

Sekur Private Data Ltd.

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

Targeting the Surging Demand for Secure Email & Instant Messaging Services

BUY

Current Price: C\$0.085

Fair Value: C\$0.61

Risk*: 4

Sector: Technology/Software

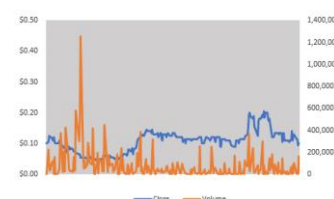
[Click here for more research on the company and to share your views](#)

Highlights

- Q3-2023 revenue was up 7% YoY, but flat QoQ, missing our estimate by 11%. EBITDA and EPS remained negative.
- Revenue growth continues to be **driven by individual users in the U.S.**
- **Customer Acquisition Costs (CAC) fell** from US\$85 in Q2-2023, to US\$30 in Q3-2023. Although Sekur does not disclose revenue/user or user-count, we note that the annual pricing for its solutions/services ranges between US\$84 and US\$264 per user. The significant decline in CAC was a result of the company's shift towards in-house SEO marketing, and efforts to attract resellers and distributors, while cutting back on initiatives involving social media influencers. Last month, Sekur announced **multiple distribution agreements in the Middle East.**
- Management is **aiming to slash G&A/marketing expenses by over 50%** in 2024. We are revising our 2024 revenue forecast lower, while simultaneously raising our EPS forecast, as the **positive impact of reduced expenses should outweigh** the negative effect on the topline.
- In the coming months, the company **plans to launch** new services including enterprise solutions for businesses, as well as encrypted calls, and video conferencing, to increase revenue per user.
- According to Verified Market Research, **the email encryption market** should grow from US\$24B in 2021, to US\$167B by 2030, reflecting a CAGR of 24%. We believe this growth is indicative of the rising demand for secure email services.
- We believe businesses operating with sensitive and confidential information (such as medical, financial, and real estate) are **ideal targets for Sekur.**
- Management is following through with their plans to **uplist shares to the NASDAQ.**

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Price and Volume (1-year)



	YTD	12M
SKUR	21%	42%
CSE	-1%	-15%

Company Data

52-Week Range	C\$0.04 - C\$0.21
Shares O/S	120M
Market Cap.	C\$10M
Current Yield	N/A
P/E (forward)	N/A
P/B	2.2x

Key Financial Data (C\$)

YE Dec 31	2022	2023E	2024E
Cash	4,038,704	1,481,183	861,003
Working Capital	4,042,785	1,459,363	741,907
Total Assets	7,557,782	4,729,828	4,144,148
Debt	-	-	-
Revenue	464,299	497,747	764,571
Net Income	-6,390,233	-4,574,384	-1,197,683
EPS	-0.06	-0.04	-0.01

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

Financials

STATEMENT OF OPERATIONS (C\$)

YE Dec 31	Q3-2022	Q3-2023	YoY	2022 (9M)	2023 (9M)	YoY
Revenue	118,252	126,596	7%	319,652	387,176	21%
G&A and Others	415,870	492,378	18%	1,249,179	1,325,505	6%
Marketing Expenses	982,455	1,095,054	11%	4,228,661	1,978,111	-53%
EBITDA (adjusted)	(1,280,073)	(1,460,836)	14%	(5,158,188)	(2,916,440)	-43%
Net Loss	(1,284,507)	(1,942,555)	51%	(5,220,563)	(3,910,454)	-25%
EPS	(0.01)	(0.02)	51%	(0.05)	(0.03)	-26%

Q3 revenue and EPS missed our expectations

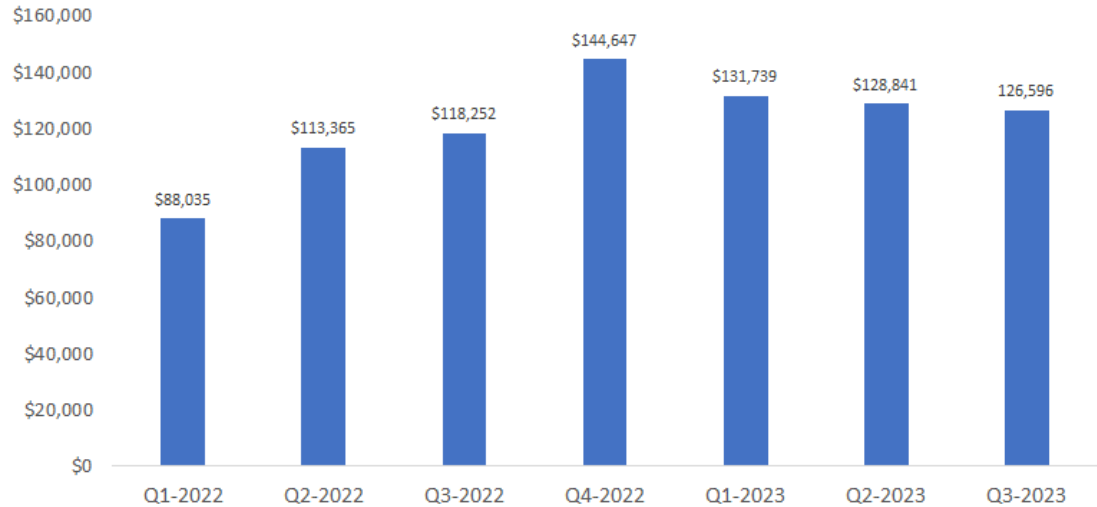
Revenue was up 7% YoY, but flat QoQ

EBITDA was down 14% YoY amid higher G&A, and marketing expenses

EPS remained negative

Revenue continues to be driven by individual users in the U.S.

