

Action Summary – 26 April 2021

Analyst Theodore R. O'Neill

- Vobile reported 2H20 with mixed results. It reported revenue and EPS of \$22.3MM and \$0.00, respectively. We had been looking for revenue and EPS of \$25MM and \$0.00 respectively. While it met our EPS target on lower revenue, it did so with higher non-operating income offsetting higher operating expenses. There is no consensus.
- While it was a miss to some of our estimates, it is our estimates that did not account properly for the operational expense incurred for expanding its product offerings.
- The favorable variance in non-operating income was due to the reversal of an accrual for an expected acquisition related earnout that did not materialize in the contractual time-frame.
- The company completed several important strategic and financial goals at the end of 2020.
- Based on the level of operational expenses it incurred in 2H20, we are raising our expenses for 2021 and 2022. These adjustments have a \$0.01 impact in each year.
- We expect the company to generate enough cash to pay off its debt (which we model in our estimates), although there may be good reasons not to do so, such as acquisitions.
- **There are greater demands to monetize content as more people spend more time online and as advertising-based Video on Demand (AVOD) sites like YouTube grow**

4/23 Closing price: \$4.66 USD	Market cap: \$2,823 million	2022 PE: 78	2022 EV / Sales: 16
Shares outstanding: 478 million	Insider ownership: 49%	Avg. trading volume: 10,920,000	Dividend/Yield: NA/NA

GAAP estimates (EPS in dollars – Revenue in millions)

Period	EPS	Revenue	Op Margin
FY19A	<u>(\$0.01)</u>	\$18.8	<u>NMF</u>
1H20A	\$0.02	\$21.6	8.1%
2H20A	<u>\$0.00</u>	<u>\$25.0</u>	<u>(19.4%)</u>
FY20A	<u>\$0.02</u>	<u>\$46.6</u>	<u>(5.8%)</u>
1H21E	\$0.01	\$40.0	15.5%
2H21E	<u>\$0.01</u>	<u>\$45.0</u>	<u>19.1%</u>
FY21E	<u>\$0.02</u>	<u>\$85.0</u>	<u>17.4%</u>
1H22E	\$0.02	\$60.0	23.8%
2H22E	<u>\$0.03</u>	<u>\$75.0</u>	<u>28.7%</u>
FY22E	<u>\$0.05</u>	<u>\$135.0</u>	<u>26.5%</u>

Note: Numbers may not add due to rounding. See our full model in the back of this report.

Cash balance (in millions)

• 2019A	• \$4.8
• 2020A	• \$33.8
• 2021E	• \$29.1
• 2022E	• \$51.6

Debt (in millions)

• 2019A	• \$48.5
• 2020A	• \$48.5
• 2021E	• \$0.00
• 2022E	• \$0.00

Adj. EBITDA (in millions)

