

# KPAY – LEADING E-COMMERCE PLAYER IN INDONESIA SET FOR STRONG GROWTH - BUY

Price: USD \$0.25

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Country	INDONESIA	FY Dec. USD	2019E	2020E	2021E	2022E
Region	Asia	Revenues	77.13	97.3	125.8	146.6
Ticker (Reuters/ Bloomberg)	KPAY/KPAY:OTC	Gross Profit	8.4	10.8	13.7	16.6
Sector	Technology	Pre-tax Income	7.5	9.8	12.4	15.1
Industry	e-Commerce	Net Income	7.5	9.8	10.7	11.2
Mkt. Cap	Small	EPS	0.28	0.36	0.40	0.41
Investment Style	Growth	P/E	0.8x	0.7x	0.6x	0.6x
Div Yld	N/A	Price Performance	2017	2018 YTD		
Report Type	Initiation	Absolute	n/a	n/a		
Recommendation	BUY	Relative	n/a	n/a		

Source: Reuters. Company Reports and Riedel Research Group  
Relative price performance shown relative to

**KinerjaPay (KPAY) is a leading e-commerce and online payments platform in Indonesia. Over 135 mn Indonesians do not have bank accounts but need the convenience of online bill paying, phone top-ups and other payments. In addition to shopping on KPAY's e-commerce platform users can pay credit card, utility and phone bills, and conveniently transfer funds. KPAY is closing an acquisition of a leading mobile phone and data 'top up' provider (MDU) which will bring 2 million users and \$30 million of annual revenue to KPAY.**

**Indonesia has a population of 270 mn and GDP growth of over 5% expected for 2018 and 2019. These forces are driving growth in consumer activity and middle class. This is a healthy environment for KPAY to continue to grow.**

**One major area of growth for the company will be peer-to-peer lending. The company is rolling out a service targeting employed persons who are willing to sign a wage garnishment agreement. This will significantly increase**

**Identifying a peer group for KPAY's unique business model is challenging. The company is a combination of eBay, PayPal and Venmo. We believe that investors should consider KPAY's potential for high growth and wide margins in assessing the proper valuation.**

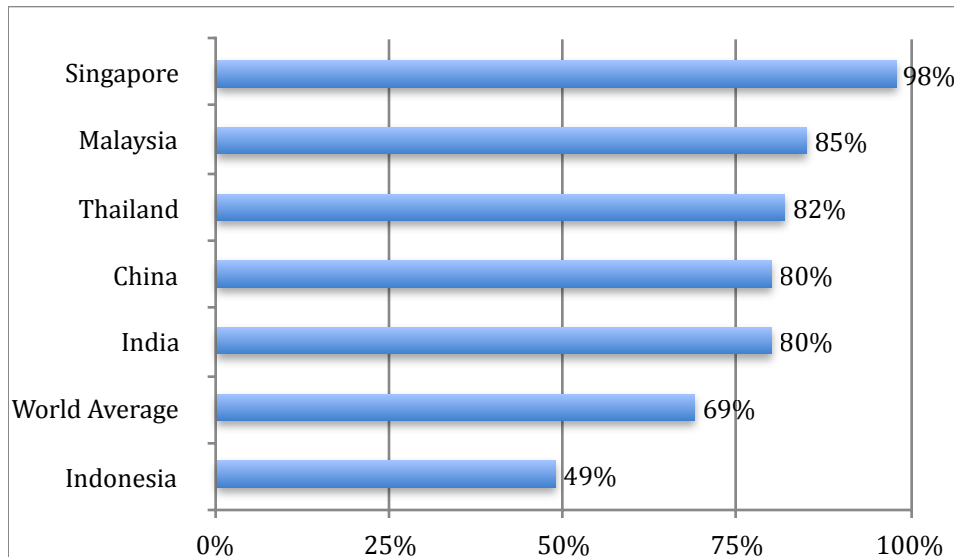
**Looking at historical valuation trends for similar high-growth technology companies we believe KPAY is significantly undervalued. BUY.**

## Opportunity in Indonesia

### Banking In Indonesia

Despite considerable growth in many aspects of Indonesia's economy in recent years, the country has not yet achieved global average levels of banking penetration. Fewer than half of adults have bank accounts. This has been rising in recent years but remains a considerable opportunity for financial and FinTech companies.