Revenue



Revenue Breakdown		Q3-2022	Q3-2023	YoY	2022 (9M)	2023 (9M)	YoY
Product Type							
B2B		\$711	\$558	-22%	\$2,333	\$2,779	19%
Sekur		\$117,541	\$126,038	7%	\$317,319	\$384,397	21%
		\$118,252	\$126,596	7%	\$319,652	\$387,176	21%
Geographical Location							
Latin America		\$444	\$600	35%	\$1,249	\$2,886	131%
U.S.		\$117,808	\$125,996	7%	\$318,403	\$384,290	21%
		\$118,252	\$126,596	7%	\$319,652	\$387,176	21%

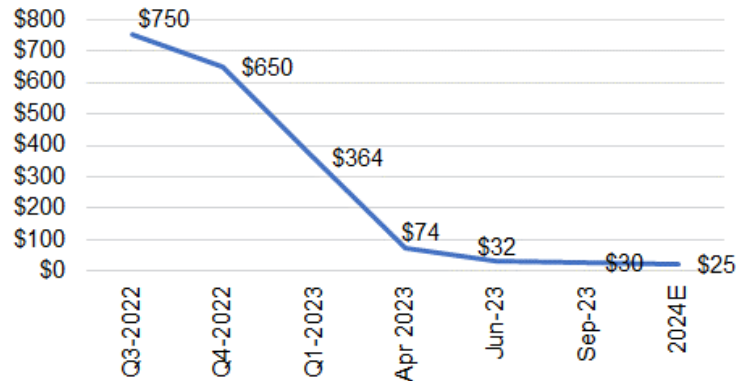
Summary of Cash Flows

(in C\$)	2021 (9M)	2022 (9M)	2023 (9M)
Operating	-\$3,271,894	-\$4,520,507	-\$2,372,218
Investing	\$0	\$0	\$0
Financing	\$11,511,923	\$956,405	\$50,000
Effects of Exchange Rate	\$0	\$0	\$0
Net	\$8,734,956	\$5,248,375	\$1,716,486
Free Cash Flows to Firm (FCF)	-\$3,271,894	-\$4,520,507	-\$2,372,218

Source: Company / FRC

Sekur has been able to reduce its CAC significantly

CAC: Actual and Management's Target



Reasonably healthy balance sheet

(in C\$) - YE Dec 31st				
Liquidity & Capital Structure	2022	Q1-2023	Q2-2023	Q3-2023
Cash	4,038,704	3,290,210	2,588,311	1,716,583
Working Capital	4,042,785	3,287,123	2,618,034	1,676,461
Current Ratio	20.25	40.16	51.05	14.83
LT Debt	-	-	-	-
Total Debt	-	-	-	-

In-the-money options can bring in \$0.49M

	# Options	Strike Price	Value	#Warrants	Strike Price	Value
Total Outstanding	11,266,272	\$0.10	\$1,104,976	4,999,340	\$0.75	\$3,767,314
In the Money	8,166,272	\$0.06	\$489,976	-	-	-

Source: FRC / Company

FRC Projections and Valuations

As Q3 revenue fell short of our estimate, we are lowering our near-term and long-term revenue forecasts

	2023 (Old)	2023 (New)	2024 (Old)	2024E (New)
Revenue	\$605,972	\$497,747	\$815,478	\$764,571
EBITDA	-\$2,609,783	-\$4,355,120	-\$2,075,157	-\$967,456
Net Income	-\$3,184,869	-\$4,574,384	-\$2,678,997	-\$1,197,683
EPS	-\$0.03	-\$0.04	-\$0.02	-\$0.01

Source: FRC

We are lowering our 2023 EPS forecast, but raising our 2024 EPS forecast, based on reduced CAC, and management's cost cutting initiatives

As a result of our lower long-term revenue forecasts, our DCF valuation decreased from \$0.68 to \$0.61/share