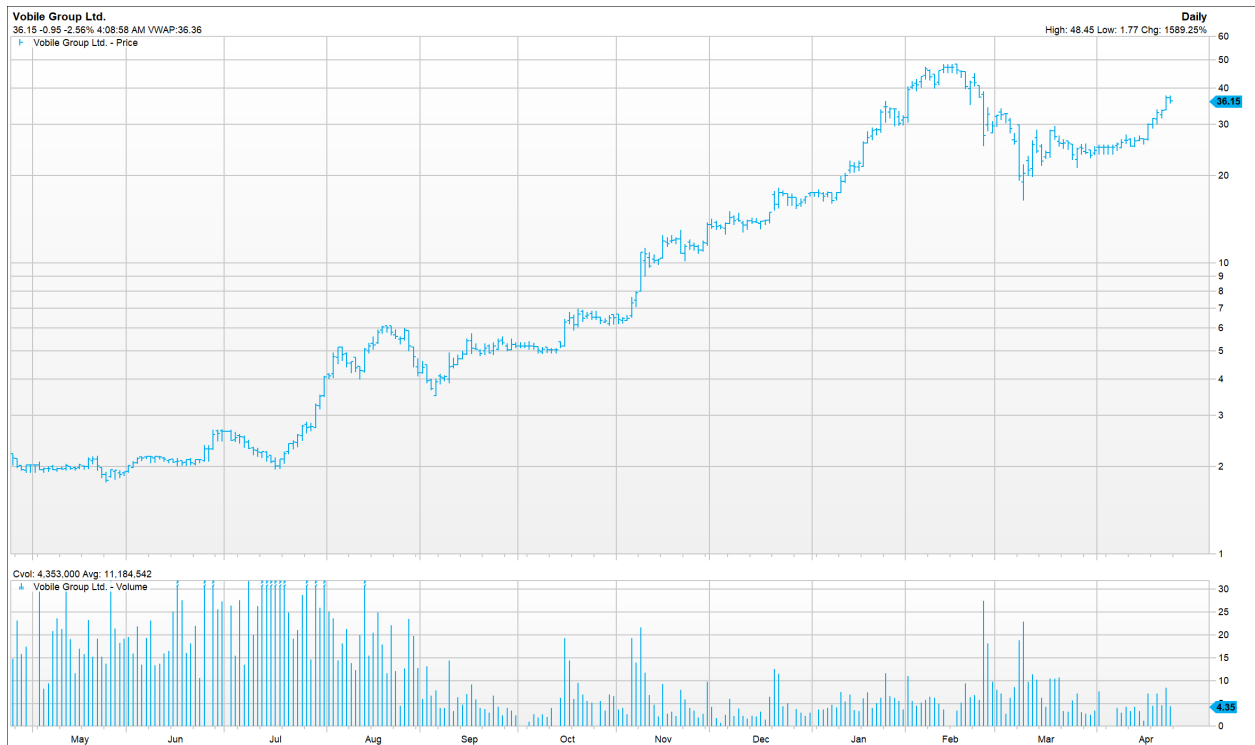
• 2019A	• (\$6.4)
• 2020A	• \$20.5
• 2021E	• \$18.8
• 2022E	• \$39.8

Risks/Valuation

- Risks include: Near-term volatility in earnings as business ramps up; competition
- Our \$9.00 USD target is derived using a discounted future earnings model

Company description: Vobile Group Limited (3738.HK) is listed in Hong Kong, headquartered in Santa Clara, CA, and is a market leader in online video content protection and monetization.

Figure 1 – Vobile Group Limited – One-Year Trading snapshot HKD



Source: FactSet

Valuation Methodology

We believe VOBILE is undervalued and we support that belief with an absolute and relative valuation. For the purposes of determining our price target we use a discounted future earnings model. The following valuation techniques are being used:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Valuation relative to peers (see Figure 3)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$9.00 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings discounted at 7.5%. We assume strong near-term growth for earnings which steps down to GDP after seven years. Our valuation model is shown in Exhibit 2 below. Note, this model understates future new products and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$8.56 which we round up to \$9.00.

Figure 2 – Vobile Group Limited – Price Target Calculation

Discounted Earnings		\$	8.56
Year 1 is	Forecast	Discounted	
2021	EPS	EPS	
1	0.02	\$0.02	
2	0.05	\$0.04	
3	0.20	\$0.16	
4	0.30	\$0.22	
5	0.40	\$0.28	
67	2.21	\$0.02	
Terminal Value			\$7.83

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

If we compare VOBILE to a simple average of its peers (Figure 3), the shares sell at a premium on all measures ranging from 14% to 54%. Having a premium valuation isn't unusual for a fast-growing technology company with substantial, well protected intellectual property. Details on each of the peers can be found in Figure 5 near the back of the report. The companies we used in Figure 4 are in similar lines of business although none of them are a perfect match.

Figure 3 – Vobile Group Limited – Discount to Peers

	2022 PE	2022 EV / Revenue	2022 Sales Multiple
Average	50.43	10.86	13.18
VOBILE	77.65	16.26	15.93
Premium to peers	54%	50%	21%

Source: Litchfield Hills Research LLC and Refinitiv Eikon

2H20 Results

Vobile reported 2H20 with mixed results (See Figure 4). It reported revenue and EPS of \$22.3MM and \$0.00, respectively. We had been looking for revenue and EPS of \$25MM and \$0.00 respectively. While it met our EPS target on lower revenue, it did so with higher non-operating income offsetting higher operating expenses. There is no consensus.