**Percent of Adults with Bank Account (2017)**

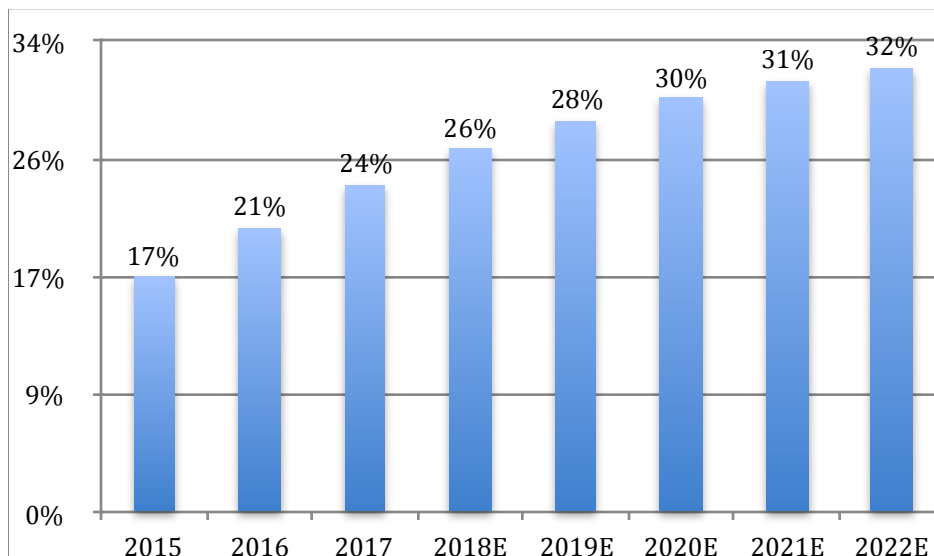


Source: World Bank, The Global Findex Database 2017

### E-commerce in Indonesia

e-commerce has been growing strongly in Indonesia in recent years driven by growth in the penetration of smart phones and high speed internet connections.

**Smartphone Penetration in Indonesia**



Source: International Telecommunications Union (ITU)

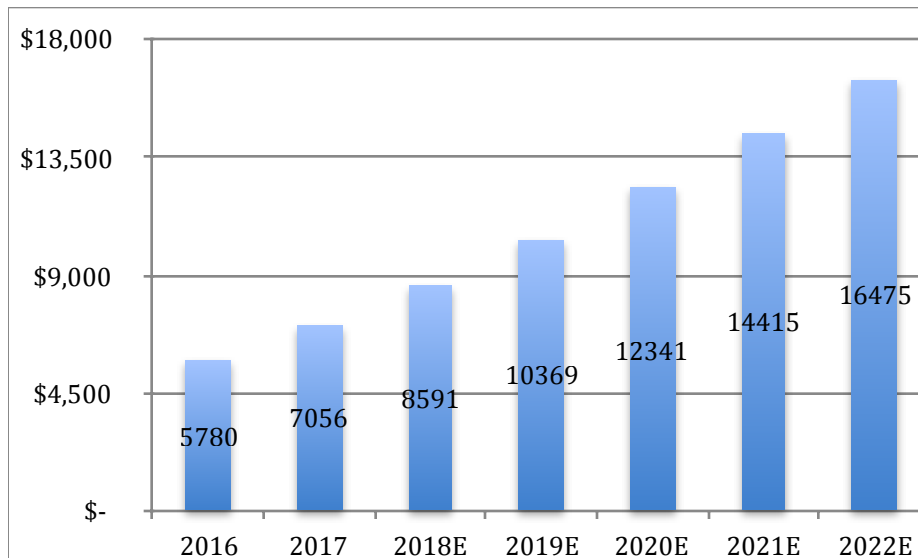
While this growth has been impressive the penetration is still below the global average of 34.7% for 2018. It is worth noting, however, that even at 26% the Smartphone penetration represents 70

million Smartphone users.

E-commerce spending has been growing quickly in Indonesia and is expected to have a CAGR of over 50% from 2017 – 2022. E-commerce share of total retail sales remains low, however, with just 4% of retail sales being online.

There is no official figure on the value of the mobile payment transactions in Indonesia. However, global market research company Research and Markets expects transactions to be worth \$1.6bn this year and to reach \$14.5bn by 2021.

