

Rent.com.au Ltd

Solid Q1 performance, rights issue underway

Rent.com.au Limited (ASX:RNT) is a purpose-led company seeking to empower home renters through their rental profile, rental bond and payments, and through a growing number of aligned transactional services. The company has announced a solid Q1 FY23 result with revenues of \$0.825m, down 2.0% on the same quarter a year ago, with interest rate rises having an effect on advertising revenues. The core Rent.com.au business delivered its ninth consecutive quarter of positive EBITDA of \$0.035m while the investment in the RentPay platform was \$0.476m for the quarter, a little less than the investment made in Q1 FY22. RentPay now has 3,537 active customers transacting payments on the platform, almost a four-fold increase on the number of active customers a year ago. Concurrently, the company has undertaken a fully underwritten rights issue to raise \$2.9m, before costs, at \$0.04/share, which is at a 29% premium to the last traded share price before the announcement. The company's largest shareholder, Bevan Slattery, has agreed to sub-underwrite \$1.0m of the issue, while directors announced they intended to participate for \$0.2m via sub-underwriting and entitlement acceptance. Funds raised will be used to accelerate sales and marketing of RentPay. We have made some minor adjustments to our forecasts, chiefly to RentPay which is securing higher ARPU but adding customers at a more cautious pace than we had envisaged. We have also incorporated the rights issue. Our base case DCF valuation is \$113.5m or \$0.22/share and is now predicated on RentPay securing 4% (previously 5%) of renters on its platform by FY24 and 20% by FY32.

Business model

Rent.com.au generates revenues from advertising and from rental products, with revenues for the latter derived from RentCheck, which verifies a renter's identity and checks their record against the National Tenancy Database; from RentConnect, which delivers an integrated utility connection and \$100 gift card to renters in conjunction with Origin Energy; and from RentBond, RNT's "move now pay later" product, which helps renters bridge the gap from one rental property to another by financing their bond online. The company's growing RentPay app platform allows renters total financial flexibility in terms of how they make their rent payments while giving agents and landlords surety of payments on time. It also aligns Rent.com.au to the tenancy period, giving it an opportunity to engage with its audience for longer and extend the relationship into other revenue lines including insurance, telecommunications, loan and finance products.

Strong growth in RentPay customers

Rent.com.au delivered Q1 FY23 revenues of \$0.825m in a seasonally quiet quarter. Revenues were down 2% predominantly due to advertising sales declining in the face of rising interest rates and the impact on the new build homes sector. Advertising accounts for half of the Rent.com.au portal revenue. The portal delivered its ninth consecutive positive EBITDA quarter of \$0.035m with group EBITDA a loss of \$0.441m due to the \$0.476m in RentPay. The transaction platform finished the quarter with 3,537 active customers transacting on the platform, up from 908 in Q1 FY22 and 3,007 in Q4 FY22. More than \$1.3m a week in rent is now being paid via RentPay and the company has now gone live with its 'Bill Smoothing' feature which is part of the new Origin Energy partnership on energy bills. We have conducted an interview with CEO Greg Bader following the result and this can be accessed here [RaaS Rent Interview 28 October 2022](#).

Base-case DCF valuation of \$0.22/share post entitlement offer

Our base-case DCF valuation for Rent.com.au is \$0.22/share after incorporating the entitlement offer and our minor earnings adjustments. Our forecasts assume RentPay will secure 5% of renters by FY26 (previously FY25) and 20% by FY32 (previously FY30).

Earnings history and RaaS' estimates (in A\$ unless otherwise stated)

Year end	Sales revenues	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)
06/22a	3.4	1.5	(1.6)	(2.7)	(0.6)	4.4
06/23f	4.5	2.5	(1.2)	(1.5)	(0.3)	3.9
06/24f	10.7	4.1	0.3	(0.6)	(0.1)	1.6
06/25f	19.7	10.2	6.2	3.3	0.7	0.7

Source: RaaS estimates for FY23f, FY24f and FY25f; Company data for historical earnings

