

Equity Research | CRUNCHFISH: Strong outlook to make 2023 a breakthrough year

After an eventful 2022, Crunchfish looks to make 2023 the year where things take off. With one of the two Indian banks in the ongoing pilot already offering Crunchfish's offline payment solution (Crunchfish Digital Cash Offline) to its 60+ million customers, a first firm deal should not be far away. This would provide a transformational Proof-of-Concept to Crunchfish's business model which would drive a significant revaluation of the share. For now, we continue to find support for a fair value of SEK 48-63 per share.

Slow and steady wins the race in India

The ongoing pilot with Crunchfish Digital Cash (DC) Offline is drawing to a close, and so far, the reporting on it has been sparse but positive. The pilot has been extended to also include P2P-payments, in addition to merely P2M-payments. The participating banks, HDFC Bank and IDFC First Bank together serves over 70 million customers, which makes the pilot a great steppingstone for a broad rollout in the world's leading market for instant payments. According to the webinar following Crunchfish's annual report, discussions have already moved away from DC Offline to how to implement the DC Telecom solution, where users can pay to anyone over the telecom network, even if the payee isn't onboarded with DC, a solution that in our view should be much easier to implement in a country like India with many different public and private sector banks and an already successful ecosystem for direct payments.

Acquisition to enable turn-key solution

In March 2023, Crunchfish announced a potential acquisition of an Indian payment platform company. In addition to close to hundred existing customers, the target company has a backend compatible with Crunchfish's frontend, meaning the acquisition would enable Crunchfish to deliver a fullstack turn key-solution to banks and payment service providers, without relying on external partners. However, according to CEO Joachim Samuelsson, the company's current cash position is not strong enough to cope with both the acquisition and its working capital needs, meaning cash might be a bottleneck. The MOU with Socio regarding the purchase of 3 million shares has been prolonged until May 21st, which would solve things. But if that fails, the question of financing will quickly climb up the agenda. Company had net cash of 29 MSEK at the end of 2022, which we expect to cover nine months of costs.

Snowball effect hinging on initial firm deals

Obtaining a first firm deal might take a while, considering the slow-moving nature of the banking industry and the fact that payment systems are considered critical infrastructure. Until such a deal is in place, we can only speculate on what the earnings model will look like. We do however believe that 2023 could be a redemptive year for Crunchfish. A successful pilot, backed by the fact that HDFC Bank already has offered its customers the solution to pay offline, supports our expectation of at least one signed deal by the end of the year. Our Base case estimates DC to reach 100 million users by 2026, which based on a licence of SEK 3 per user translates to annual sales just shy of SEK 300m. We leave our fair value of SEK 48-63 per share intact and note that a successful initiation of the rollout should drive a significant revaluation of the share.



Read the full report here https://www.emergers.se/crunchfish_f/

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