

# Sekur Private Data Ltd.

(CSE: SKUR / OTCQX: SWISF / FRA: GDT0)

**Improves Product Features & Implementing New Marketing Strategies**

**BUY**

**Current Price: C\$0.19**

**Fair Value: C\$0.96**

**Risk\*: 4**

**Sector/Industry: Technology/Software**

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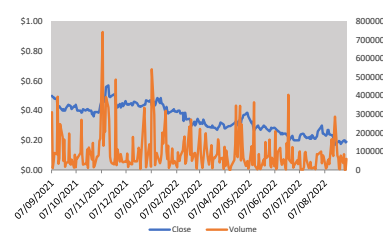
## Highlights

- **Q2-2022 revenue was \$113k, up 29% QoQ**, and in line with our estimate. However, EBITDA declined QoQ (-\$1.7M to -\$2.2M), and was below our expectations, due to significantly higher marketing and software maintenance costs.
- As a result of the increased marketing budget, **subscriber-count increased from 3.3k in May 2022, to 4k currently**. We were expecting close to 5k subscribers by this time.
- As the company does not provide segmented results, we were unable to determine its customer acquisition cost (CAC). Our discussions with management indicated that their CAC is currently higher than US\$200, implying a payback period of 1.5-2.0 years. Management expects to lower CAC to the US\$25-US\$50 range vs subscription revenue of US\$120/year/user.
- After pursuing various influencer and third-party marketing programs, the company has **decided to shift its marketing strategy** by using more resellers and distributors, and in-house SEO marketing. Management expects these initiatives to be more effective and cheaper. We are unable to comment on these new initiatives until we see preliminary results. That said, we are expecting a significant decline in marketing expenses in H2-2022.
- In July 2022, **partner, America Movil/Telcel** (the largest mobile operator in Mexico with over 75M mobile subscribers), launched SekurMessenger® for its corporate clients.
- In August 2022, distribution partner Miconet **launched Sekur® in Colombia**, with plans to launch in Costa Rica, Guatemala, El Salvador, and Nicaragua. The company also intends to partner with resellers in Chile, Peru, Argentina, and Uruguay.
- **Improved functionality** by allowing users to make payments in eight currencies. Sekur has also added a "Chat-By-Invite" function for its messenger. We believe this is an **attractive feature**, as users can invite non-users (by email or SMS) for encrypted and secure communications. At the end of a chat, the initiator of a conversation can terminate and delete traces of that conversation.
- The NASDAQ-100 Technology Sector Index (NASDAQ: NDXT) is down 26% YTD vs -18% for the S&P 500. As we are expecting the Fed to take a less hawkish stance in Q4, **we are expecting a rally in tech stocks**. Note that the tech index was up 62% from January 2020 to January 2022, beating the S&P 500's 47%.

**Sid Rajeew, B.Tech, MBA, CFA**  
Head of Research

**Alexis Cabel, B.A.Econ**  
Equity Analyst

## Price and Volume (1-year)



	YTD	12M
SKUR	-59%	-62%
CSE	-41%	-55%

## Company Data

52-Week Range	C\$0.17 – \$0.60
Shares O/S	117M
Market Cap.	C\$22M
Current Yield	N/A
P/E (forward)	N/A
P/B	2.5x

## Key Financial Data (C\$)

YE Dec 31	2021	2022E	2023E
Cash	8,812,477	2,963,803	364,619
Working Capital	9,505,862	3,803,315	625,808
Total Assets	12,855,799	7,653,764	5,067,151
Debt	-	-	-
Revenue	144,881	453,000	856,599
Net Income	-9,412,484	-6,224,934	-3,778,865
EPS	-0.11	-0.05	-0.03

\*See last page for important disclosures, rating, and risk definitions. All figures in C\$ unless otherwise specified.

Q2 revenue was up 29% QoQ, and in line with our estimate

However, EBITDA EPS, and FCF declined, and fell below our expectations, due to increased marketing, and higher software expenses for adding new features

We continue to expect the company to be profitable by 2025

As the company is implementing a new marketing strategy, management has lowered their year-end subscriber count forecast from 11k to 5k; they are expecting a faster ramp up in 2023; we are also lowering our year end subscriber-count forecast from 7.7k to 5k