DCF Model (In \$)	2023E	2024E	2029E	2030E	Terminal
EBIT	-\$4,355,120	-\$967,456	\$14,617,548	\$18,852,301	
Non-Cash Charges	\$1,105,113	\$230,227	\$293,835	\$308,526	
Investment in WC	\$25,902	\$97,275	-\$268,400	-\$298,848	
CFO	-\$3,224,106	-\$639,954	\$14,642,983	\$18,861,980	
CAPEX	-\$50,000	-\$250,000	-\$500,000	-\$500,000	
FCF	-\$3,274,106	-\$889,954	\$14,142,983	\$18,361,980	
PV	-\$3,274,106	-\$773,873	\$6,114,402	\$6,902,948	\$59,250,307
Discount Rate	15%				
Terminal Growth Rate	3%				
Total PV	\$74,131,345				
Cash - Debt (beg. of the year)	\$4,038,704				
Equity Value	\$78,170,049				
Shares O/S (dil)	122,034,786				
Fair Value	\$0.61				

Source: FRC

As Sekur does not have any publicly traded comparables, we are continuing to not use a comparables valuation model. That said, we note that Sekur is trading at 2.6x revenue (based on the present value of our 2026 revenue forecast) vs the Application Software sector average of 6.8x (Source: S&P Capital IQ).

We are maintaining our BUY rating, and lowering our fair value estimate from \$0.68/share to \$0.61/share. We believe the stock will react positively if Sekur achieves QoQ revenue growth while maintaining CAC at or below levels attained in the last quarter. A successful uplisting to the NASDAQ would significantly broaden its investor-base.

Risks

We believe the company is exposed to the following risks:

- Yet to generate meaningful revenue
- Technological innovations are key for long-term sustainability
- **Converting users from free to paid services can be challenging**
- Rising competition among encrypted service providers
- We are not expecting the company to break-even before 2026

Maintaining our risk rating of 4

Appendix

STATEMENTS OF OPERATIONS			
(in C\$) - YE Dec 31st	2022	2023E	2024E
Gross Profit	464,299	497,747	764,571
EXPENSES			
G&A Expense	997,932	1,097,725	713,521
Marketing Expense	4,954,260	2,200,000	550,000
Share-based Compensation	-	885,849	-
Software Maintenance	787,404	669,293	468,505
Operating Expenses	6,739,596	4,852,868	1,732,027
EBITDA	(6,275,297)	(4,355,120)	(967,456)
Depreciation	137,040	219,264	230,227
Amortization			
EBIT	(6,412,337)	(4,574,384)	(1,197,683)
Foreign Exchange Loss	(44,244)		
Interest Income	66,348		
EBT	(6,390,233)	(4,574,384)	(1,197,683)
Non-Recurring Expenses			
Taxes	-	-	-
Net Profit (Loss)	(6,390,233)	(4,574,384)	(1,197,683)
Non-Controlling Interest			
Net comprehensive Profit (Loss)	(6,390,233)	(4,574,384)	(1,197,683)
EPS	-0.06	-0.04	-0.01
BALANCE SHEET			
(in C\$) - YE Dec 31st	2022	2023E	2024E
ASSETS			
CURRENT			
Cash and Cash Equiv.	4,038,704	1,481,183	861,003
A/R	34,041	40,911	62,841
Prepaid Expenses	180,065	72,026	64,823
Total Current Assets	4,252,810	1,594,120	988,667
Lease Right of Use			
Intangible Asset	2,552,573	2,552,573	2,552,573
Equipment/Others	752,399	583,135	602,908
Total Assets	7,557,782	4,729,828	4,144,148
LIABILITIES			
CURRENT			
A/P	171,270	96,002	208,005
Licensee Fees Payable	38,755	38,755	38,755
Total Current Liabilities	210,025	134,757	246,760
Lease			
Loans Payable	-	-	-
Total Liabilities	210,025	134,757	246,760
SHAREHOLDERS EQUITY			
Share Capital	22,001,842	22,051,842	22,551,842
Reserves	5,221,699	6,107,548	6,107,548
Accumulated Deficit	- 19,875,784	- 23,564,319	- 24,762,002
Total shareholders' equity (deficiency)	7,347,757	4,595,071	3,897,388
Total Liabilities and Shareholders Equity	7,557,782	4,729,828	4,144,148

STATEMENTS OF CASH FLOWS			
(in C\$) - YE Dec 31st	2022	2023E	2024E
OPERATING ACTIVITIES			
Net Profit for the Year	-6,390,233	-4,574,384	-1,197,683
Adjusted for items not involving cash:			
Stock-based Compensation	-	885,849	0
Depreciation and Amortization	137,040	219,264	230,227
Stock-Based Compensation	56,250	885,849	0
Funds From Operations	-6,196,943	-2,583,422	-967,456
Change in working capital			
A/R	14,514	-6,870	-21,931
Prepaid expenses and deposit	595,229	108,039	7,203
A/P	93,540	-75,268	112,003
Licensee Fees Payable	-13,979	-	-
NET CASH USED IN OPERATING ACTIVITIES	-5,507,639	-2,557,521	-870,181
INVESTING ACTIVITIES			
Acquisition of Equipment	-222,539	-50,000	-250,000
NET CASH USED IN INVESTING ACTIVITIES	-222,539	-50,000	-250,000
FINANCING ACTIVITIES			
Proceeds from equity issue	956,405	50,000	500,000
NET CASH FROM FINANCING ACTIVITIES	956,405	50,000	500,000

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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