Q1 FY23 Results Analysis and Capital Raising

Software & Services

2nd November 2022

Share Details

ASX code	RNT
Share price (2-Nov)	\$0.04
Market capitalisation	\$20.5M
Shares on issue (post entitlement offer)	513.7M
Options/Performance rights	50.75M
Net cash (30-Sept-22)	\$1.27M

Share Performance (12 months)



Upside Case

- Purpose-led culture underpinning improving business metrics
- Opportunity to expand RentPay into other payments products
- Opportunity to upsell existing 700,000 monthly unique visitors into RentPay

Downside Case

- Advertising revenues exposed to cyclical trends
- Investment in RentPay and other products may require further capital
- Small player relative to other online portals

Catalysts

- Further evidence of take-up of RentPay
- Expansion of RentPay into other products
- Ongoing evidence of operational momentum

Board of Directors

Garry Garside	Non-Executive Chairman
Sam McDonagh	Non-Executive Director
Phil Warren	Non-Executive Director
John Wood	Non-Executive Director
Greg Bader	Chief Executive Officer

Company Contacts

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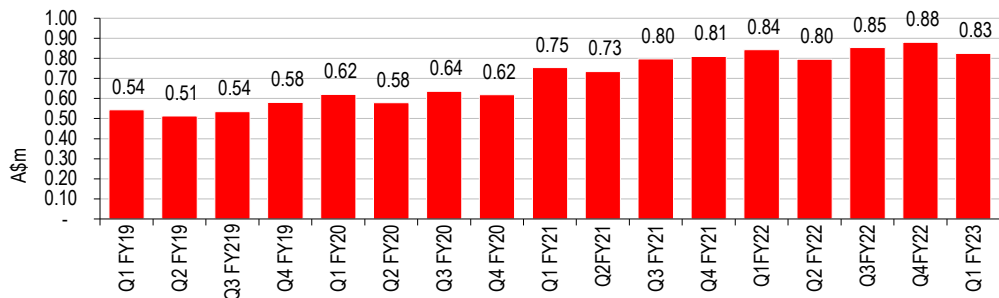
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Q1 FY23 Results Analysis

Rent.com.au reported revenues of \$0.825m for Q1 FY23, down 2% on prior due to a drop in advertising which accounts for half the portal's revenues. The core Rent.com.au business continued to build profitability, reporting EBITDA of \$0.035m, although down 54% on the pcp and flat on Q4 FY22. The company noted that its energy connection product, RentConnect, improved on a year-on-year basis and from mid-August customers opting into RentConnect were referred to Origin, the company's new energy partner. RNT also noted that RentCheck, the ID verification and database check product also grew year on year in Q1. The company extended its agreement with Equifax for a further three years in the quarter. RentBond saw applications and revenues in line with that reported a year before.

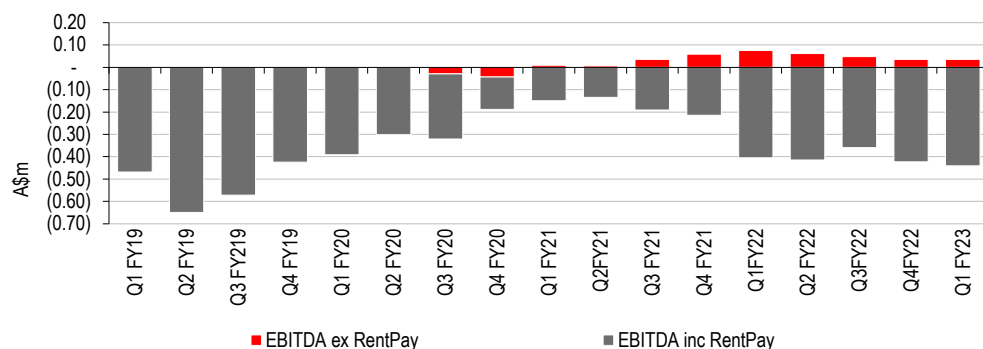
Exhibit 1: Rent.com.au revenues by quarter