Balance sheet remains strong

In-the-money options and warrants can bring in \$1.5M

## Financials

STATEMENT OF OPERATIONS (C\$)									
YE Dec 31	Q1-2021	Q1-2022	YoY	Q2-2021	Q2-2022	YoY	H1-2021	H1-2022	YoY
Revenue	8,722	88,035	909%	10,119	113,365	1020%	18,841	201,400	968%
OPEX	1,052,159	1,576,323	50%	1,211,920	2,454,926	103%	2,264,079	4,031,249	78%
EBITDA	(1,280,362)	(1,693,661)		(964,876)	(2,184,454)		(2,245,238)	(3,878,115)	
Net Loss	(1,284,919)	(1,708,438)	33%	(978,707)	(2,227,618)	128%	(2,263,826)	(3,938,058)	74%
EPS	(0.02)	(0.01)		(0.01)	(0.02)		(0.03)	(0.03)	

### Revenue Breakdown

	FY-2021	H1-2022
<b>Product Type</b>		
B2B	\$6,496	\$1,622
Sekur	\$138,385	\$199,778
	\$144,881	\$201,400
<b>Geographical Location</b>		
Mexico	\$585	\$805
U.S.	\$114,296	\$200,595
	\$114,881	\$201,400

### Summary of Cash Flows (in C\$)

	H1-2022	H2-2022
Operating	-\$1,628,667	-\$3,351,616
Investing	\$0	\$0
Financing	\$5,387,953	\$925,855
<b>Net</b>	<b>\$4,254,213</b>	<b>\$6,386,716</b>
<b>Free Cash Flows to Firm (FCF)</b>	<b>-\$1,628,667</b>	<b>-\$3,351,616</b>

### (in C\$) - YE Dec 31st

Liquidity & Capital Structure	Q1-2022	Q2-2022
Cash	7,230,482	6,386,716
Working Capital	7,877,171	6,600,177
Current Ratio	111.79	75.31
LT Debt	-	-
Total Debt	-	-
LT Debt / Capital	-	-
Total Debt / Capital	-	-

Source: FRC / Company

## Stock Options and Warrants

	# Options	Strike Price	Value	Warrants	Strike Price	Value
	1,400,000	0.14	196,000	5,690,000	0.75	4,267,500
	1,140,000	0.12	136,800	129,760	0.25	32,440
	6,320,000	0.50	3,160,000	7,610,000	0.15	1,141,500
	4,180,000	0.80	3,344,000	2,038,200	0.50	1,019,100
	3,500,000	0.25	875,000	3,628,464	0.50	1,814,232
				9,630,735	0.60	5,778,441
				2,677,755	0.80	2,142,204
				2,321,585	0.70	1,625,110
Total Outstanding	16,540,000	0.47	7,711,800	33,726,499	0.53	17,820,527
In the Money	2,540,000		332,800	7,610,000		1,141,500

Source: FRC

## FRC Projections and Valuations

We are lowering our short-term and long-term user-count and revenue projections

As a result, our DCF valuation declined from \$1.16 to \$0.96 per share

Our near-term EPS (2022 and 2023) forecasts improved as lower marketing expenses more than offset the decline in our revenue forecasts

	2022 (Old)	2022 (New)	2023 (Old)	2023 (New)
Revenue	\$535,695	\$453,000	\$1,534,830	\$856,599
EBITDA (adjusted)	-\$6,618,832	-\$6,128,402	-\$5,588,241	-\$3,677,507
Net Income	-\$6,625,030	-\$6,224,934	-\$5,594,439	-\$3,778,865
EPS	-\$0.06	-\$0.05	-\$0.05	-\$0.03

DCF Model (In \$)	2022E	2023E	2030E	Terminal
EBIT	-2,298,553	-3,880,224	38,247,516	
Non-Cash Charges	48,266	101,359	142,622	
Investment in WC	-146,127	578,323	-1,444,808	
CFO	-2,396,414	-3,200,542	36,945,329	
CAPEX	-500,000	-500,000	-500,000	
FCF	-2,896,414	-3,700,542	36,445,329	
PV	-2,700,920	-3,000,673	11,109,902	95,359,994
Discount Rate	15%			
Terminal Growth Rate	3%			
Total PV	120,197,368			
Cash - Debt	6,386,716			
Equity Value	126,584,084			
Shares O/S (dil)	126,706,773			
<b>Fair Value</b>	<b>0.95</b>			

Source: FRC

**We are maintaining our BUY rating, and lowering our fair value estimate from \$1.16 to \$0.96 per share.** We will closely monitor the company's new marketing initiatives to evaluate their effectiveness. We believe the new product features have improved Sekur's offering. We also believe that businesses operating with sensitive and confidential information (such as medical, financial, and real estate) are ideal initial targets for Sekur.