Figure 4 – Vobile Group Limited – 2H20 Variance Analysis

(\$000)	2020		Better/(worse) than forecast
	2H20E	2H20A	
Income Statement			
Total Revenue	\$25,000	\$22,299	(\$2,701)
Total cost of revenue	12,500	11,776	724
Total Gross Profit	12,500	10,523	(1,977)
Operating expenses:			
Sales & Marketing	4,000	5,707	(\$1,707)
Administrative expense	3,000	4,828	(1,828)
R&D	2,500	4,306	(1,806)
Total Expenses	9,500	14,841	(5,341)
Earnings (loss) from Operations	3,000	(4,318)	(\$5,318)
Total Other income/(expense)	(2,000)	4,476	6,476
Earnings before taxes	1,000	158	(842)
Tax expense/(benefit)	230	(1,406)	1,636
Net income	\$770	\$1,564	\$794
EPS	\$ 0.00	\$ 0.00	\$0.00
non-GAAP	\$ 0.02	\$ 0.02	\$ 0.00
Diluted common shares	430,000	478,000	48,000

Source: Litchfield Hills Research LLC

Additional information can be found in our previous research reports including our December 12, 2019 initiation report.

Figure 5 – Vobile Group Limited – Comp Table

Ticker	Company Name	4/23/21 Close	Market Cap \$MM	EV \$MM	2022 PE	2022 EV / Revenue	2022 Sales Multiple	2022 EV / EBITDA
ADBE.O	Adobe Inc	\$515.84	\$246,572	\$245,728	37.66	13.85	13.93	28.06
ZM.O	Zoom Video Communications Inc	\$336.88	\$98,946	\$94,702	82.13	20.86	21.57	64.23
SNOW.K	Snowflake Inc.	\$235.64	\$68,029	\$64,121		X	37.79	
ADSK.O	Autodesk Inc	\$295.27	\$64,839	\$64,619	42.38	12.65	12.70	32.16
PANW.K	Palo Alto Networks Inc	\$358.42	\$34,854	\$34,837	50.65	7.03	7.04	32.64
0268.HK	Kingdee International Software Group Co Ltd	\$3.41	\$11,826	\$11,111		13.89	14.75	179.30
3888.HK	Kingsoft Corp Ltd	\$7.28	\$9,996	\$9,269	32.71	6.76	7.39	18.87
0909.HK	Ming Yuan Cloud Group Holdings Ltd	\$4.67	\$9,003	\$7,959	91.82	15.91	18.08	72.04
API.O	Agora Inc	\$59.80	\$6,929	\$6,620	X	24.73	25.95	X
2013.HK	Weimob Inc	\$2.31	\$5,267	\$5,070	85.65	8.68	8.44	50.55
VERI.O	Veritone Inc	\$26.34	\$851	\$736		7.56	8.73	
HLIT.O	Harmonic Inc	\$7.76	\$782	\$835	18.52	1.66	1.57	12.50
DMRC.O	Digimarc Corp	\$35.88	\$605	\$532		16.43	18.68	
KUD.S	Kudelski SA	\$4.64	\$235	\$610	12.32	0.79	0.30	7.75
WSTG.O	Wayside Technology Group Inc	\$24.68	\$109	\$79				
MCLD.V	mCloud Technologies Corp	\$1.38	\$47	\$81		1.25	0.73	9.76
	AVERAGE				50.42	10.86	13.18	46.17
3738.HK	Vobile Group Ltd	\$4.66	\$2,150	\$2,196	77.65	16.26	15.93	52.40
	Vobile Valuation Premium To Peers				54%	50%	21%	14%

Where the market metric was many standard deviations above the mean, we Xed it out.

Source: Litchfield Hills Research LLC and Refinitiv Eikon (formerly Thomson Reuters Eikon)

Figure 6 – Vobile Group Limited – Income Statement (\$'000)