Source: Company reports

The group EBITDA loss for Q1 FY23 was \$0.441m as a result of RentPay's \$0.476m EBITDA loss, which was greater than the Q4 FY22 loss of \$0.458m but down slightly on that reported in Q1 FY22 (\$0.481m). The company noted in its release that at the end of September, RentPay had 3,537 active customers transacting payments, an 18% improvement on the number of active customers at the end of June and an almost five-fold increase in the number of active customers reported at the end of September 2021. More than \$1.3m in rent is now being paid weekly through the RentPay platform and the daily trust account is averaging around \$740,000, up from \$600,000 at the end of June. RentPay is now generating average revenue per user (ARPU) of \$4.50, with \$2 of this coming from the cost of transactions and other fees derived from ScoreBuilder/credit safety-net. ARPU is tracking ahead of our forecasts for the half and we have addressed this in our earnings adjustments; conversely, takeup has lagged our forecasts and we have also adjusted for this. From this quarter, RentPay should generate ARPU from referral commissions from Bill Smoothing. The company's performance rights anticipate that the company will achieve at least 100,000 customers on the RentPay platform by the end of FY25.

Exhibit 2: Rent.com.au group EBITDA and EBITDA excluding RentPay



Source: Company reports

Cash receipts for the quarter were \$0.919m, up 4.9% on the pcp and the company's best-ever Q1 cash receipts. Operating costs were \$1.34m for the quarter, down 9% on the same period in FY22 but up 8% on Q4 FY22 largely due to increased investment in people and marketing costs largely associated with the RentPay platform. The operating loss for the quarter was \$0.42m. Rent.com.au ended the quarter with \$1.28m in net cash and had lodged an R&D tax refund claim of \$0.7m. Once the fully underwritten rights issue is completed in December, we estimate the company will have cash on hand of approximately \$3.9m.

Exhibit 3: Q1 FY23 versus Q1 FY22 and Q4 FY22 (in A\$m unless otherwise stated)			
	Q1 FY22	Q4 FY22	Q1 FY23
Cash receipts	0.88	0.94	0.92
Product manufacturing and operating costs	(0.41)	(0.37)	(0.35)
Employee costs	(0.50)	(0.53)	(0.65)
Admin, corporate and other costs	(0.55)	(0.33)	(0.33)
Net interest	-	(0.00)	(0.00)
Taxes	-	-	-
Other (government grant)	-	-	-
Operating cashflow	(0.59)	(0.31)	(0.42)
Net cash at the end of the period	1.81	2.23	1.28

Source: Company data

Earnings Adjustments

We have made some adjustments to our FY23 and FY24 forecasts, chiefly around customer takeup of RentPay (reduction) and ARPU (upgraded). ARPU in Q1 was \$4.50/month, against our forecast for \$3/month and the Origin Energy partnership with Bill Smoothing should see this increase the headline ARPU by at least another \$7/month very quickly, although, \$5/month is paid back to the customer. We have incorporated these changes with the effect of a net small downgrade on current forecasts.

Exhibit 4: Earnings Adjustments to FY23 and FY24 (in A\$m unless otherwise stated)				
	FY23 old	FY23 new	FY24 old	FY24 new
Total Revenue	4.6	4.5	10.7	10.7
Gross Profit	2.6	2.5	4.1	4.1
EBITDA	(1.0)	(1.2)	0.3	0.3
NPAT	(1.4)	(1.5)	(0.6)	(0.6)
EPS	(0.3)	(0.3)	(0.1)	(0.1)

Source: Company data

DCF Valuation

We are of the view that the discounted cashflow methodology is the most appropriate method for valuing Rent.com.au given the still early stage of its lifecycle. Our valuation uses a WACC of 13.5% (beta 1.5, terminal growth rate 2.2%) and derives a valuation of \$113.5m or \$0.22/share, including the 73m in additional shares to be issued under the rights issue. Our forecasts in arriving at this valuation assume that RentPay will be used by 4% of the Australian rental market by FY25-end and 20% of the Australian rental market by FY32.