### Risks

We believe the company is exposed to the following risks:

- The company is in early stages, and yet to generate meaningful revenue.
- Must constantly keep its technology up-to-date to remain ahead of the curve.
- **Getting users to switch from free to paid email/messaging services can be challenging.**
- Rising competition among private encrypted service providers.
- We are not expecting the company to break-even before 2025

Maintaining our risk rating of 4

## Appendix

<b>STATEMENTS OF OPERATIONS</b>			
(in C\$) - YE Dec 31st	2021	2022E	2023E
Net Revenue	144,881	453,000	856,599
<b>EXPENSES</b>			
Operating Expenses	9,518,474	6,581,402	4,534,106
SG&A Expense	371,981	418,196	439,106
Marketing Expense	3,796,378	5,071,206	3,315,000
Share-based Compensation	4,555,966	-	-
Software Maintenance	794,149	1,092,000	780,000
<b>EBITDA</b>	<b>(9,373,593)</b>	<b>(6,128,402)</b>	<b>(3,677,507)</b>
Depreciation	6,198	96,532	101,359
Amortization			
<b>EBIT</b>	<b>(9,379,791)</b>	<b>(6,224,934)</b>	<b>(3,778,865)</b>
Foreign Exchange Loss	(39,739)		
Interest Income	7,046		
<b>EBT</b>	<b>(9,412,484)</b>	<b>(6,224,934)</b>	<b>(3,778,865)</b>
Non-Recurring Expenses			
Taxes	-	-	-
<b>Net Profit (Loss)</b>	<b>(9,412,484)</b>	<b>(6,224,934)</b>	<b>(3,778,865)</b>
EPS	-0.11	-0.05	-0.03

<b>BALANCE SHEET</b>			
(in C\$) - YE Dec 31st	2021	2022E	2023E
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and Cash Equiv.	8,812,477	2,963,803	364,619
A/R	48,555	485,550	70,405
Prepaid Expenses	775,294	581,471	610,544
<b>Total Current Assets</b>	<b>9,636,326</b>	<b>4,030,823</b>	<b>1,045,568</b>
Intangible Asset	2,552,573	2,552,573	2,552,573
Equipment/Others	666,900	1,070,368	1,469,009
<b>Total Assets</b>	<b>12,855,799</b>	<b>7,653,764</b>	<b>5,067,151</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
A/P	77,730	174,774	367,026
Licensee Fees Payable	52,734	52,734	52,734
<b>Total Current Liabilities</b>	<b>130,464</b>	<b>227,508</b>	<b>419,760</b>
Loans Payable	-	-	-
<b>Total Liabilities</b>	<b>130,464</b>	<b>227,508</b>	<b>419,760</b>
<b>SHAREHOLDERS EQUITY</b>			
Share Capital	20,982,323	21,908,178	22,908,178
Reserves	5,228,563	5,228,563	5,228,563
Accumulated Deficit	- 13,485,551	- 19,710,485	- 23,489,350
<b>Total shareholders' equity (deficiency)</b>	<b>12,725,335</b>	<b>7,426,256</b>	<b>4,647,391</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>12,855,799</b>	<b>7,653,764</b>	<b>5,067,151</b>

<b>STATEMENTS OF CASH FLOWS</b>			
<b>(in C\$) - YE Dec 31st</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
<b>OPERATING ACTIVITIES</b>			
Net Profit for the Year	- 9,412,484	- 6,224,934	- 3,778,865
<b>Adjusted for items not involving cash:</b>			
Stock-based Compensation	4,555,966	-	-
Depreciation and Amortization	6,198	96,532	101,359
FOREX	- 12,242		
Common Stock Issued for Services	268,714		
<b>Funds From Operations</b>	<b>- 4,593,848</b>	<b>- 6,128,402</b>	<b>- 3,677,507</b>
<b>Change in working capital</b>			
A/R	- 29,083	- 436,995	415,145
Prepaid expenses and deposit	- 345,160	193,824	- 29,074
A/P	49,946	97,044	192,252
Due to Related Parties	- 2,759	-	-
Licensee Fees Payable	14,486	-	-
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>- 4,906,418</b>	<b>- 6,274,529</b>	<b>- 3,099,184</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of Equipment	- 673,098	- 500,000	- 500,000
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>- 673,098</b>	<b>- 500,000</b>	<b>- 500,000</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from equity issue	13,884,824	925,855	1,000,000
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>13,884,824</b>	<b>925,855</b>	<b>1,000,000</b>

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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