	81	188		
Sale of Codes	29	87	200.0	Code sales driven by more suppliers, as well as faster than expected growth in 3S segment
Gross Profit	62	173		
Gross Margin (%)	76.5	92.0	15.5	Margin expansion driven by change in product mix as Digital Safety codes becomes main revenue driver
Depreciation and Amortization Expenses	(378)	(413)		
Employee Benefits Expenses	(1,207)	(1,343)	11.3%	Driven by a higher number of outstanding share options
Legal & Professional Expenses	(110)	(71)		
Operating Lease Expense	(93.0)	(122.0)		
Other Expense	(520.0)	(281.0)		
Operating Profit/Loss	(2,246)	(2,057)		
Operating Margin(%)				
Net Profit	(2,458)	(2,291)		

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
Net revenue	233.1	5,883.7	11,623.3	23,171.3	46,303.3	55,554.5	66,660.5	79,990.1
YoY growth (%)	-	2424.3%	97.5%	99.4%	99.8%	20.0%	20.0%	20.0%
Cost and Operating Expense	(9,917.0)	(12,073.4)	(14,021.4)	(17,039.6)	(22,418.6)	(25,481.8)	(29,088.7)	(33,337.2)
EBIT	(9,683.9)	(6,189.6)	(2,398.1)	6,131.7	23,884.7	30,072.8	37,571.8	46,652.8
FCFF	(6,889.9)	(4,412.6)	(621.1)	7,056.5	21,792.2	26,928.6	33,153.0	40,690.3
YoY growth (%)	-	-	-	-	208.8%	23.6%	23.1%	22.7%
Terminal value								
Implied enterprise value	191,837.1							
Add: Cash	30,594.0							
Less: Debt	12,715.0							
Less: Preferred stock								
Less: Minority interest	-							
Implied equity value	209,716.1							
Diluted Shares Outstanding	10,038,683.4							
Implied target price (S\$)	0.02							
Upside (%)	422%							

Source: Company data, KGI Research

KGI's Ratings

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

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