December year-end	Vobile Group Only		Combined Company								
	2018 Year	2019A Year	2020		2020 Year	2021E		2021E Year	2022E		2022E Year
			1H20A	2H20A		1H21E	2H21E		1H22E	2H22E	
Total revenue	\$15,225	\$18,781	\$21,575	\$22,299	\$43,874	\$40,000	\$45,000	\$85,000	\$60,000	\$75,000	\$135,000
<i>Growth</i>		23%			134%	85%	102%	94%		67%	59%
Cost of Goods	3,001	5,329	10,751	11,776	22,527	20,800	23,400	44,200	31,200	39,000	70,200
Gross Profit	12,224	13,452	10,824	10,523	21,347	19,200	21,600	40,800	28,800	36,000	64,800
Gross Margin	80.3%	71.6%	50.2%	47.2%	48.7%	48.0%	48.0%	48.0%	48.0%	48.0%	48.0%
Sales & Marketing	\$5,687	\$7,498	\$3,931	\$5,707	\$9,638	\$5,000	\$5,000	\$10,000	\$6,000	\$6,000	\$12,000
% of total revenue	37%	40%	18%	26%	22%	13%	11%	12%	10%	8%	9%
Administrative expense	\$7,563	\$11,071	\$2,677	\$4,828	\$7,505	\$4,000	\$4,000	\$8,000	\$4,500	\$4,500	\$9,000
% of total revenue	50%	59%	12%	22%	17%	10%	9%	9%	8%	6%	7%
R&D	\$1,577	\$2,501	\$2,462	\$4,306	\$6,768	\$4,000	\$4,000	\$8,000	\$4,000	\$4,000	\$8,000
% of total revenue	10%	13%	11%	19%	15%	10%	9%	9%	7%	5%	6%
Total Operating Expenses	14,827	21,070	9,070	14,841	23,911	13,000	13,000	26,000	14,500	14,500	29,000
Operating Income	(2,603)	(7,618)	1,754	(4,318)	(2,564)	6,200	8,600	14,800	14,300	21,500	35,800
Operating Margin		-40.6%	8.1%	-19.4%	-5.8%	15.5%	19.1%	17.4%	23.8%	28.7%	26.5%
Total Other Items	79	(463)	7,220	4,011	11,231	(2,000)	(2,000)	(4,000)	(2,000)	(2,000)	(4,000)
Pre-Tax Income	(2,524)	(8,081)	8,974	(307)	8,667	4,200	6,600	10,800	12,300	19,500	31,800
Pre-Tax Margin			41.6%	-1.4%	19.8%	10.5%	14.7%	12.7%	20.5%	26.0%	23.6%
Taxes (benefit)	(22)	(1,871)	(406)	(1,406)	(1,812)	966	1,518	2,484	2,829	4,485	7,314
Tax Rate	0.9%	23.2%	-4.5%	458.0%	-20.9%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Net Income (loss)	(2,502)	(6,210)	9,380	1,099	10,479	3,234	5,082	8,316	9,471	15,015	24,486
Net Margin		-33.1%	43.5%	4.9%	23.9%	8.1%	11.3%	9.8%	15.8%	20.0%	18.1%
EPS, as reported	(0.01)	(0.01)	0.02	0.00	0.02	0.01	0.01	0.02	0.02	0.03	0.05
Diluted Shares Outstanding	433,318	434,442	430,203	478,000	478,040	478,100	478,100	478,100	478,100	478,100	478,100

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Vobile Group Limited – Balance Sheet (\$000)

December year-end	FY2022E	FY2021E	FY2020A	FY2019A	FY2018
Balance sheet					
Current Assets					
Cash and S.T.I.	\$51,564	\$29,078	\$33,842	\$4,825	\$17,641
Accounts receivable	34,000	24,000	8,967	13,743	8,156
Inventories	8,000	6,000	6,184	4,080	2,556
Other assets	<u>2,000</u>	<u>1,000</u>	<u>174</u>	<u>355</u>	<u>380</u>
Total Current Assets	95,564	60,078	49,167	23,003	28,733
Net PP&E	125	125	198	378	598
Other non-current assets	<u>100</u>	<u>100</u>	<u>11,075</u>	<u>5,319</u>	<u>2,543</u>
Total Assets	\$170,789	\$140,303	\$148,795	\$115,951	\$50,836
Current Liabilities					
Trade payables	\$10,000	\$8,000	\$6,574	\$5,695	\$2,618
Other payables and accruals	\$8,000	\$7,000	\$4,991	\$6,306	\$4,385
Deferred revenue	\$0	\$0	\$0	\$0	\$0
Other current liabilities	<u>\$15,000</u>	<u>\$12,000</u>	<u>\$1,047</u>	<u>\$2,253</u>	<u>\$0</u>
Total current liabilities	33,000	27,000	12,612	14,254	7,003
Interest bearing borrowings	0	0	30,703	48,500	0
Other Liabilities	<u>0</u>	<u>0</u>	<u>3,723</u>	<u>18,100</u>	<u>0</u>
Total Liabilities	33,000	27,000	47,038	80,854	7,003
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Share Capital	104	104	46	42	42
Additional paid-in-capital	110,000	110,000	106,828	50,651	51,741
Retained earnings	27,685	3,199	(5,117)	(15,596)	(7,950)
Cum. Other comp and treasury stock	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total stockholders' equity	137,789	113,303	101,757	35,097	43,833
Total Liabilities and equity	\$170,789	\$140,303	\$148,795	\$115,951	\$50,836