#### Retail E-commerce Sales in Indonesia 2016 - 2022



Source: World Bank

### KPAY's Unique Offering

#### Suite of Services Well-positioned for Growth in Indonesia

KPAY has put together a suite of services perfectly positioned for growth in Indonesia. The company is helping to address issues of e-commerce, online payments and

The strength of the suite of services is being recognized by other major players in commerce and digital services in Indonesia. For example, UBER has partnered with the company to provide KinerjaPay users an exclusive promotion code for first-time users, valid for four rides. Users can initially redeem the Uber/KinerjaPay promotion code by creating a new account on the Company's e-commerce platform or meeting a spending threshold with KinerjaPay's proprietary KinerjaMall service. User/clients can then redeem their unique code directly in their KinerjaPay smartphone app to use the UBER service.

Brick and mortar companies in Indonesia have also recognized the value of the company's services and customer base. Partnership with Indonesian convenience store chain Alfamart and Indomaret. Both will allow customers to make payments on any transaction performed inside KinerjaPay platform;

#### KPAY's Range of Services for Businesses

	PAYMENT LINK	E-INVOICE	WEB	APPLICATIONS
	Receive payment via social media, messaging applications or forums	Submit invoice and receive the payment via email	Payment solution for your website	Payment solution for your mobile application
Integration Options	Social Media, Messaging Applications	Email invoicing which can be adjusted to the link to payment	Desktop and Smartphone Browser	OS and SDK Android
Payment Page	dDompot	dDompot	dDompot or Merchant	Merchant
Fund Mgmt	Managed by KinerjaPay as an Escrow account or transferred to your account.			
Back Office	Robust dashboard with analytics function, settings and report			
Price/Cost	No upfront charge, set-up cost or monthly fees. Only pay for successful transactions.			

Source: Company Reports

**KPAY**

PRIZE 01492

LOGIN Register

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**What is KPAY?**

Enjoy the convenience of an online payment system with Performance services. KPAY makes it easy for users to make payments quickly on merchant sites that have been affiliated with us.

All transactions will be carried out in Realtime, with the extra security guaranteed from the Performance, do the account registration immediately and enjoy the convenience and flexibility of transacting online.

Source: [www.kinerjapay.com](http://www.kinerjapay.com)

### Prepaid Mobile Topup

Virtually all mobile phone plans in Indonesia are prepaid. This structure requires that a comprehensive network of retail outlets in Indonesia be in place to allow for mobile 'topup' services.

Prepaid mobile topup is KPAY's largest revenue stream. IN the most recent quarter the company recognized \$1.2 mn of revenue from mobile phone prepaid. The recently agreed acquisition of PT. Mitra Distribusi Utama ("PT. MDU") will dramatically expand this business. MDU had revenue of over \$30 mn in 2017 PT. MDU has been providing mobile prepaid top-up data package for all of the telecom service providers since 2007. In addition to providing considerable revenue to KPAY the acquisition will provide significant customer access and transaction volume. MDU is currently seeing an average of 2 mn transactions per month. KPAY will have the opportunity to cross-sell its full suite of services to this customer base.

### Mobile Digital Payment

Bank Indonesia (BI) has, in recent years, focused on the growth of a "Cashless Society". BI as Indonesia's central bank started an initiative in 2014 called "Gerakan Nasional Non-Tunai" (National Cashless Movement), to focus on providing convenience to users and reducing the handling cost of financial institutions.

This is a competitive business where the major players subsidize transactions through cash back payment, discounts with merchants, and price cuts to increase usage. KPAY is well positioned to succeed in this space as they integrate mobile topup, commence and micro-lending.

### e-commerce

The company's KinerjaMall (KMALL) targets a large pool of younger consumers in the lower or middle income bracket. The system is designed to proactively target customers with promotions through algorithms that present relevant products according to browsing history. The company is

targeting small and medium enterprises, especially with brands that are uniquely Indonesian. Daily Deals are highlighted to users as a way to drive sales of products that are proving popular with users.

### **P2P Lending**

Peer-to-peer lending is a growing business in Indonesia and one that KPAY is well-positioned to benefit from. In Sept the company set up a new company called PT. Kinerja Simpan Pinjam which will manage a peer-to-peer (P2P) lending platform that focuses on micro-lending activities branded KFUND.

The service will be established to provide micro-loans of \$100 to \$1,000 to unbanked families. Initially the focus will be on providing the capital for the establishment of a mini KPOP store. These mini stores are expected to provide an additional income stream for these families allowing them to improve their financial situation.