Exhibit 5: DCF valuation	
Parameters	Outcome
WACC	13.5%
Beta	1.5
Terminal growth rate	2.2%
Sum of PV (A\$m)	44.4
PV of terminal value (A\$m)	65.3
PV of enterprise	109.7
Net cash (post entitlement offer)	(3.9)
Net value - shareholder	113.5
No. of shares on issue (post entitlement offer)	513.7
NPV in A\$	\$ 0.22

Source: RaaS estimates

Exhibit 6: Financial Summary

Rent.com.au Ltd						Share price (2 November 2022)						A\$	0.040				
Profit and Loss (A\$m)						Interim (A\$m)											
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	H122A	H222A	H123F	H223F	H124F	H224F						
Sales Revenue	3.1	3.4	4.5	10.7	19.7	Revenue	1.7	1.7	1.9	2.6	3.9	6.8					
Gross Profit	1.8	1.5	2.5	4.1	10.2	EBITDA underlying	(0.8)	(0.8)	(0.7)	(0.5)	(0.6)	0.8					
EBITDA underlying	(0.7)	(1.6)	(1.2)	0.3	6.2	EBIT	(1.2)	(1.4)	(1.2)	(1.0)	(1.1)	0.3					
EBITDA reported	(1.0)	(1.8)	(1.2)	0.3	6.2	NPAT (normalised)	(1.2)	(1.4)	(0.9)	(0.7)	(0.8)	0.2					
Depn	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	Minorities	-	-	0.0	0.0	0.0	0.0					
Amort	(0.8)	(0.9)	(1.0)	(1.1)	(1.1)	NPAT (reported)	(1.3)	(1.5)	(0.9)	(0.7)	(0.8)	0.2					
EBIT	(1.6)	(2.6)	(2.2)	(0.8)	5.1	EPS (normalised)	(0.32)	(0.29)	(0.19)	(0.14)	(0.15)	0.04					
Interest	(0.0)	(0.0)	0.0	0.0	0.0	EPS (reported)	(0.34)	(0.32)	(0.17)	(0.14)	(0.15)	0.04					
Tax	(0.0)	0.0	0.6	0.2	(1.5)	Dividend (cps)	-	-	-	-	-	-					
Minorities	(0.0)	(0.1)	0.1	(0.0)	(0.0)	Imputation	-	-	-	-	-	-					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(1.0)	(0.7)	(0.5)	(0.5)	0.1	1.6					
NPAT pre significant items	(1.0)	(2.5)	(1.5)	(0.6)	3.3	Free Cash flow	(0.7)	0.3	0.2	0.2	0.7	2.2					
Significant items	(0.3)	(0.2)	0.0	0.0	0.0	Divisions						H122A	H222A	H123F	H223F	H124F	H224F
NPAT (reported)	(1.3)	(2.7)	(1.5)	(0.6)	3.3	Fees from Agents/Landlords	0.1	0.1	0.1	0.1	0.1	0.1					
Cash flow (A\$m)						Rental Products	0.7	0.8	0.7	0.9	0.8	0.9					
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	Advertising	0.8	0.8	0.9	0.9	0.9	0.9					
EBITDA	(0.7)	(1.6)	(1.2)	0.3	6.2	RentPay	0.1	0.1	0.2	0.8	2.1	5.0					
Interest	(0.0)	(0.0)	0.0	0.0	0.0	Total Revenue	1.6	1.7	1.9	2.6	3.9	6.8					
Tax	(0.0)	0.0	0.0	(0.1)	(1.5)	COGS	(1.0)	(0.9)	(0.8)	(1.2)	(2.6)	(4.1)					
Working capital changes	0.7	(0.0)	0.2	1.4	0.1	Gross profit	(0.90)	(0.87)	(0.60)	(0.37)	(0.45)	0.91					
Operating cash flow	(0.1)	(1.7)	(1.0)	1.6	4.8	Employment	(0.9)	(1.1)	(1.2)	(1.2)	(1.3)	(1.3)					
Mtce capex	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	SGA&A	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)					
Free cash flow	(0.1)	(1.7)	(1.1)	1.5	4.7	EBITDA	(0.8)	(0.8)	(0.7)	(0.5)	(0.6)	0.8					
Growth capex	(1.6)	(1.2)	(1.2)	(1.2)	(1.2)	Margins, Leverage, Returns						FY21A	FY22A	FY23F	FY24F	FY25F	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA		(22.3%)	(47.5%)	(26.4%)	2.4%	31.6%					
Other	0.0	0.0	0.0	0.0	0.0	EBIT		(50.4%)	(77.7%)	(48.7%)	(7.7%)	25.8%					
