

# Serko

## Flying high

Serko (SKO.NZ) is a leading cloud-based software business based in New Zealand. It has developed products designed to transform business travel by providing tools to initiate and change travel arrangements and to record and reconcile travel expenditure. The company announced in mid-August it had forged a new strategic partnership with Expedia (NASDAQ.EXPE) that will allow SKO customers to search and book Expedia- and Wotif-branded content through SKO Online, SKO's online booking tool (OBT). The deal opens up a new revenue stream for SKO and sets the company on its path towards increasing its average revenue per traveller.

## Business opportunity

According to management, SKO's share of the US\$25bn Australian corporate travel market is c 30%. SKO's system allows travellers to manage travel themselves and integrate expense claims with the company's enterprise reporting system (ERP). The SKO system, which now includes Serko Mobile, allows real-time application of the company's travel and booking policies, and is estimated to cut corporation travel budgets by c 20%. The company has cemented its growth profile with the acquisition in April 2015 of Arnold Travel Technology, which added 22% more online booking transactions and 500,000 profiles. SKO anticipates the transaction will deliver a positive EBITDA contribution in the second half of FY16. The company's strategic partnership with Expedia will allow SKO to market and promote Expedia's inventory of 8,200 properties across Australia and New Zealand.

## Revenue model

SKO earns revenue by charging transaction fees on all corporate travel spend including flights, accommodation rental cars and ancillary services, such as taxis, booked across its platform.

## Valuation: On target for profitability in FY17

The company has guided that its revenues for FY16 will be at the lower end of the NZ\$16-18m range previously given, with revenues in the six months to September 2015 expected to be in the range of NZ\$6.3-7m. SKO expects to achieve profitability in FY17.

## Forecasts

There are no consensus forecasts available on the company.

### Historical financials

Year end	Revenue (NZ\$m)	PBT (NZ\$m)	EPS (NZ\$)	DPS (NZ\$)	P/E (x)	Yield (%)
03/13	4.8	(0.3)	(0.01)	0.0	N/A	N/A
03/14	6.7	(1.7)	(0.03)	0.0	N/A	N/A
03/15	10.4	(6.4)	(0.10)	0.0	N/A	N/A

Source: Company reports

## Finance & other services

**Price\*** **NZ\$0.80**

**Market cap** **NZ\$49m**

\*At 27 August 2015

Net cash (NZ\$m) at 31 March 2015 4.5

### Share price graph



### Share details

Code	SKO
Listing	NZX
Shares in issue	61.4m

### Business description

SKO is Australasia's leading online travel and expense management company for business. Its head office is in Auckland. Other offices are in Sydney, Xi'an (China) and Gurgaon (India). SKO's booking tool is used by administrators and travellers to book flights, accommodation and car hire.

### Bull

- Corporate travel is a significant controllable cost, estimated to be 8-12% of the average organisation's total cost base.
- SKO's systems are estimated to reduce corporate travel costs by c 20%.
- Founders have 25 years' experience in travel software origination.

### Bear

- Competitive market subject to change.
- Market growth may be slower than expected.
- Reliance on TMCs.

### Analysts

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