The focus of the KFUND business will be on people who are employed and can sign a 'garnishment' agreement with KPAY which automatically repays the loan. With this structure the default risk is expected to be very low.

As KFUND grows they are expecting to quickly reach 1,000 transactions per month. By the 4th year the company estimates that they will be doing over 6,500 transactions per month and that the average loan size will have grown from \$200 to \$300. The company will collect a fee of up to 5% as the facilitator of the loan.

This high-margin business will also provide an opportunity for Indonesians to earn high returns on their excess savings. With interest rates on bank deposits in Indonesia of 2% (for savings accounts) to 5% (for time deposits of 1 year or more, Indonesians are eager to earn more return on their money.

Globally data has shown that micro-lending has a very low default rate as community pressure encourages repayment. We believe that KPAY's comprehensive suite of services will involve the company in many aspects of a borrowers financial and business activities making default unlikely.

### **Mobile Games**

The development, licensing and distribution of mobile games is a critical part of a digital business model that has significant customer retention and growth. Both casual games and more involved role-playing games can serve to integrate a brand and write of services into a customer's daily life. This has proven to be a very lucrative and successful business for companies like Tencent (0700.HK) in China.

KPAY is working in partnership with Ace Legends (ACE) to develop new games and distribute existing ones. ACE is a Singapore entity which has more than 300,000 user registrations. ACE publishes several successful online games, including Floo.io, Royale Cards, and Battle Hound, and has a number of promising titles in the pipeline.

KPAY holds an exclusive, world-wide Game Publisher License for ACE games and will host all the games currently published by ACE on its own KinerjaGames platform. The company is integrating the games into their digital ecosystem allowing players to earn point rewards and KCoin rewards, by participating in the games.

## KPAY - Earnings and Outlook

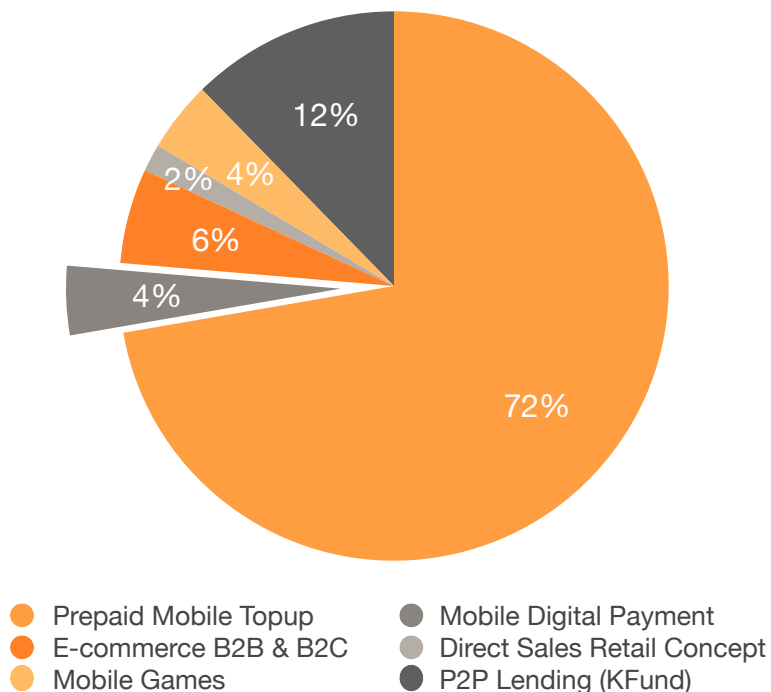
### New Business Model, Acquisitions Drive Earnings

Earlier this year the company acquired the privately-held PT. Kinerja Indonesia. This company had been providing the company with Data Center & Business Services. Bringing this 'in house' allows the company to report all sales across the KinerjaPay network under GAPP rules and gives the company stronger control of their cloud network and intellectual property.