Cash flow pre financing	(1.7)	(3.0)	(2.3)	0.3	3.5	NPAT pre significant items		(32.1%)	(75.4%)	(34.3%)	(5.4%)	16.9%					
Equity	4.2	2.5	2.9	0.0	0.0	Net Debt (Cash)		2.9	2.2	2.7	3.0	6.5					
Debt	(0.1)	(0.1)	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	11.9	1.0					
Dividends paid	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	(143.6%)	(89.0%)	(87.2%)	(136.3%)	(277.8%)					
Net cash flow for year	2.4	(0.5)	0.7	0.3	3.5	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	0.0					
Balance sheet (A\$m)						ROA		(36.4%)	(44.5%)	(32.7%)	(9.8%)	42.7%					
Y/E 30 June	FY21A	FY22A	FY23F	FY24F	FY25F	ROE		(37.9%)	(57.5%)	(29.5%)	(10.4%)	47.4%					
Cash	2.9	2.2	2.8	3.1	6.5	ROIC		nm	nm	nm	nm	nm					
Accounts receivable	0.5	0.5	0.7	1.7	3.2	NTA (per share)		0.01	0.00	0.01	0.00	0.01					
Inventory	0.0	0.0	0.0	0.0	0.0	Working capital		(0.2)	(0.1)	(0.3)	(1.8)	(1.9)					
Other current assets	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		(7.5%)	(3.3%)	(7.5%)	(16.7%)	(9.4%)					
Total current assets	3.4	2.8	3.5	4.8	9.7	Revenue growth		26.2%	8.9%	33.1%	138.9%	83.6%					
PPE	0.0	0.1	0.2	0.2	0.3	Pricing						FY21A	FY22A	FY23F	FY24F	FY25F	
Intangibles and Goodwill	2.4	2.8	3.0	3.1	3.2	No of shares (y/e)	(m)	398	440	514	514	514					
Investments	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	355	417	514	514	514					
Deferred tax asset	0.0	0.0	0.6	0.9	0.9	EPS Reported	cps	(0.4)	(0.7)	(0.3)	(0.1)	0.7					
Other non current assets	0.0	0.3	0.3	0.3	0.3	EPS Normalised/Diluted	cps	(0.4)	(0.6)	(0.3)	(0.1)	0.7					
Total non current assets	2.5	3.1	4.0	4.5	4.7	EPS growth (norm/dil)		n/a	n/a	-46%	-69%	(791.2%)					
Total Assets	5.9	5.9	7.5	9.4	14.4	DPS	cps	-	-	-	-	-					
Accounts payable	0.7	0.7	1.1	3.5	5.0	EV/EBITDA	-	18.9	-	9.6	-	15.1	68.6				
Short term debt	0.0	0.0	0.0	0.0	0.0	FCF/Share	cps	(0.0)	-0.4	-0.2	0.3	0.9					
Tax payable	0.0	0.0	0.0	0.0	0.0	Price/FCF share	-	10,074.5	-	10.9	-	24.0	11.9				
Other current liabilities	0.2	0.3	0.3	0.3	0.3	Free Cash flow Yield		(0.0%)	(9.1%)	(4.2%)	8.4%	23.7%					
Total current liabilities	1.0	1.0	1.4	3.9	5.4												
Long term debt	0.0	0.0	0.0	0.0	0.0												
Other non current liabs	0.0	0.2	0.2	0.2	0.2												
Total long term liabilities	0.0	0.2	0.2	0.2	0.2												
Total Liabilities	1.0	1.2	1.6	4.1	5.6												
Net Assets	4.9	4.6	5.8	5.3	8.8												
Share capital	41.5	43.8	46.6	46.6	46.6												
Accumulated profits/losses	(43.2)	(45.9)	(47.5)	(48.1)	(44.5)												
Reserves	6.6	6.8	6.8	6.8	6.8												
Minorities	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)												
Total Shareholder funds	4.9	4.6	5.8	5.3	8.8												

Source: RaaS estimates



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021



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- how we are paid, and
- complaint processes

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