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – Vobile Group Limited – Cash Flow (\$'000)

	FY22E	FY21E	FY20A	FY19A
Net Income	\$24,486	\$8,316	\$10,479	(\$6,210)
Trade receivables	(10,000)	(15,033)	4,776	(5,587)
Prepayments, deposits and other rec.	(2,000)	184	(2,104)	(1,524)
Other assets	(1,000)	(826)	181	25
Net PP&E	0	73	180	220
Goodwill & Intangibles	5,000	8,355	(1,104)	(68,289)
Other non-current	0	10,975	(5,756)	(2,776)
Trade payables	2,000	1,426	879	3,077
Customer deposits	0	0	0	0
Other payables and accruals	1,000	2,009	(1,315)	1,921
Deferred revenue	0	0	0	0
Other current liabilities	3,000	10,953	(1,206)	2,253
Interest bearing borrowings	0	(30,703)	(17,797)	48,500
Other Liabilities	0	(3,723)	(14,377)	18,100
Preferred stock	0	0	0	0
Share Capital	0	58	4	0
Additional paid-in-capital	0	3,172	56,177	(1,090)
Cum. trans. adj. and treasury stock	0	0	0	0
Dividends	0	0	0	0
Total Cash Flow	\$22,486	(\$4,764)	\$29,017	(\$11,380)

Source: Litchfield Hills Research LLC

Disclosures:

Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

FINRA Compliant Research Report

We, the Litchfield Hills Research Department, hereby certify that this report is compliant with FINRA research rules 2241, 3110, the analyst is registered with FINRA and the report has been reviewed by a Supervisory Analyst.

MiFID II Compliant Research Report

Our research is classified as minor non-monetary benefit under MiFID II. This applies to all forms of transmission, including email, website and financial platforms such as Bloomberg, FactSet, S&P Global, Refinitiv and 13 others. We do not seek payment from the asset management community and do not have any execution function. Investors can continue to receive our research under the MiFID II regime without the need for a contract for services to be put in place. This applies to all forms of transmission, including email, website and financial platforms.

Litchfield Hills Research LLC Rating System

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Other Disclosures

Litchfield Hills Research, LLC (“LHR”) is not a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission nor a member of Financial Industry Regulatory Authority. The principal of LHR and publisher of this report, Theodore R. O’Neill, is a registered representative of Ascendant Capital Markets, LLC (“Ascendant”), a registered broker-dealer and FINRA member firm. Ascendant considers Mr. O’Neill’s association with LHR to be an “outside business activity” and is disclosed as such with FINRA. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LHR or any divisions, subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction.



Vobile Group Limited 3738.HK - Buy-\$9.00 USD (HKD 70) PT

All material presented in this report, unless specifically indicated otherwise, is under copyright to LHR and the subject company. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LHR or the subject company. All trademarks, service marks and logos used in this report are trademarks, service marks, registered trademarks, or service marks of LHR or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. LHR may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable, appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. LHR does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. LHR believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in this report were obtained or derived from sources LHR believes are reliable, but LHR makes no representations as to their accuracy or completeness.

Ownership and Material Conflicts of Interest

The analyst owns no shares of the subject company. The analyst and his family have no known material conflicts of interest in authoring this report. No employees of Ascendant Capital Markets, LLC own any material amount of VOBILE stock or have any influence on the VOBILE Board of Directors.

Investment Banking and Fees for Services

Litchfield Hills Research has not received compensation for advisory or investment banking services from the Company in the past 12 months. Ascendant Capital Markets, LLC has not received compensation for advisory or investment banking services from the Company in the past 12 months. Litchfield Hills Research LLC has received compensation for distribution and investor targeting services. Ascendant Capital Markets, LLC has not received compensation for non-investment banking services from the Company in the past 12 months.

Market Making

Neither Litchfield Hills Research, LLC nor Ascendant Capital Markets, LLC makes a market in the subject company's securities.

Additional information is available upon request. LHR accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to LHR. This report is not to be relied upon in substitution for the exercise of independent judgment.