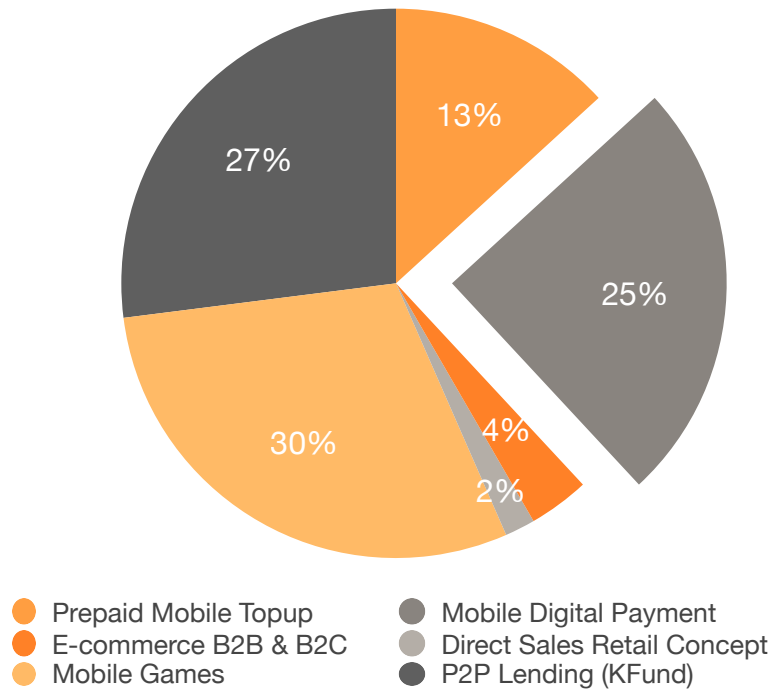
In addition to this change, the company's pending acquisition of PT. Mitra Distribusi Utama ("PT. MDU") will significantly expand their business in 2019 and beyond. The company expects that acquisition to be fully completed by the end of calendar 2018 allowing the company to consolidate the MDU activity for the full year 2019.

Given that these two actions will alter KPAY's business profile so significantly the reported results from 2017 and 2018 are not truly relevant to the valuation and outlook for the company. We focus here on the earnings in 2019 and beyond.

### 2019 Revenue Breakdown



### 2019 Gross Profit Breakdown



Source: Riedel Research Group



**KPAY Profit and Loss (2019E - 2022E)**

Revenue Streams	2019	2020	2021	2022
Prepaid Mobile Topup	\$55,745,000	\$68,600,500	\$92,000,000	\$105,000,000
Mobile Digital Payment	\$3,135,000	\$3,200,000	\$3,350,000	\$3,500,000
E-commerce B2B & B2C	\$4,300,000	\$4,700,000	\$4,900,000	\$5,100,000
Direct Sales Retail Concept	\$1,250,000	\$1,500,000	\$1,800,000	\$2,100,000
Mobile Games	\$3,200,000	\$3,750,000	\$4,300,000	\$4,950,000
P2P Lending (KFund)	\$9,500,000	\$15,550,000	\$19,500,000	\$26,000,000
	\$77,130,000	\$97,300,500	\$125,850,000	\$146,650,000
<b>COGS</b>				
Prepaid Mobile Topup	\$54,630,100	\$67,228,490	\$89,700,000	\$102,375,000
Mobile Digital Payment	\$1,034,550	\$1,056,000	\$1,105,500	\$1,155,000
E-commerce B2B & B2C	\$3,999,000	\$4,371,000	\$4,557,000	\$4,743,000
Direct Sales Retail Concept	\$1,100,000	\$1,320,000	\$1,584,000	\$1,848,000
Mobile Games	\$704,000	\$825,000	\$946,000	\$1,089,000
P2P Lending (KFund)	\$7,220,000	\$11,662,500	\$14,235,000	\$18,850,000
Gross Profit	\$8,442,350	\$10,837,510	\$13,722,500	\$16,590,000
% Gross Profit	10.9%	11.1%	10.9%	11.3%
Marketing & Admin Expenses	\$925,560	\$1,070,306	\$1,384,350	\$1,466,500
Interest Expense	\$15,400	\$18,500	\$22,500	\$25,000
Pre-tax Profit	\$7,516,790	\$9,767,205	\$12,338,150	\$15,123,500
Pre-tax Margin	9.1%	9.3%	9.7%	9.9%
Corporate Tax	0	0	1,603,960	3,932,110
Net Income	\$7,516,790	\$9,767,205	\$10,734,191	\$11,191,390
Shares Outstanding	27,000,000	27,000,000	27,000,000	27,000,000
EPS	0.28	0.36	0.40	0.41

## Appendix A: Brands and Branding

**KinerjaPay**



**kpay**

**kgames**

**kmall**